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On the Brink of Change— Congress Passes Patent Reform

The need to reform U.S. patent law has been perceived for almost a decade. Reports from government agencies (e.g., the Federal Trade Commission in 2003) and the National Academies of Science (in 2004), and advice from academics, pundits, and others identified purported inefficiencies and inequities in patent law as interpreted by the Court of Appeals for the Federal Circuit and the U.S. Patent and Trademark Office, and proposed solutions. Congress responded by introducing and passing (in one chamber or another) three different patent reform bills in the last three Congresses. But until now, there was insufficient consensus for Congress to pass a patent reform measure.

That has changed: on September 8th, the Senate passed a bill, the “Leahy-Smith America Invents

Act,” previously passed in the House of Representatives (that itself is a modification of a bill already passed by the Senate), and it has been sent to President Obama for signature (which is virtually assured, since the President is on record as supporting patent reform as a way to stimulate the economy). The final Senate vote was 89-9, reflecting broad support for patent reform legislation in this Congress—the Senate passed its version of the bill (S. 23¹) by a vote of 95-5, and the House bill (H.R. 1249²) passed by a 304-117 margin. Accordingly, it is time to consider the changes, some extensive, that will soon be law. While the bill contains 37 sections, this article discusses only the most significant of these, including several sections that are particularly relevant to those in the biotechnology and pharmaceutical industries [continued on p. 2](#)

ICANN's Proposal for New Generic Top Level Domain Names

Introduction

There has been considerable debate over the past few years over whether to allow a significant increase in the number of generic-type Top Level Domains. Generally, Top Level Domains (“TLDs”) follow the last period in a domain name, e.g., .com in Amazon.com and .ly in bit.ly.¹ Country-code Top Level Domains (“ccTLDs”) currently include well-known designations such as .us; .uk; .de; .cn; and so forth, and (as the name suggests) are typically tied to a particular country or geographic region (e.g., .ly is the ccTLD for Libya).² In contrast, generic-type TLDs (“gTLDs”) include designations that are not necessarily tied to any particular country, such as .com; .org; .gov; and .edu.³ There are currently 22 gTLDs.⁴

On June 20, 2011, the Internet Corporation for Assigned Names and Numbers (“ICANN”), which manages all TLDs, took a major step towards increasing the number of gTLDs by approving the “New gTLD Program.”⁵ This program will allow public or private organizations to apply for and create virtually any gTLD of their choosing, thus allowing a potentially unlimited number of gTLDs.⁶ However, the program may also increase the potential for abuse by creating new avenues for trademark infringement and cybersquatting.

This article provides an analysis of the implementation of the New gTLD Program, a description [continued on p. 5](#)

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and those involved with university-derived inventions.

Changes to 35 U.S.C. §§ 102 and 103

The amendments to 35 U.S.C. §§ 102 and 103 will change the U.S. patent system from a “first to invent” to a “first inventor to file” system.³ This is perhaps the most significant change in the legislation, because it increases the pressure to file an application as quickly as possible after conception and, if time permits, actual reduction to practice. In addition to providing that priority is awarded to the first inventor to file a patent application containing a disclosure that satisfies 35 U.S.C. § 112, the amendments to § 102 change the nature of activities that fall within the new one-year “grace” period. These activities would now be personal to the inventors, and would be limited to publications or public disclosures; thus, public use and “on-sale” activity would no longer be included as protected activities under the grace period. In addition, public disclosure by a third party any time before an applicant’s filing date would constitute prior art. The changes in the law will enable inventors to publish (an important consideration for universities) within one year prior to filing an application for inventions to be protected solely in the U.S.

Interferences, which are used to determine priority of invention under the current first-to-invent regime, will be replaced by derivation proceedings, whereby any inventor who is not the first to file can claim that another applicant derived the invention from him (rather than invented the claimed invention herself).⁴

These provisions will not go into effect until 18 months after enactment of the legislation,⁵ raising the likelihood that applicants will be incentivized to file any possible divisional or continuation applications prior

to that date. This will probably result in a “bubble” of new patent filings at that time, further exacerbating the backlog of unexamined patent applications.

Assignee Filing

The “Leahy-Smith America Invents Act” will permit an assignee to file in the name of an unavailable or unwilling inventor,⁶ and removes the requirement that naming (or changing) inventors be done without decep-

tive intent.⁷ While there are many potential applications of this change, one in particular might be useful for universities in solving the problem created by the Supreme Court’s recent decision in *Stanford v. Roche*⁸: requiring a blanket assignment agreement from university personnel could permit university officials more latitude in exerting control over patent filings for publicly supported inventions. These changes will go into effect one year after the date of enactment, and will apply to applications filed on or after that date.⁹

Prior User Rights

The concept of prior user rights as a defense against patent infringement was first introduced into U.S. patent law under the American Inventor Protection Act of 1999 (“AIPA”). Prior user rights permit an accused

infringer to establish the use of a claimed invention prior to the patentee’s earliest priority date. The AIPA limited these rights to business methods, under the rationale that prior to *State Street Bank*,¹⁰ business methods were not believed to be patent-eligible, and thus the “true” inventor might have justifiably eschewed pursuit of patent protection. The prior user rights defense is expanded under the patent reform bill to be available to any accused infringer of any patented technology, but is limited to commercial use of the claimed invention.¹¹ As such, it can be expected that method claims (particularly manufacturing methods) will be most impacted by the expansion of the defense. University patentees are protected from this change in the law, since the defense is not available against accusations of infringement of university-owned patents.¹² It can further be expected that this will increase the value of university-licensed technology directed to such methods. Prior user rights will be available as an affirmative defense against an infringement allegation for all patents that are issued on or after the enactment of the legislation.¹³

Post-grant Review and Changes to Re-examination Provisions

The bill also creates a post-grant review (“PGR”) similar to European oppositions, and like those proceedings, can be requested within nine months of the issuance of a patent.¹⁴ Grounds for review will include any substantive requirement of patentability except best mode, and the standard for granting review will be that it is “more likely than not” that at least one claim in the granted patent will be found to be invalid.¹⁵ Review will be limited to applications filed under the revised “first inventor to file” provisions of the bill (and thus will be delayed until the first patents grant from applications filed 18 months after enactment of the legislation),¹⁶ and

The logo for 'snippets' features the word in a lowercase, sans-serif font. The letter 'i' is stylized with a square dot, and the letter 'p' has a square base.

The amendments to 35 U.S.C. §§102 and 103 will change the U.S. patent system from a “first to invent” to a “first inventor to file” system.

participation in a PGR that results in a final written decision will raise an estoppel against the requestor for any issues that were raised or reasonably could have been raised in the PGR proceedings.¹⁷

Inter partes re-examination practice is also revised in the bill, to change the current “substantial new question of patentability” standard to a “reasonable likelihood that the requestor will prevail” with regard to at least one claim.¹⁸ As with PGR, engaging in an *inter partes* re-examination that results in a final written decision will raise an estoppel against the petitioner for any issues that were raised or reasonably could have been raised in the *inter partes* reexamination proceedings.¹⁹ These changes will go into effect one year after the date of enactment, and will apply to all patents.²⁰

Patent Office Fee-setting Authority

In addition to granting the Office fee-setting authority,²¹ the new law provides for the creation of “micro-entity” status for universities, resulting in a 75% reduction in fees.²² The Office is authorized to institute a 15% across-the-board increase in fees 10 days after enactment of the bill,²³ and further provides for a surcharge for prioritized examination (\$4,800, reduced by half for small entities).²⁴

Supplemental Examination

Under the Senate bill, *ex parte* re-examination was modified to permit a patentee to submit prior art not considered during patent prosecution, under circumstances where a patentee might fear an inequitable conduct allegation from an accused infringer.²⁵ A finding of patentability over such art was intended to absolve the patentee from such an allegation.²⁶ The House bill removed the provisions for absolution,²⁷ and these provisions are not part of the bill as enacted by the Senate.

Patent Term Extension

The final relevant substantive provision of the bill changes the deadline for filing a patent term extension (“PTE”) application under 35 U.S.C. § 156(d)(1).²⁸ If an approval letter from the regulatory agency (“FDA”) is sent after 4:30 p.m. Eastern Time, the 60-day clock for filing the PTE application does not begin until the next business day. This change will specifically benefit The Medicines Company’s application for



Thus, after more than six years Congress has succeeded in making the most fundamental change to U.S. patent law.

Orange Book listed patents for Angiomax[®], as well as a handful of other applicants.²⁹ The change “shall apply to any application for extension of a patent term under section 156 of title 35, United States Code, that is pending on, that is filed after, or as to which a decision regarding the application is subject to judicial review on, the date of enactment of this Act.”³⁰

Patent Studies

The bill also contains a number of sections authorizing the Patent Office to perform studies on certain patent-related issues. These include Sections 27 and 34 of the bill.

Prior to passage of H.R. 1249 in the House, Section 27 of the bill permitted individuals with the opportunity to obtain a “second opinion” for any genetic diagnostic test. Introduced by Rep. Debbie Wasserman-Schulz, this section originally provided that

“[w]ith respect to a genetic diagnostic test provider’s performance of, or offering to perform, a confirming genetic diagnostic test activity that constitutes infringement of a patent under section 271(a) or (b) of this title, the provisions of section 281, 283, 284 and 285 of this title shall not apply against the genetic diagnostic test provider with respect to such confirming genetic diagnostic test activity.”

Although this section was ultimately stricken from the House bill, current Section 27 requires the Director of the U.S. Patent and Trademark Office to conduct a study directed to identifying “effective ways to provide independent, confirmatory genetic diagnostic testing” when a patented test has been exclusively licensed.

Section 34 of the House bill directs the Comptroller General of the U.S. to conduct a study on what effects non-practicing entities (“NPEs”), which includes universities, have on patent litigation (presumably, the conclusion is foregone that NPEs increase the number of patent infringement complaints).

Limitation on Issuance of Patents

Finally, Section 33 of the bill codifies a provision that has been part of appropriations bills since 2003 (often referred to as the Weldon Amendment) that prohibits the U.S. Patent and Trademark Office from granting patents “directed to or encompassing a human organism.” As was the case with similar provisions of prior appropriations bills, supporters of this section provide reassurances that this provision is not intended to impact patents on either human genetic material or stem cells.

Senate Passage

Prior to passage of H.R. 1249 in the Senate on September 8, three amendments

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to the legislation were considered. The first amendment to be considered, which would have struck Section 37 concerning the calculation of the 60-day period for application of patent term extension, was rejected by a narrow 51-47 vote. The second amendment, which offered a replacement for Section 18 providing a transitional program for covered business-method patents, was rejected by an 85-13 vote. The third and final amendment to be considered, which would have replaced Section 22 of the House bill concerning USPTO funding with the USPTO funding provisions of S. 23 (preventing fee diversion), was tabled by a close 50-48 vote (equivalent to defeating the amendment). Passage of these sweeping changes in U.S. patent law will require thorough review of almost all aspects of patent practice; further explication of the significance and impact of these changes can be expected to be found in these pages in the coming months. Visit Patent Docs, authored by MBHB attorneys, at <http://www.patentdocs.org/> for additional information on this topic.

Endnotes

- 1 See <http://www.gpo.gov/fdsys/pkg/BILLS-112s23es/pdf/BILLS-112s23es.pdf>.
- 2 See <http://www.gpo.gov/fdsys/pkg/BILLS-112hr1249pcs/pdf/BILLS-112hr1249pcs.pdf>.
- 3 See H.R. 1249, Sections 3(b) and (c).
- 4 *Id.* at Sections 3(h) and (i).
- 5 *Id.* at Section 3(e).
- 6 *Id.* at Section 4(b).
- 7 *Id.* at Section 4(a).
- 8 *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 563 U.S. ____, 131 S. Ct. 2188 (2011).
- 9 See H.R. 1249, Section 4(e).
- 10 *State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368 (Fed. Cir. 1998).
- 11 *Id.* at Section 5(a).
- 12 *Id.*
- 13 *Id.* at Section 5(c).
- 14 *Id.* at Section 6(d).
- 15 *Id.*
- 16 *Id.* at Section 6(f).
- 17 *Id.* at Section 6(d).
- 18 *Id.* at Section 6(a).
- 19 *Id.*
- 20 *Id.* at Section 6(c).
- 21 *Id.* at Section 10(a).
- 22 *Id.* at Sections 10(b) and (g).
- 23 *Id.* at Section 11(i).
- 24 *Id.* at Section 11(h).
- 25 S. 23, Section 10.
- 26 The Senate bill states: "The making of a request under subsection (a), or the absence thereof, shall not be relevant to enforceability of the patent under section 282."
- 27 See H.R. 1249, Section 12.
- 28 *Id.* at Section 37.
- 29 See, e.g., *Medicines Co. v. Kappos*, 731 F. Supp. 2d 470 (E.D. Va. 2010).
- 30 *Id.*

Kevin E. Noonan, Ph.D., an MBHB partner, is an experienced biotechnology patent lawyer. Dr. Noonan brings more than 10 years of extensive work as a molecular biologist studying high-technology problems in serving the unique needs of his clients. His practice involves all aspects of patent prosecution, interferences, and litigation. He represents pharmaceutical companies both large and small on a myriad of issues, as well as several universities in both patenting and licensing to outside investors. He has also filed amicus briefs to district courts, the Federal Circuit and the Supreme Court involving patenting issues relevant to biotechnology. He is a founding author of the Patent Docs weblog, a site focusing on biotechnology and pharmaceutical patent law.

noonan@mbhb.com

Donald L. Zuhn, Ph.D., is an MBHB partner whose practice is concentrated on biotech and pharma patent prosecution and litigation. He is a founding author of the Patent Docs weblog, a site that focuses on biotechnology and pharmaceutical patent law.

zuhn@mbhb.com

MBHB Partner Paul Berghoff Named Recipient of IPO 2011 President's Distinguished Service Award

McDonnell Boehnen Hulbert & Berghoff LLP Partner **Paul Berghoff** has been selected to receive the Intellectual Property Owners Association's ("IPO") 2011 President's Distinguished Service Award. This award is given to an individual who has demonstrated extraordinary leadership and dedication to the IPO over a substantial period of time. IPO President Doug Norman will present the award during the luncheon at the IPO's Annual Meeting, set for September 13, 2011 in Los Angeles. Established in 1972, the IPO is a trade association for owners of patents, trademarks, copyrights and trade secrets. IPO is the only association in the U.S. that serves all intellectual property owners in all industries and all fields of technology. The association advocates effective and affordable IP ownership rights and provides a wide array of services to members. It concentrates on: supporting member interests relating to legislative and international issues; analyzing current IP issues; providing information and educational services; and disseminating information to the general public on the importance of intellectual property rights. IPO website: www.ipo.org/AM2011.

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of the existing and new procedures implemented by ICANN for controlling trademark infringement, and a discussion of the differing viewpoints by the proponents and opponents of this new program.

Trademark Protection Under the New gTLD Program

There are multiple filtering features that ICANN plans to implement in order to control cybersquatting of gTLDs and stem the influx of applications. First, the program includes a vigorous screening process consisting of an initial evaluation and a background screening.⁷ The initial evaluation will include an analysis of the similarity of proposed gTLDs to existing TLDs, reserved TLDs, and other geographic names.⁸ Further, research will be done on the background of the applicant to determine its technical, operational, and financial capability to operate a gTLD.⁹ This background screening will inquire into the general business diligence and criminal history of the applicant, and any history of cybersquatting behavior by the applicant.¹⁰ In addition, ICANN plans to implement a Dispute Resolution Procedure through which a person or entity will have the ability to object to an application for a new gTLD.¹¹

Further, an existing program called the Uniform Domain Name Dispute Resolution Policy (“UDRP”) will continue. The UDRP program provides a process for trademark owners to redress the infringing use of second-level domain names (e.g., “Amazon” in Amazon.com) within all gTLDs.¹² To obtain relief under this program, a complainant must prove that “1) the complainant had a valid trademark at the time the respondent registered the allegedly infringing domain name, 2) the respondent’s domain name is identical or confusingly similar to the complainant’s trademark, and 3) respondent registered and used the domain name in bad faith.”¹³

Moreover, under the New gTLD Program, ICANN proposes to offer trademark owners an additional option to protect themselves: the Uniform Rapid Suspension System (“URS”).¹⁴ The URS will offer trademark owners a quick and relatively low-cost procedure to suspend infringing second-level domain names.¹⁵ The requirements are fairly similar to those of the UDRP—relief is provided if 1) “the registered domain name is identical or confusingly similar to a word mark,” 2)

The logo for snippets, featuring the word "snippets" in a lowercase, sans-serif font. The letter "i" is stylized with a square bracket-like shape around its dot.

ICANN’s “New gTLD Program” will allow public or private organizations to apply for and create virtually any generic Top Level Domain (“gTLD”) of their choosing, thus allowing a potentially unlimited number of gTLDs.

“the registrant has no legitimate interest to the domain name,” and 3) “the domain was registered and is being used in bad faith.”¹⁶

There are two major differences between the URS and UDRP. First, the URS only *suspends* the domain name by the registry, whereas the UDRP will cancel or transfer the domain name to the trademark owner.¹⁷ Second, the burden of proof for a URS proceeding is one of “clear and convincing” evidence while the UDRP only requires a “preponderance of evidence.”¹⁸ Accordingly, trademark owners who find their marks infringed by second-level domain names within a new gTLD will have to determine whether they

want suspension (URS), transfer (UDRP), or both before initiating a procedure.¹⁹

Proponents’ Viewpoint of the New gTLD Program

Proponents of the New gTLD Program believe it will offer opportunities for brand owners to better control their marketing and security strategies.²⁰ Most of the proponents are economists who believe that a greater number of gTLDs will foster creativity and flexibility among major corporations in building their brands and marketing themselves online.²¹ The belief is that multiple web addresses will help to create a more exclusive brand that may become more recognizable to consumers.²² As a result, improved branding will provide better security against cybersquatters, thus hindering infringement on a company’s name.²³ Finally, proponents believe this program will reduce phishing, spamming, inflated domain name prices on the secondary market, and trademark confusion.²⁴

Opponents’ Viewpoint of the New gTLD Program

It seems that most large corporations are skeptical of the New gTLD Program.²⁵ For example, companies such as Verizon Communications, Marriott International, and New York Life Insurance initially believed that “new domain extensions could open the flood gates to Internet fraud and drastically increase their costs of doing business online.”²⁶ For the most part, concerns with the New gTLD Program have been voiced by multi-national and well known businesses, which is not surprising because small- and medium-sized companies are not as concerned about changes that impact worldwide brand recognition.²⁷

Many larger companies are concerned that they will need to purchase many brand-

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specific domains to save themselves from future cybersquatting. Moreover, they have concerns that bidding wars may develop for control over certain generic domain names, perhaps such as .shoes or .phones.²⁸ Also, the transition may be difficult for consumers because web users are not accustomed to using sites such as, for example, .marriott or .nylife. Therefore, companies will undertake a significant risk when they spend vast resources to create their own specific domain names.²⁹

Furthermore, the cost to register these new domains will not be insignificant. Specifically, registration of a new domain will require \$185,000 in application fees, an annual fee of \$25,000, and the additional ongoing costs of owning, operating, and maintaining the domain.³⁰ Therefore, some entities

view this new proposal as simply a “money making scheme” benefitting ICANN.³¹ Finally, opponents believe the new proposal may increase the potential for fraud because “actors will use the expanded gTLD space to register domain names using well known trademarks, or variations on such trademarks, and that those sites will be used to defraud consumers, and harm the value of the infringed upon brand.”³² Notwithstanding their concerns, large companies have been preparing for this program in order to put themselves in a position to make the best of the situation.³³

Conclusion

Only time will tell whether the New gTLD Program proves beneficial for trademark owners or whether it will merely complicate the current battle against cybersquatting

and brand deterioration. The political consequences will also be interesting due to the opposition to the proposal by many larger companies. The changes may dramatically reduce future cybersquatting and improve brand marketing, cause consumer confusion and create a difficult transition, or result in a combination of both of these effects. ICANN has tremendously helped protect domain names since its creation, and one must hope that this new proposal will continue to provide a positive impact on legitimate companies and the Internet world.

Endnotes

- 1 See Internet Corp. for Assigned Names and Nos., Top Level Domains, <http://www.icann.org/en/tlds/> (last visited Aug. 17, 2011).
- 2 *Id.*
- 3 *Id.*



Patent Docs

Biotech & Pharma Patent Law & News Blog

The authors and contributors of “Patent Docs” are patent attorneys and agents who hold doctorates in a diverse array of biotech and chemical disciplines.
<http://www.patentdocs.org/>

- 4 Internet Corp. for Assigned Names and Nos., *gTLD Applicant Guidebook* (2011), available at <http://www.icann.org/en/topics/new-gtlds/rfp-clean-30may11-en.pdf> [hereinafter *gTLD Applicant Guidebook*].
- 5 Internet Corp. for Assigned Names and Nos., ICANN Approves Historic Change to Internet's Domain Name System (June 20, 2011), <http://www.icann.org/en/announcements/announcement-20jun11-en.htm>. See generally Internet Corp. for Assigned Names and Nos., *New gTLD Program*, <http://www.icann.org/en/topics/new-gtld-program.htm> (last visited Aug. 17, 2011).
- 6 Applicants will be allowed to submit an unlimited number of applications during the initial application period, which will open January 12, 2012 and will close three months later on April 12, 2012. ICANN's goal is to add the first new gTLDs to the DNS registry by late 2012 or first quarter of 2013. Internet Commerce Ass'n, *Approved New gTLD Applicant Guidebook Maintains Critical Distinctions Between URS and UDRP*, <http://www.internetcommerce.org/node/276> (last visited Aug. 17, 2011) [hereinafter *Internet Commerce Ass'n*].
- 7 *gTLD Applicant Guidebook*, *supra* note 4, at 1-8.
- 8 *Id.* at 2-4 to 2-19.
- 9 *Id.* at 2-20 to 2-21.
- 10 *Id.* at 2-1 to 2-3.
- 11 *Id.* at 1-11.
- 12 Sarah Silbert, *Using a UDRP Action to Prevent Infringing Uses of Domain Names*, L.A. Law., Feb. 2008, at 10, available at <http://www.lacba.org/Files/LAL/Vol30No11/2454.pdf>; Internet Corp. for Assigned Names and Nos., *New gTLDs — Frequently Asked Questions*, <http://www.icann.org/en/topics/new-gtlds/strategy-faq.htm> (last visited Aug. 17, 2011) (“[A]ll new gTLDs must ensure that second-level registrations are subject to ICANN's Uniform Domain Name Dispute Resolution Policy (UDRP)...”).
- 13 Silbert, *supra* note 12, at 10.
- 14 *New gTLDs: Uniform Rapid Suspension System (URS)*, http://www.newdomains.org/news/New_gTLDs_Uniform_Rapid_Suspension_System_URS (last visited Aug. 17, 2011) [hereinafter *Uniform Rapid Suspension System*].
- 15 *Id.*
- 16 *gTLD Applicant Guidebook*, *supra* note 4.
- 17 See *Uniform Rapid Suspension System*, *supra* note 14.
- 18 See *Internet Commerce Ass'n*, *supra* note 6.
- 19 See *Uniform Rapid Suspension System*, *supra* note 14.
- 20 McGuire Woods LLP, *ICANN Opens Domain Naming Process to the General Public*, <http://www.mcguirewoods.com/news-resources/item.asp?item=5956> (last visited July 1, 2011).
- 21 *Id.*
- 22 *Id.*
- 23 *Id.*
- 24 Roger Bora, *Trademark Titan Blog*, *ICANN's Proposal for New Generic Top Level Domain Names: Should All Brand Owners be Concerned?* (Feb. 6, 2010), available at <http://trademarktitan.blogspot.com/2010/02/icanns-proposal-for-new-generic-top.html>.
- 25 *Id.*
- 26 Michael H. Berkens, *TheDomains.com*, *WSJ: Companies are Protesting New Domain Extensions* (Nov. 4, 2008), available at <http://www.thedomains.com/2008/11/04/wsj-companies-are-protesting-new-domain-extensions/>.
- 27 See Bora, *supra* note 24.
- 28 See Berkens, *supra* note 26.
- 29 *Id.*
- 30 See McGuire Woods LLP, *supra* note 20.
- 31 See Bora, *supra* note 24.
- 32 Sandra Aistars, *Copyright Alliance*, *Proposal for New Internet Domains Raises Questions for Consumers, Copyright Owners* (May 4, 2011), available at <http://blog.copyrightalliance.org/2011/05/proposal-for-new-internet-domains-raises-questions-for-consumers-copyright-owners/>.
- 33 Antony Van Covering, *Minds & Machines*, *“Thin Brand Line” Breaks as Canon Announces Plans for .CANON* (Mar. 16, 2010), available at <http://www.mindsandmachines.com/2010/03/thin-brand-line-breaks-as-canon-announces-plans-for-canon/>.

Daniel A. Boehnen is an MBHB partner whose practice focuses primarily on trials, appeals, opposition proceedings, and all forms of disputed patent matters. His litigation experience encompasses a wide range of high-tech industries in all levels of the federal court system.

boehnen@mbhb.com

Sydney R. Kokjohn, an MBHB associate, prepares and prosecutes patent applications, conducts legal research, and provides technological advice in support of validity, infringement and patentability analyses, patent application preparation and prosecution, and litigation matters in the chemical engineering field.

kokjohn@mbhb.com

Shivan Mehta was a 2011 summer clerk at MBHB. Mr. Mehta will graduate from the University of Oklahoma College of Law in 2012.

The Supreme Court Review of the Federal Circuit: Recent Decisions with Varying Impact

Within the past few months, the U.S. Supreme Court has issued decisions on an unusually high number of cases pertaining to patent law. The impact of these cases—*Global-Tech Appliances, Inc. v. SEB S. A.*,¹ *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*,² and *Microsoft Corp. v. i4i Limited Partnership*³—on patent practice in the U.S. varies widely. In sharp contrast to the last decade of Supreme Court review of Federal Circuit patent law decisions, however, the Court here has largely affirmed the Federal Circuit, albeit with an occasional twist.

***Global-Tech Appliances, Inc. v. SEB S. A.*: What is required to be found liable for inducing infringement under 35 U.S.C. § 271(b)?**

In *Global-Tech*, the Supreme Court addressed the standard to be applied in assessing whether an infringer has sufficient intent to have actively induced infringement under § 271(b).

The Facts: Hong Kong-based Pentalpha Enterprises, Ltd., a wholly-owned subsidiary of Global-Tech Appliances, was asked by Sunbeam Products, Inc. to supply a deep fryer meeting certain specifications. In response, Pentalpha purchased a deep fryer manufactured by SEB and proceeded to copy all non-cosmetic aspects of the SEB fryer.⁴ The SEB fryer purchased by Pentalpha was being sold in a foreign market, which (as Pentalpha's president was aware) meant that the SEB fryer did not include any U.S. patent markings.

Before selling its fryers to Sunbeam, Pentalpha hired an attorney to perform a right-to-use evaluation of the Pentalpha fryer, but, notably, failed to inform the attorney that Pentalpha had copied the SEB fryer. The attorney did not locate SEB's U.S. patent to the SEB fryer and, as such, issued an

opinion that gave the Pentalpha fryer a clean bill of health from a patent perspective. Pentalpha then sold its fryers to Sunbeam and a number of other companies for sale in the U.S. market.⁵

SEB sued Sunbeam for patent infringement and, later, also sued Pentalpha, claiming that Pentalpha violated 35 U.S.C. § 271(b) by actively inducing Sunbeam and the other purchasers of the Pentalpha fryers to sell or offer to sell the fryers in violation of SEB's patent rights.⁶ In defense, Pentalpha argued that "there was insufficient evidence to support the jury's finding of induced infringement under § 271(b) because Pentalpha did not actually know of SEB's patent until it received the notice of the Sunbeam lawsuit in April 1998."⁷

The Court's Analysis: 35 U.S.C. § 271(b) codifies active inducement as infringement:

Whoever actively induces infringement of a patent shall be liable as an infringer.

As the Court noted, this text has two possible interpretations: (1) it "may require merely that the inducer lead another to engage in conduct that *happens to amount to infringement*," or (2) it may require that the inducer "persuade another to engage in conduct that *the inducer knows is infringement*."⁸ Which interpretation ought to be applied?

Noting the correlation between inducement and contributory infringement, the Court held that active inducement under 35 U.S.C. § 271(b) does indeed require knowledge that the induced acts constitute infringement, thereby clarifying an issue that has been repeatedly raised in cases at the Federal Circuit.⁹ But this clarification begged a new question: what is required to *know* that the induced acts constitute infringement?

In 2006, the Federal Circuit held in *DSU Medical Corp.* that the "requirement that the

alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent."¹⁰ In the *Global-Tech* case below, however, the Federal Circuit eased back on this requirement, holding that "a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit."¹¹ The Federal Circuit further noted that "deliberate indifference" to a known risk of infringement "is not different from actual knowledge, but is a form of actual knowledge."¹² Given these two cases, it was not clear whether knowledge of the patent, deliberate indifference, or another standard was to be applied for liability under 35 U.S.C. § 271(b).

In an 8-1 decision, the Supreme Court affirmed the decision that Pentalpha was indeed liable for induced infringement on the facts of the case.¹³ However, the Court did so not on the basis of "deliberate indifference," but rather on an entirely new concept in the patent arena taken from (of all things) criminal law: "willful blindness."

In criminal law (and now in patent law as well), willful blindness has two basic requirements:

(1) the defendant must subjectively believe that there is a high probability that a fact exists, and

(2) the defendant must take deliberate action to avoid learning of that fact.¹⁴

The Court noted that "these requirements give willful blindness an appropriately limited scope that surpasses recklessness and negligence," as "a reckless defendant is one who merely knows of a substantial and unjustified risk of such wrongdoing" and "a negligent defendant is one who should have known of a similar risk but, in fact, did not."¹⁵

The Impact: The willful blindness standard is a subjective standard dependent on the facts of the case. Proving that a defendant subjectively believes that there is a high probability that a risk of infringement exists is not a particularly easy task. This may increase the burden on patentees to inform competitors of their patents and patent rights.

Further, the willful blindness standard comes close to the standard currently in place to assess willful infringement. This raises a number of questions—Does this effectively collapse the determination of induced infringement and willful infringement into a single step? Is it possible to find induced infringement without also finding willful infringement? Does this mean that an evaluation of willful infringement should no longer be deferred to the damages phase?—that have yet to be answered.

Finally, given that the Supreme Court borrowed its intent requirement from the contributory infringement provision, 35 U.S.C. § 271(c), another question remains unanswered: What impact will this decision have on future contributory infringement cases?

Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.: What is the order of priority of rights to an invention made using federal funds?

In *Stanford v. Roche*, the Supreme Court addressed the impact of the Bayh-Dole Act vs. researcher patent assignments.

The Facts: In 1988, Stanford University's Department of Infectious Diseases began to collaborate with a research company called Cetus, the company responsible for developing the Nobel Prize winning process known as PCR, on methods for quantifying blood-borne levels of human immunodeficiency virus ("HIV").¹⁶ Cetus' PCR-related assets

were later acquired by Roche Molecular Systems, the named party.

Around the time the Cetus-Stanford relationship commenced, Dr. Mark Holodniy joined Stanford as a research fellow in the Department of Infectious Diseases. Upon joining, Holodniy signed an agreement stating that he "agree[d] to assign" to Stanford his "right, title and interest in" inventions resulting from his employment at Stanford.¹⁷

While at Stanford, Holodniy was permitted by Cetus to use Cetus' labs and equipment to conduct PCR-related research. In return, Holodniy signed an agreement with Cetus stating that he "will assign and do[es] hereby assign" to Cetus his "right, title and interest in . . . the ideas, inventions, and improvements" made "as a consequence of [his] access" to Cetus.¹⁸

Holodniy's research was partially funded by the National Institute of Health ("NIH") and, as a result, was subject to the University and Small Business Patent Procedures Act of 1980, better known as the Bayh-Dole Act. A provision in the Bayh-Dole Act permits the contractor (here, Stanford) to retain title to any subject invention.¹⁹

While working with Stanford and Cetus using funding from the NIH, Holodniy developed a PCR-based method for which Stanford secured three patents. After the Cetus acquisition, Roche began to commercialize the procedure in the form of HIV test kits.²⁰

Stanford then sued Roche, claiming that the HIV test kits infringed Stanford's patents. In response, Roche argued that Holodniy's agreement with Cetus gave Roche co-ownership of the invention. Stanford replied that "Holodniy had no rights to assign" to Cetus because Stanford had "superior rights in the invention under the Bayh-Dole Act."²¹

Stanford's reply rested on a belief that the language of the Bayh-Dole Act reordered the normal order of priority rights for a federally funded invention.²² Stanford cited the Bayh-Dole Act's definition of a "subject invention" as "any invention of the contractor," arguing that "'invention of the contractor' means all inventions that a contractor's employees make with the aid of federal funds."²³ That is, Stanford argued that the order of priority rights for a federally funded invention was first the contractor, then the government, and only third, the inventor.²⁴

The Court's Analysis: The Supreme Court rejected Stanford's argument, noting that "[n]owhere in the Act is title expressly vested in contractors or anyone else" and "nowhere in the Act are inventors expressly deprived of their interest in federally funded inventions."²⁵ Accordingly, the Court concluded that "although others may acquire an interest in an invention, any such interest—as a general rule—must trace back to the inventor."²⁶ Thus, the rights to the patented invention belonged first to Holodniy.

Furthermore, as the dissent noted, the priority of Holodniy's "agree to assign" language in the Stanford agreement vs. his "do hereby assign" language in the Cetus/Roche agreement was decided against Stanford: "[t]he Federal Circuit held that the earlier Stanford agreement's use of the words 'agree to assign,' when compared with the later Cetus agreement's use of the words 'do hereby assign,' made all the difference." As the Federal Circuit stated, "once the invention came into existence, the latter words meant that the Cetus agreement trumped the earlier Stanford agreement."²⁷ Thus, the rights to the invention went first to Holodniy, and then to Cetus, never reaching Stanford at all.²⁸

The Impact: In short, the language of
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Stanford's employee agreements was the real problem. Had Stanford's agreement with Holodny contained an actual assignment (e.g., "I hereby assign"), Stanford would not have had to resort to its Bayh-Dole Act arguments and would have ended up with the rights to Holodny's work. As such, this decision may have limited impact. But for universities and other entities engaging in technology transfer, this decision is, if nothing else, a strong motivation to pay careful attention to the language in agreements between inventors, the university, and any other parties involved.²⁹

Microsoft Corp. v. i4i Limited Partnership: Is clear and convincing evidence the correct standard for proving invalidity of a patent?

In *i4i*, the Supreme Court addressed whether "clear and convincing" is the appropriate burden for proving invalidity, particularly where the challenger is relying on prior art that was not before the Patent and Trademark Office ("PTO") examiner during prosecution of the patent.

The Facts: In 2007, *i4i* sued Microsoft for its use of "custom XML," a proprietary extension within Microsoft Word's native OOXML document format. Microsoft counterclaimed that *i4i*'s patent protecting custom XML was invalid under 35 U.S.C. § 102(b), on the basis of the on-sale bar.³⁰

i4i and Microsoft agreed that more than a year prior to the filing of *i4i*'s patent, *i4i* had sold a software program known as S4. Microsoft alleged that S4 embodied the invention described in *i4i*'s patent, thus rendering the patent invalid. *i4i* disagreed.³¹

In the district court, *i4i* proposed a jury instruction that required the invalidity of *i4i*'s patent to be proved by "clear and convincing evidence," based on the presumption of

validity under 35 U.S.C. § 282. Microsoft objected, citing the undisputed fact that the S4 software sold by *i4i* had never been presented to the PTO during examination of the *i4i* patent. Based on this, Microsoft asserted that the invalidity of *i4i*'s patent need not be proved by clear and convincing evidence, but rather only by a preponderance of the evidence.³² More generally, Microsoft made the argument that the burden of clear and convincing evidence did not apply where the prior art in question had not been considered by the PTO. In particular, Microsoft contended that the presumption of validity did not mandate a clear and convincing burden of proof. Microsoft's argument ultimately garnered significant support from the electronics industry as well as academia; over 20 of the 25 amicus briefs filed with the Supreme Court were in support of Microsoft's assertion, including many filed by Microsoft competitors, such as Apple, Intel, and Google.³³

Unconvinced, the district court gave the jury the instruction proposed by *i4i*, and the jury found that Microsoft had willfully infringed the *i4i* patent and had failed to prove the invalidity of the *i4i* patent. The Federal Circuit affirmed.³⁴

The Court's Analysis: The Supreme Court affirmed, rejecting both of Microsoft's contentions: (1) that a preponderance of the evidence standard should apply in challenging validity under § 282 and (2) that a preponderance standard must at least apply where the validity challenge is based on new evidence that was not before the PTO during examination.³⁵ As noted by the Court, "pre-Act³⁶ cases never adopted or endorsed Microsoft's fluctuating standard of proof" and "they do not indicate, even in dicta, that anything less than a clear-and-convincing standard would ever apply to an invalidity defense" raised in an infringement action.³⁷

Thus, the Court confirmed that the invalidity of a patent must be proved by clear and convincing evidence, regardless of whether the prior art in question was ever considered by the PTO. At best, the Court conceded, "if the PTO did not have all material facts before it, its considered judgment may lose significant force," and, accordingly, allowed that a "jury may be instructed to evaluate whether the evidence before it is materially new, and if so, to consider that fact when determining whether an invalidity defense has been proved by clear and convincing evidence."³⁸ The Court's holding is consistent with Federal Circuit case law noting that the burden of proof by clear and convincing evidence "may be more easily met" when the art was not before the PTO.

In a concurrence, Justice Breyer emphasized that "the evidentiary standard of proof applies to questions of fact and not to questions of law," noting that "[w]here the ultimate question of patent validity turns on the correct answer to legal questions—what these subsidiary legal standards mean or how they apply to the facts as given—today's strict standard of proof has no application."³⁹

Accordingly, Justice Breyer suggested "separating factual and legal aspects of an invalidity claim, say, by using instructions based on case-specific circumstances that help the jury make the distinction or by using interrogatories and special verdicts to make clear which specific factual findings underlie the jury's conclusions."⁴⁰

The Impact: In general, the *i4i* case upholds the status quo. Justice Breyer's concurrence, however, raises a very different approach to an obviousness determination. Obviousness is ultimately a question of law, albeit with manifold underlying issues of fact. Justice Breyer's proposal—that courts require more detailed jury verdict forms

and special interrogatories directed to the issues of fact, leaving the ultimate obviousness determination to the judge—would be a substantial change in patent litigation and significantly alter its dynamics.

Endnotes

- 1 *Global-Tech Appliances, Inc. v. SEB S. A.*, 563 U.S. ____, 131 S. Ct. 2060 (2011).
- 2 *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc.*, 563 U.S. ____, 131 S. Ct. 2188 (2011).
- 3 *Microsoft Corp. v. i4i Limited Partnership*, 564 U.S. ____, 131 S. Ct. 2238 (2011).
- 4 *Global-Tech*, 563 U.S. at ____, 131 S. Ct. at 2064.
- 5 *Id.*
- 6 *Id.*
- 7 *Id.*
- 8 *Id.* at ____, 131 S. Ct. at 2065 (emphasis added).
- 9 Compare, e.g., *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 553-554 (Fed. Cir. 1990) and *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).
- 10 *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (*en banc*).
- 11 *SEB S. A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1377 (Fed. Cir. 2010).
- 12 *Id.*
- 13 In particular, the Court noted that Pentalpha's president "was well aware that products made for the overseas markets"—including the SEB deep fryer purchased by Pentalpha—"usually do not bear U.S. patent markings." Further, "Pentalpha's belief that SEB's fryer embodied advanced technology is evidenced by its decision to copy all but the cosmetic features of SEB's fryer." And, still further, Pentalpha chose not to inform the attorney of the SEB fryer from which the Pentalpha fryer was copied. Any exculpatory evidence that the defendants had any actual belief that the SEB fryer was not protected by a patent was notably absent. *Global-Tech*, 563 U.S. at ____, 131 S. Ct. at 2071.
- 14 *Id.* at ____, 131 S. Ct. at 2070.
- 15 *Id.* at ____, 131 S. Ct. at 2070-2071.
- 16 *Stanford*, 563 U.S. at ____, 131 S. Ct. at 2192.
- 17 *Id.*
- 18 *Id.*
- 19 *Id.* at ____, 131 S. Ct. at 2193, where "subject invention" is defined as "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement."
- 20 *Id.* at ____, 131 S. Ct. at 2192.
- 21 *Id.* at ____, 131 S. Ct. at 2193.
- 22 Notably, the United States filed an amicus brief in support of Stanford and this belief.
- 23 *Stanford*, 563 U.S. at ____, 131 S. Ct. at 2196.
- 24 In the view of Stanford and the United States, "the Act moves inventors from the front of the line to the back by vesting title to federally funded inventions in the inventor's employer – the federal contractor." *Id.* at ____, 131 S. Ct. at 2195.
- 25 *Id.* at ____, 131 S. Ct. at 2196.
- 26 *Id.* at ____, 131 S. Ct. at 2195.
- 27 *Id.* at ____, 131 S. Ct. at 2202.
- 28 In the dissent, Justice Breyer noted that "[g]iven what seem only slight linguistic differences in the contractual language, this reasoning seems to make too much of too little." Justice Breyer explained that under the law at the time the agreements to Stanford and Cetus were drafted, "both the initial Stanford and later Cetus agreements would have given rise only to equitable interests in Dr. Holodniy's invention," as a distinction between the language of the Stanford and Cetus agreements was not made until the 1991 Federal Circuit case, *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1572 (1991). Given this, Justice Breyer concluded that "the facts that Stanford's contract came first and that Stanford subsequently obtained a postinvention assignment as well should have meant that Stanford, not Cetus would receive the rights its contract conveyed." *Stanford*, 563 U.S. at ____, 131 S. Ct. at 2203 (Breyer, J., dissenting).
- 29 For further discussion of this case, see *Stanford v. Roche, the Bayh-Dole Act, and the Possibility of Unintended Consequences* and *Stanford v. Roche: Part II: The Supreme Court Has Spoken*, snippets, Vol. 9, Issue 2, available at <http://mbhb.com/resources/documents/Snippets%20Final%20Vol%209%20Issue%202.pdf>.
- 30 *Microsoft*, 564 U.S. at ____, 131 S. Ct. at 2243.
- 31 *Id.* at ____, 131 S. Ct. at 2244.
- 32 *Id.*
- 33 See, e.g., Brief for Google Inc. et al. as Amici Curiae in Support of Petitioner and Brief for Apple Inc. and Intel Corporation as Amici Curiae Supporting Reversal, *Microsoft*, 564 U.S. ____, 131 S. Ct. 2238 (2011).
- 34 *Microsoft*, 564 U.S. at ____, 131 S. Ct. at 2244.
- 35 *Id.*
- 36 35 U.S.C. § 282 is a section of the Patent Act of 1952. Accordingly, the Court refers to "pre-Act" cases to indicate cases prior to the Patent Act of 1952 and, accordingly, prior to the codifying of the common-law presumption of patent validity and the applicable standard of proof.
- 37 *Microsoft*, 564 U.S. at ____, 131 S. Ct. at 2250.
- 38 *Id.* at ____, 131 S. Ct. at 2251.
- 39 *Id.* at ____, 131 S. Ct. at 2253.
- 40 *Id.*

Grantland G. Drutchas, an MBHB partner, has more than 20 years of experience in the practice of intellectual property law, with a particular emphasis on litigation, licensing, and client counseling. His litigation experience encompasses disciplines ranging from DNA sequences, pharmaceuticals, medical diagnostic equipment and medical devices to conference phones, lampposts, and injection molds.

drutchas@mbhb.com

A. Gracie Klock, an MBHB technical advisor, provides technological advice in support of validity and patentability analysis in the area of electrical engineering with respect to the preparation and prosecution of patent applications.

klock@mbhb.com

Attorney-Client Privilege in the Cloud

Cloud storage has grown in popularity over recent years, and storage is generally a third-party, off-site, Internet-accessible data store for computer files. An advantage of cloud storage is that individuals and firms can pay for only the amount of storage actually used, and can purchase additional storage without having to purchase additional hardware (such as hard drives). Further, cloud storage services may provide additional features such as data redundancy, security (e.g., file encryption), and file sharing.

One example of a cloud storage service is Dropbox, which synchronizes files among a user's multiple devices such as computers and smartphones (while also storing those files online for access via a web browser). For example, when a user saves a word-processing document, that document is automatically uploaded to Dropbox's servers and is then propagated to all of the user's other devices. Further, Dropbox stores a new version of the document each time it is saved and uploaded, thereby allowing a user to quickly and easily recover previous versions of the document. Additionally, Dropbox can propagate updated documents to devices of multiple users (such as friends and coworkers), and allows those other users to also upload a modified copy of the document for propagation. Other cloud storage services, such as Apple's iDisk, Google Docs, and Windows Live Mesh, provide similar functionalities.

However, cloud storage services present concerns that would not otherwise be present if individuals and organizations stored data locally—concerns such as the ability of third parties to access sensitive data. For example, a corporate competitor might attempt to use a subpoena to force a cloud storage service to disclose sensitive files.

Any such access to attorney-client privileged

data could waive the privilege. This article investigates the risk of disclosure of cloud-stored attorney-client privileged information to third parties, and concludes that the risk of disclosure is low, such that the use of cloud storage services is unlikely to result in a waiver of attorney-client privilege.

Law of Attorney-Client Privilege

An exact formulation of the elements that must be present to assert attorney-



Cloud storage services present concerns that would not otherwise be present if individuals and organizations stored data locally—concerns such as the ability of third parties to access sensitive data.

client privilege over a communication is jurisdiction-dependent, varying based on the governing case law. However, the general rule is that the attorney-client privilege applies to (1) any communication (2) made between privileged persons (such as the client and attorney) (3) in confidence (4) for the purpose of obtaining or providing legal assistance for the client.¹ Accordingly, the attorney-client privilege may apply to, for example, emails requesting legal advice,² invention disclosure forms,³ emails from an inventor regarding an invention,⁴ and draft patent applications.⁵

Generally, the attorney-client privilege is waived if the client or attorney provides the

communication to a third party.⁶ However, exceptions exist, for example, for agents of either the client or attorney who facilitate communication and for agents of the attorney who facilitate the representation.⁷ Yet, for either exception to apply, the client or attorney communicating the privileged information must reasonably believe that no third parties other than the agent will learn the contents of the communication.⁸

Third-Party Access to Attorney-Client Privileged Files Stored in the Cloud

Cloud storage services do present some risk of inadvertent disclosure of attorney-client privileged information to third parties. However, this risk is small.

Security

Nearly all cloud storage services employ security measures to prevent unauthorized access to data. For example, Dropbox employs various security measures to prevent disclosure of information to hackers. All information stored on Dropbox's servers is encrypted using "the same encryption standard used by banks to secure customer data."⁹ Dropbox also encrypts all data transmissions to and from their servers "using 256-bit SSL (Secure Sockets Layer) encryption, the standard for secure Internet network connections."¹⁰ Moreover, Dropbox uses "military grade perimeter control berms, video surveillance, and professional security staff to keep their data centers physically secure."¹¹

On the other hand, Dropbox and most other cloud storage services do not implement advanced security measures such as two-factor authentication. Since data stored by Dropbox is encrypted using only a password, hackers need only obtain a user's password to have complete access to that user's files. Because Internet users often use the same username and password for multiple

services (such as Facebook, Google, and Amazon), hackers often only need to obtain a password for one of these services, perhaps by targeting the least-secure service.¹² Further, hackers may use “social engineering” to obtain a password, perhaps by emailing an unsuspecting user and posing as a system administrator asking for a password to provide a free upgrade to the service.¹³ Since many websites allow a user to reset a password using information such as a birthday or birthplace, hackers may be able to reset a user’s password by obtaining this information via a social network such as Facebook. Advanced security measures not currently offered by Dropbox could prevent these exploits.¹⁴

However, these security issues are not unique to Dropbox or cloud storage services generally. In a recent survey, only 15 percent of law firms employed two-factor authentication for Microsoft Outlook web access.¹⁵ The other 85 percent offered the same password security that Dropbox offers. Therefore, the same methods for obtaining a user’s Dropbox password would apply equally to obtaining the user’s Outlook password. Yet law firms trust and rely upon password security to protect attorney-client privileged information.

Further, according to the same survey, only 10 percent of law firms automatically encrypted outgoing emails.¹⁶ In contrast, Dropbox provides automatic end-to-end encryption for file transfers. By these measures, cloud storage services provide stronger security measures than those currently provided by many law firms.

Therefore, the security measures adopted by Dropbox (and other cloud storage services) will generally preserve the attorney-client privilege of files stored on Dropbox servers. Law firms would not adopt these

measures unless they reasonably believed that no third parties would learn the contents of the communication (a belief that is necessary for the attorney-client privilege to apply).¹⁷ The security measures provided by cloud storage services are at least as secure as, if not more than, those provided by law firms. For example, Google (which provides Google Docs and Gmail) offers two-factor authentication, an advanced security measure offered by few law firms.¹⁸ Therefore, a client or attorney could reasonably believe that no third party would learn the contents of files stored on Dropbox or another cloud storage service.

e-Discovery

Another concern regarding cloud storage services is the potential for corporate competitors to obtain attorney-client privileged files from those cloud storage services via a subpoena. Such a subpoena may allow (and indeed require) the cloud storage service to turn over such sensitive information.

For example, Dropbox’s privacy policy explicitly allows Dropbox to turn over files and information in response to a subpoena.¹⁹ Moreover, before turning those files over in response to a subpoena, Dropbox will decrypt the encrypted files.²⁰ Dropbox is able to decrypt the files because it also stores the information necessary to decrypt that information.²¹

However, because only the party that holds the attorney-client privilege (*i.e.*, the client) may waive the privilege,²² subpoenas to cloud storage services should not pose a threat of waiver. Indeed, courts have held that the attorney-client privilege is not waived, even if third parties obtain the privileged information via a subpoena, so long as the communicating party reasonably believed that the information was safe from access by third parties.²³ In

fact, some parties have been sanctioned for attempting to subpoena information known to be protected by the attorney-client privilege.²⁴ Further, assuming that attorneys are complying with their obligation to disclose relevant, non-privileged documents during discovery,²⁵ the volume of non-privileged documents that may be relied upon during litigation should be the same regardless of whether the documents are obtained via a cloud storage service (*e.g.*, Dropbox) or via the production of documents possessed by the client or attorney.

Therefore, the storage of attorney-client privileged files on cloud storage services presents little risk of waiving that privilege. At a minimum, such storage presents little (if any) additional risk of waiver as compared to storing files locally on a hard drive.

Conclusion

Dropbox and other cloud storage services present little (if any) additional risk of disclosure to third parties than do other methods of communicating or storing information, and may present even less of a risk than other methods of communication. For example, in contrast to Dropbox’s policy of not inspecting user information, FedEx’s policy explicitly provides that they “may, at our sole discretion, open and inspect any shipment without notice.”²⁶ Such unfettered access to attorney-client privileged information by FedEx could arguably negate a reasonable belief by a client or attorney that such information is inaccessible by third parties. In any case, clients and attorneys can safely store files, including attorney-client privileged files, using cloud storage services, without fear that the privilege will be waived, so long as the client and attorney reasonably believe that no other third parties will be able to access the files.

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Attorney-Client Privilege in the Cloud

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Endnotes

- 1 Restatement (Third) of the Law Governing Lawyers § 68 (1998).
- 2 *E.g.*, *McCook Metals L.L.C. v. Alcoa Inc.*, 192 F.R.D. 242, 252-53 (N.D. Ill. 2000).
- 3 *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 805-06 (Fed. Cir. 2000).
- 4 *E.g.*, *McCook Metals*, 192 F.R.D. at 253.
- 5 *E.g.*, *id.* at 252-53.
- 6 “A communication is in confidence... if, at the time and in the circumstances of the communication, the communicating person reasonably believes that no one will learn the contents of the communication except a privileged person as defined in § 70 or another person with whom communications are protected under a similar privilege.” Restatement (Third) of the Law Governing Lawyers § 71 (1998).
- 7 “Privileged persons within the meaning of § 68 are the client (including a prospective client), the client’s lawyer, agents of either who facilitate communications between them, and agents of the lawyer who facilitate the representation.” *Id.* § 70.
- 8 *Id.* § 71.
- 9 Dropbox, Security Overview, <http://www.dropbox.com/security/> (last visited Aug. 7, 2011) [hereinafter “Dropbox Security”].
- 10 *Id.*
- 11 *Id.*
- 12 Symantec, *Social Engineering Fundamentals, Part I: Hacker Tactics* (Nov. 3, 2010), available at <http://www.symantec.com/connect/articles/social-engineering-fundamentals-part-i-hacker-tactics>.
- 13 *Id.*
- 14 Further, Dropbox recently suffered a severe security lapse when a software bug allowed anyone to log in to any account using any password over a period of four hours. See Arash Ferdowsi, *The Dropbox Blog, Yesterday’s Authentication Bug* (June 20, 2011), available at <http://blog.dropbox.com/?p=821>.
- 15 Int’l Legal Tech. Ass’n, 2010 Technology Survey: Analysis and Results 52 (2010), available at <http://iltanet.org/MainMenuCategory/PublicationsWhitePapersandSurveys/2010-Technology-Survey.aspx>.
- 16 *Id.*
- 17 See Restatement (Third) of the Law Governing Lawyers § 71 (1998).
- 18 Google, Getting Started with 2-Step Verification, <http://www.google.com/support/accounts/bin/answer.py?answer=180744> (last visited Aug. 7, 2011).
- 19 “We may disclose to parties outside Dropbox files stored in your Dropbox and information about you that we collect when we have a good faith belief that disclosure is reasonably necessary to (a) comply with a law, regulation or compulsory legal request....” Dropbox, Privacy Policy (July 2, 2011), available at <http://www.dropbox.com/privacy/> [hereinafter Dropbox Privacy Policy].
- 20 “If we provide your Dropbox files to a law enforcement agency as set forth above, we will remove Dropbox’s encryption from the files before providing them to law enforcement.” *Id.*
- 21 “[W]e manage the encryption keys.” Dropbox Security, *supra* note 9.
- 22 See *Advertising to Women, Inc. v. Gianni Versace S.p.A.*, No. 98 C 1553, 1999 WL 608711, at *4 n.3 (N.D. Ill. Aug. 4, 1999) (quoting *Southwire v. Essex Group, Inc.*, 570 F. Supp. 643, 645 (N.D. Ill. 1983)).
- 23 *E.g.*, *Am. Int’l Life Assurance Co. of NY v. Vazquez*, No. 02 Civ. 141(HB), 2003 WL 548736, at *3 (S.D.N.Y. Feb. 25, 2003).
- 24 *Id.*; see also Fed. R. Civ. P. 45(c)(3)(A)(iii) (“On timely motion, the issuing court must quash or modify a subpoena that... requires disclosure of privileged or other protected matter, if no exception or waiver applies...”).
- 25 Fed. R. Civ. P. 26(b)(1) (“Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense...”); *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 188 F.R.D. 189, 199 (S.D.N.Y. 1999) (“Court process can, however, require disclosure of [attorney-client confidential] information unless it is subject to the attorney-client privilege.”).
- 26 FedEx, Express Terms and Conditions 7 (July 14, 2011), available at <http://fedex.com/us/service-guide/terms/express-ground/>.

Alan W. Krantz, an MBHB associate, prepares and prosecutes patent applications, conducts legal research, and provides technological advice in support of validity, infringement, and patentability analyses, patent application preparation and prosecution, and litigation matters in the computing field.

krantz@mbhb.com



**McDonnell Boehnen
Hulbert & Berghoff LLP**

300 South Wacker Drive
Chicago, Illinois 60606-6709

312 913 0001 phone
312 913 0002 fax
www.mbhb.com
snippets@mbhb.com

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Partners

Lawrence H. Aaronson
Alison J. Baldwin
Michael H. Baniak
Paul H. Berghoff
Daniel A. Boehnen
Christina L. Brown
S. Richard Carden
Christopher M. Cavan
Y. Elaine Chang, Ph.D.
David L. Ciesielski
Michael D. Clifford
Bradley W. Crawford
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Thomas A. Fairhall
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