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A review of developments in Intellectual Property Law



High Risk, High Reward: An Overview of Navigating IP Rights in the Green Rush

By George "Trey" Lyons, III, Nicole E. Grimm, Brett W. Scott and Margot M. Wilson



The legal U.S. cannabis market, which includes medicinal and recreational sales, is booming. Last year alone, the industry accumulated an estimated \$7.2 billion in revenue, and that number is projected to grow to \$21.2 billion by 2021.¹ Currently, twenty-nine states and D.C. have medical cannabis laws in place, eight of which (and D.C.) have legalized recreational use as well.²



With cannabis policy reform and legalization continuing to gain momentum nationwide and internationally, the "Green Rush" is well underway. For companies and entrepreneurs

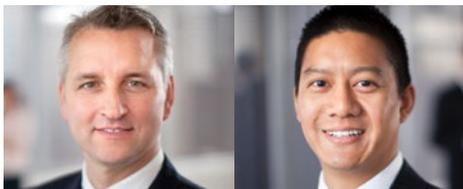
entering this industry, comprehensive intellectual property ("IP") protection is vital for their developing cannabis brands and inventions.

However, because cannabis remains illegal under federal law,³ companies seeking federal IP protection (namely under copyright, trademark, and patent laws) face challenges and amorphous legal boundaries that are unique to this industry. For example, despite the current federal prohibition and criminality of cannabis, the U.S. federal government, through the U.S. Patent and Trademark Office ("USPTO") and the Copyright Office, has granted cannabis-related trademarks, copyrights, and patents in the past. However, determining what IP protection exists currently for those seeking to ride the tides of the Green Rush presents a fundamentally different and challenging set of questions. Thus, here we will discuss the status of federal and state IP laws and enforcement options available for these pioneer canna-businesses.

Current Canna-Trademark Rights

A trademark is a word, phrase, symbol, or design that distinguishes the source of goods of one company from another company; and a service mark is the same as applied to services instead of goods.⁴ Building a strong brand is critical to any company, and federal trademark registration provides potentially the broadest, and most long-term, protection.⁵ And, like many other industries, the cannabis industry relies on brand names to promote and distinguish their goods and services from other companies emerging in the same spaces.⁶ However, under current U.S. federal trademark law, the USPTO has refused to register trademarks on cannabis goods or services, particularly those in the context of the cannabis product itself (*e.g.*, a particular strain of leafy cannabis). That said, some further details surrounding the path to this USPTO policy are worth noting.

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registration, beginning in 2010, the USPTO invited applicants to apply for federal trademark registrations on cannabis goods and services by creating a new entry in its Acceptable Identification of Goods and Services Manual for: Class 5: "Processed plant matter for medicinal purposes, namely medical marijuana."⁷ Within a matter of months, and countless applications later, a spokesperson for the USPTO, Peter Pappas, noted that the newly articulated class "raise[d] examination issues ... was a mistake and [that the USPTO] ha[d] removed it."⁸

In more recent years, the USPTO clarified that the basis for denying federal trademarks in connection with many cannabis-related goods and services is due to the lack of any lawful uses of the applied for marks in commerce, as expressly required by the Lanham Act.⁹ And, both the USPTO and the Trademark Trial and Appeal Board have consistently applied this prohibition.¹⁰ Further, because cannabis is still illegal under the Controlled Substances Act ("CSA"), the Trademark Manual of Examining Procedure is uncomplicated and unequivocal in this regard, even if the applicant does not state that the use is illegal under federal law:

[E]vidence indicating that the identified goods or services involve the sale or transportation of a controlled substance or drug paraphernalia in violation of the Controlled Substances Act ("CSA"), 21 U.S.C. §§801-971, would be a basis for issuing an inquiry or refusal. . . . Note that, regardless of state law, marijuana and its psychoactive component, THC, remain Schedule I controlled substances under federal law and are subject to the CSA's prohibitions.¹¹

But, how close to the line can an applicant go to obtain federal trademark protection without stepping into prohibited activity under the CSA? Again, filing for trademarks on cannabis products themselves is clearly too far at this point.¹² However, cannabis-related goods and services are a closer call.

On one end, there are products and services that may be labeled "paraphernalia," for which the USPTO has also refused trademarks and service marks - as they arguably fall within the definition of "illegal drug paraphernalia" under the CSA (*e.g.*, vaporizing devices for cannabis).¹³ On the

other end, federal trademarks and service marks have been granted in the context of ancillary products and services (*e.g.*, cannabis apparel companies, and informational services/cannabis networking organizations).¹⁴ Regardless, applicants should be prepared to controvert USPTO rejections and readily show how the cannabis-related mark does not violate the CSA - no matter how strained the nexus between the goods or services offered by the applicant to the currently illegal product may be.¹⁵

But in spite of having to walk the fine

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line of illegality with the USPTO for federal trademarks, all is not lost for cannabis companies seeking trademark protection. Specifically, because many of the states that have legalized cannabis in some form have begun instituting statutory bases for registering cannabis-related trademarks and service marks under state law, state trademark rights may currently provide the most fruitful ground for canna-trademark rights.¹⁶

Current Canna-Copyright Rights

Despite the USPTO's position on federal trademarks, cannabis companies are not foreclosed from obtaining federal copyright protection for their "original works of authorship," which can include literary, dramatic, musical, visual, and other intellectual works.¹⁷ Notably, the Copyright Act of 1976 does not contain the same express prohibition under the CSA as the Lanham Act. Moreover, because copyright applications are reviewed

and granted by a completely separate entity from the USPTO - the U.S. Copyright Office (which has not, to date, issued any prohibition from registering cannabis-related copyrights) - the same concerns simply do not exist for copyright protection.

Thus, copyright protection seems to be on the table currently for affording cannabis companies options for protecting logos and visual designs associated with their brand under federal law.¹⁸ As copyright applications are inexpensive to apply for and prosecute as compared to patents (and even trademarks/service marks), cannabis brand owners should carefully consider looking into protecting their branded literary, dramatic, musical, visual, and other intellectual works in connection with useful articles (*e.g.*, t-shirts, accessories, etc.).

Current Canna-Patent Rights

Patents are granted by the USPTO on "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof," and confer the right to exclude others from making, using, and selling the invention in the U.S.¹⁹ And, despite refusing cannabis trademarks, the USPTO has granted all types of patents (utility, design, and plant) for cannabis-related inventions.²⁰ Notably, the patent statute does not have the same prohibition on illegal activity as the Lanham Act.

However, U.S. courts have held that an invention is not useful, and is therefore ineligible for patent protection, if it is "frivolous or injurious to the well-being, good policy, or sound morals of society."²¹ As a result, a number of patents have been invalidated based on being immoral or offensive, such as patents related to gambling or lottery devices,²² and inventions designed to deceive and defraud the public.²³ However, over the years, the courts and the USPTO have pulled back from this concept of moral utility.

For example, the USPTO Board of Appeals has stated that "we cannot find any basis in 35 USC 101 or related sections which justify a conclusion that inventions which are useful only for gambling ipso facto are void of patentable utility" and that "this Office should not be the agency which seeks to enforce a standard of morality with respect to gambling, by refusing, on the ground of lack of patentable utility, to grant a patent on a game of chance."²⁴ Further, the Federal Circuit has noted that "the principle that inventions are invalid if they

are principally designed to serve immoral or illegal purposes has not been applied broadly in recent years.”²⁵ And the USPTO’s Manual of Patent Examining Procedure (MPEP) now states that “[a] rejection under 35 U.S.C. 101 for lack of utility should not be based on grounds that the invention is frivolous, fraudulent or against public policy.”²⁶

Nevertheless, while the courts and the USPTO continue to move away from the application of a public policy doctrine, some are of the opinion that such a doctrine still exists, only in a narrower form.²⁷ However, these same commentators would also note that “courts should not apply subjective ideas of honesty and morality” to interpret the bounds of patent-eligible subject matter; but instead “should apply a test which will not penalize an inventor who may be prescient enough to be anticipating basic needs of a society changed by forces yet unrecognized by the general public.”²⁸

Whether this public policy doctrine still exists and whether courts will apply it to invalidate cannabis-related patents remains to be seen, as cannabis-related patents have yet to be challenged on such grounds. Until then, the USPTO continues to examine patent applications and issue patents on cannabis-related inventions free of § 101 concerns, such that canna-business owners should consider pursuing patent protection for their intellectual property.

Current patentable subject matter under § 101 for cannabis inventions seems to include, at least: methods of treatment, methods of growing cannabis plants, THC extraction techniques, consumption methods and devices, cannabis-infused edible products, and cannabis strains themselves.²⁹ And while the vast majority of these applied-for and granted patents are utility patents, plant patents are also being applied for and granted.³⁰

Further, even though the legalization of medicinal and recreational cannabis use is a recent development in many states, patenting cannabis-related inventions is not a new concept; cannabis-related patent applications were being filed as early as the 1970s.³¹ In fact, even the federal government itself owns a patent related to a method of treating oxidative stress by administering a (nonpsychoactive) cannabinoid.³² To quantify, currently there are at least 300 granted patents and over 500 published applications involving cannabis-related inventions.³³ And while some

in the industry may be opposed to patenting cannabis-related inventions, particularly strains, the reality is that the “race to the Patent Office” has already begun.

Canna-IP Enforcement and Benefits

Even if IP protection exists for canna-business owners, the question remains: What benefit do these property rights really bestow to the owner? A few points are worth considering.

First, while rare, there are a small number of cannabis related patent infringement cases popping up in federal courts; but these cases have settled early in litigation.³⁴ The asserted patents in these cases did not necessarily cover cannabis-related technology, but were being enforced against various companies developing cannabis products.³⁵ Of particular note, however, recently an infringement complaint was filed in the Eastern District of Pennsylvania asserting patents covering intravenous anesthetics which, in some embodiments, include cannabinoids.³⁶ And as the markets and protectable property interests continue to rapidly grow, similar cases enforcing cannabis-related patents will likely become increasingly popular and prevalent.

Second, even if cannabis companies may feel limited in their current ability to fully enforce their secured IP rights, the tangible and concrete property interest in these rights remain. For example, patents and copyrights can be, and often are, used as instruments for debt and equity financing - often leveraged as collateral for securing lines of credit - whether by private venture capitalists or established institutions. Additionally, because trademarks potentially provide perpetual rights, they may add significant value to a company when evaluating a brand’s worth for purposes of executing an acquisition or obtaining investments or other financing.

Conclusion

So, for those canna-businesses seeking IP protection (startups and large entities alike), the distilled advice seems pretty simple: protect your IP rights early, often, and aggressively.

Put another way, as the single hottest emerging market in popular culture, the potential for IP rights surrounding the Green Rush presents a seemingly infinite forecast of rewards for those adventurous and informed

enough to navigate it intelligently.³⁷ Unlike other emerging markets, because the law is not exceedingly clear in this space, those attempting to achieve long-term success will have to put particular emphasis on the latter—*being informed*. And as the stakes keep growing,³⁸ having someone in your corner to help inform your next steps might help alleviate the high risks you face along the way.

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Endnotes

- 1 Debra Borchardt, *Marijuana Industry Projected To Create More Jobs Than Manufacturing By 2020*, FORBES (Feb. 22, 2017, 10:51 AM), available at <https://www.forbes.com/sites/debraborchardt/2017/02/22/marijuana-industry-projected-to-create-more-jobs-than-manufacturing-by-2020/#3520fe3fa92>; Debra Borchardt, *Marijuana Sales Totaled \$6.7 Billion In 2016*, FORBES (Jan. 3, 2017, 9:00 AM), available at <https://www.forbes.com/sites/debraborchardt/2017/01/03/marijuana-sales-totaled-6-7-billion-in-2016/#2d35e14375e3>.
- 2 These eight states include Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, and Washington. See *Review of State Laws to Regulate Marijuana*, MPP, <https://www.mpp.org/issues/legalization/regulationlaws/> (last visited Aug. 11, 2017). Although cannabis is legal in DC, Congress has currently blocked the recreational commercial sale. See 2017 Marijuana Policy Reform Legislation, MPP, <https://www.mpp.org/states/key-marijuana-policy-reform/> (last updated July 31, 2017).
- 3 See 21 U.S.C. § 812(b)(1). The Obama administration issued a memorandum in 2013 that directed federal prosecutors to avoid criminally prosecuting cannabis businesses that are compliant with state laws. See Memorandum from James M. Cole, Deputy Attorney General, *Guidance Regarding Marijuana Enforcement* (Aug. 29, 2013), available at <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>. So far, this safe-harbor policy has remained intact under the Trump administration.
- 4 See 15 U.S.C. § 1127.
- 5 The benefits of federal registration include: nationwide protection, federal jurisdiction for enforcement, national notice, customs protection, presumption of validity, presumption of ownership, and the right to use the ® symbol. Additionally, unlike other IP rights, trademarks and service marks are not term limited as they provide perpetual protection for brands as long as the brand is used in connection with the goods and/or services of the brand owner.
- 6 For example, if a consumer is looking to buy a particular strain with one or more particular medicinal effects, it is incredibly important for that consumer to know whether they are purchasing a sativa, indica, or hybrid strain, in what dose, and in what form (e.g., smokable leafy cannabis versus a concentrated edible) depending on what ailments are being treated and/or the effects sought. See, e.g., Kevin P. Hill, MD, MHS, *Medical Marijuana for Treatment of Chronic Pain and Other Medical and Psychiatric Problems: A Clinical Review*, 313 JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION 2474, 2481-82 (2015).

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Back to “Normal”?: Patent Venue After *TC Heartland*

By Grantland G. Drutchas, Aaron V. Gin, Ph.D., and Eric A. Liu

On May 22, 2017, in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, the Supreme Court reversed decades of expansive patent venue interpretation by the Federal Circuit.¹ A succinct 10-page opinion by Justice Thomas established that the term “resides” refers only to the state of incorporation under the patent venue statute, 28 U.S.C. § 1400(b).² The ruling in *TC Heartland* immediately overturns long-standing “forum-shopping” practices and introduces a longer-term issue of defining “a regular and established place of business.”

Under § 1400(b), “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides or where the defendant has committed acts of infringement and has a regular and established place of business.”³ In 1957, the Supreme Court held in *Fourco Glass Co. v. Transmirra Products Corp.* that a domestic corporation “resides” only in its state of incorporation.⁴ However, starting with its 1990 decision in *VE Holding Corp. v. Johnson Gas Appliance Co.*, the Federal Circuit has held that “resides” is instead defined under the general venue statute of 28 U.S.C. § 1391(c) to include where the corporation is subject to personal jurisdiction.⁵ The Federal Circuit based this divergence from the Supreme Court’s holding in *Fourco* on intervening amendments to that statute.

The tension between these two interpretations came to a head when Kraft Foods Group Brands LLC asserted its patent on liquid water enhancers against TC Heartland LLC.⁶ Kraft, being incorporated in Delaware and headquartered in Illinois, filed the complaint in Delaware; TC Heartland, incorporated and headquartered in Indiana, sought to transfer the case to the Southern District of Indiana.⁷

In its motion to transfer venue, TC Heartland argued that venue in Delaware was improper because TC Heartland 1) resided only in Indiana, 2) was not registered to do business in Delaware, and 3) did not have a regular and established place of business in that state.⁸ TC Heartland asserted that it had only shipped

the accused products to Delaware and had no other presence in the state.⁹ The Magistrate Judge recommended denying TC Heartland’s motion in full, reasoning that TC Heartland had minimum contacts in Delaware sufficient for personal jurisdiction, thus satisfying “residence” for an entity in the District of Delaware, and accordingly venue was proper under 28 U.S.C. § 1391(c).¹⁰

TC Heartland sought a writ of mandamus from the Federal Circuit, which was denied.¹¹ It

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then sought a writ of *certiorari* with the support of seven *amicus* briefs from *amici* ranging from 32 internet companies to 56 professors of law and economics. The Supreme Court granted TC Heartland’s petition for *certiorari* on December 14, 2016, leading to the decision on May 22, 2017.

The Supreme Court overturned *VE Holding*’s reliance on § 1391 for its definition of “resides,” holding that “resides” in the patent venue statute, § 1400(b), refers only to the state of incorporation.¹² The Court reasoned that none of the intervening changes in § 1391 contained any indication that Congress intended to alter the meaning of § 1400(b) as interpreted in *Fourco Glass*, which the Court found controlling.¹³ Furthermore, the decision

by Congress to add a savings clause in the current version of § 1391 (i.e., “Except as otherwise provided by law”) “makes explicit the qualification that the Court previously found implicit in the statute.”¹⁴ Thus, the Court made clear that “resides” is defined by the defendant’s state of incorporation only, and “resides” for the purposes of patent venue cannot be construed based on the broader definition set out in § 1391(c).¹⁵

Impact on Patent Litigation Filings

Prior to *TC Heartland*, the Federal Circuit’s decision in *VE Holding* allowed plaintiffs to file patent infringement actions in substantially any district where products had been sold.¹⁶ This promoted forum-shopping, which gradually led to substantial increases in patent filings in districts perceived to be plaintiff-friendly, such as the Eastern District of Texas.¹⁷ In that district, the extraordinary win-rate for patent plaintiffs – 72% of all jury trials¹⁸ – brought a huge influx of patent litigation; filings there rose from about 9% in 2005¹⁹ to over 40% of all US patent suits in 2015.²⁰

Newly-Filed Cases and Likely Forums

In the wake of *TC Heartland*, many defendants will no longer be subject to suit in forums where they lack a regular and established “place of business.”²¹ Going forward, patent filings will reflect practices under *Fourco Glass*, rather than *VE Holding*, and result in shifting litigation away from the Eastern District of Texas. Some studies suggest that the Eastern District of Texas will see a drop in patent filings, down to perhaps 15% of all patent infringement cases.²²

Substantial impacts from the *TC Heartland* decision will be felt in districts where companies are incorporated or headquartered. For example, the District of Delaware is the legal home for more than 66% of Fortune 500 companies and the Northern District of California is the home to many companies headquartered in Silicon Valley.²³ Some studies predict that the District of Delaware will serve as a forum for almost 20% of patent infringement cases.²⁴ Other studies suggest that the District of Delaware and the Northern District of California could collectively experience an uptick to perhaps 37% of all cases filed.²⁵

Pending Cases

For those parties with established, pending patent cases where no venue motions were filed or objections were not clearly preserved, it remains to be seen whether such cases can be transferred out of their existing districts or dismissed for lack of venue.²⁶ Two lower court decisions from the Eastern District of Virginia and the Eastern District of Texas suggest that *TC Heartland* may not be treated as intervening law for the purpose of venue transfer in pending cases.²⁷ In both cases, however, the litigation was within weeks or months of trial, and at least one of the defendants had answered without attempting to preserve any venue objections. And although the Federal Circuit denied a request for a writ of mandamus in one of those decisions, noting the heightened standard required for mandamus (“to correct a ‘clear abuse of discretion or usurpation of judicial power’ by a trial court”),²⁸ Judge Newman’s dissent suggests that the result may have been different under slightly different facts.²⁹

Indeed, a recent Western District of Washington case suggests that failing to challenge venue prior to *TC Heartland* does not necessarily waive the improper venue defense if the challenge is brought earlier during the pleading stage.³⁰ The district court held that the defendants had not waived their defense of improper venue under § 1400(b) by not including it in the original motion to dismiss.³¹ Instead, the defendants were allowed to add the argument to their second, pending motion to dismiss, because the defense was unavailable to them at the time the original motion was made, and because the defendants raised the defense as soon as it became available following *TC Heartland*.³² Furthermore, the new improper venue defense did not result in unnecessary delay and did not unduly prejudice the plaintiff.³³

Multiple Defendants

In future patent cases, *TC Heartland* will likely make it much more difficult to join multiple defendants in a single action when they are not all amenable to the same venue. For example, § 1400 does not include the “where any defendant resides” provision like § 1391 or any supplemental venue provision that would extend venue over additional defendants or additional claims. This is likely to force a shift to multidistrict litigations under 28 U.S.C. § 1407.³⁴ Namely, under less permissive venue

rules, multidistrict litigations may become more costly for plaintiffs, thereby decreasing the frequency of such cases.

Regular and Established Place of Business

TC Heartland brings a new focus on the second prong of § 1400(b), regarding the interpretation of “a regular and established place of business.” The Federal Circuit in *In re Cordis Corp.* defined the appropriate inquiry as, “whether the corporate defendant does its business in that district through a permanent and continuous presence there and not . . . whether it has a fixed physical presence in the sense of a formal office or store.”³⁵ For instance, having sales representatives alone is not enough to establish such a presence if they do not also maintain samples or at least sell the products at issue.³⁶ Also, as e-commerce becomes ever more prevalent, an increasingly common challenge will be to pinpoint where such companies have a regular and established place of business. Under *TC Heartland*, patent venue would at least be proper for domestic internet company defendants in the district where they are incorporated.³⁷ Although, recent cases suggest that mere communications, sales and shipments to a state, and visitations are not sufficient to establish patent venue.³⁸

Conclusion

The impact of *TC Heartland* will be substantial and wide-ranging. Practitioners will almost certainly see a shift in patent litigation filings away from the Eastern District of Texas in favor of the District of Delaware and the Northern District of California. Joining multiple defendants in a single action will also be more difficult. Furthermore, while Justice Thomas makes clear the meaning of “resides” under 28 U.S.C. § 1400(b), further case law will be needed to provide guidance on the bounds of a “regular and established place of business” for companies, especially those that are internet-based.

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Endnotes

- 1 *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514 (2017).
- 2 *See id.* at 3.
- 3 28 U.S.C. § 1400(b) (2017).
- 4 *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222, 226 (1957).
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- 6 *Kraft Foods Group Brands LLC v. TC Heartland, LLC*, No. 14-28-LPS, 2015 WL 4778828, at *1 (D. Del. Aug 13, 2015).
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- 18 Brief of 32 Internet Companies, *supra* note 17, at 5. Generally, a plaintiff’s chances of winning in patent litigation drop from 58% to 29% of cases when there is a transfer of venue.
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- 22 Brief of 22 Law, Economics and Business Professors as *Amici Curiae* in Support of Respondent at 2, *TC Heartland LLC v. Kraft Foods Group Brands LLC*, No. 16-341 (U.S. May 22, 2017).
- 23 Brief for the Respondent, *supra* note 9, at 53.
- 24 Brief of 32 Internet Companies, *supra* note 17, at 5.
- 25 Brief of 22 Law, Economics and Business Professors as *Amici Curiae* in Support of Respondent, *supra* note 22, at 2.
- 26 Mordock, *supra* note 16.
- 27 *Cobalt Boats, LLC v. Sea Ray Boats, Inc.*, No. 2:15cv21, (E.D. Va. June 7, 2017); *Elbit Systems Land and C4I Ltd. et al. v. Hughes Network Systems LLC et al.*, No. 2:15-cv-00037, (E.D. Tex. June 20, 2017) (another advanced-stage litigation case explaining that *TC Heartland* does not qualify for intervening law exception because it merely affirms the viability of *Fourco*).
- 28 *In re Sea Ray Boats, Inc.*, No. 17-124, Dkt. No. 4 at 3 (Fed. Cir. June 8, 2017) (Newman, J., dissenting).
- 29 *Id.* at 4 (“where the change of law brings the propriety of the current venue directly into question, this defendant is entitled to consideration of its request.”).
- 30 *Westech Aerosol Corp. v. 3M Co.*, No. 3:17-cv-05067, (W.D. Wash. June 21, 2017).
- 31 *Id.* at 2; *Realtime Data LLC d/b/a IXO v. Barracuda Networks, Inc.*, No. 6:17-cv-00120 (E.D. Tex. July 14, 2017) (if a defendant previously waived its venue objection, the defense cannot be revived through a request to amend the pleading).
- 32 *Westech Aerosol* at *3.
- 33 *Id.*
- 34 28 U.S.C. § 1407 (2017). “When civil actions involving one or more common questions of fact are pending in different districts, such actions may be transferred to any district for coordinated or consolidated pretrial proceedings.”
- 35 *In re Cordis Corp.*, 769 F.2d 733, 737 (Fed. Cir. 1985).
- 36 *Id.*
- 37 Davis, *supra* note 21.
- 38 *See, e.g., Stuebing Automatic Machine Co. v. Gavronsky d/b/a Matamoros Machine Shop*, No. 1-16-cv-00576 (S.D. Ohio June 12, 2017) (confirming that communicating by email or telephone with customers, shipping product to customers, or physically visiting or otherwise being in the district is not sufficient to establish patent venue); *LoganTree v. Garmin International, Inc.*, No. 5-17-cv-00098 (W.D. Tex. June 22, 2017) (confirming that an authorization to conduct business in a state, a website allowing access to a list of local distributors, and product sales in Texas were not sufficient to establish patent venue).

The DTSA After One Year: Has the Federal Trade Secrets Law Met Expectations?

By Joshua R. Rich

On May 11, 2017, the Defend Trade Secrets Act (DTSA) – the law that created a Federal cause of action for trade secret misappropriation – celebrated its first birthday. The law was the result of years of negotiation between stakeholders concerned with balancing improved protection of corporate intellectual property with protecting market competition, employee rights and mobility, and individual privacy. The DTSA reflects those negotiations with three basic elements: a civil cause of action modeled on (but not identical to) the state-law Uniform Trade Secrets Act (UTSA), an *ex parte* seizure provision to prevent threatened destruction or dissemination of secrets, and whistleblower protection provisions. From the first year of enforcement, it appears that the DTSA got the balance right with some provisions, may need to be tweaked with others, and has yet to render clear results in some.

DTSA Claims Have Uniformly Been Paired with UTSA Claims

The DTSA was originally proposed as a necessary alternative to the UTSA because of the burden of obtaining discovery (especially prompt discovery for temporary restraining order proceedings) from other states and the lack of uniformity in enactment of the UTSA among the states. That is not how the DTSA has been used. Instead, DTSA and UTSA claims have been pled together in almost every case, with the UTSA claims usually falling only under the court's supplemental jurisdiction. That is, rather than being used as an alternative to UTSA claims, the DTSA has supplied an easy route into Federal court with both Federal and State claims. Notably, this has led to a convergence of the DTSA and UTSA as interpreted in a district court, diminishing some of the uniformity of application of the DTSA across districts.

While the unexpectedly consistent linking of DTSA claims to UTSA claims is not overly troubling, it may carry with it some unintended consequences. First, more litigation of UTSA claims in Federal court can lead to greater

inconsistency in outcomes based solely on the choice of Federal or State court. While both fora are expected to follow binding state authority, they may fill in the interstices between the controlling decisions differently. Second, increasing familiarity with a given state's UTSA claims is likely to inform how Federal courts interpret the DTSA. And, while that may harmonize the law between UTSA and DTSA decisions, it may continue to lead to different DTSA outcomes from different Federal courts. Third, the distinction between the procedural rules in State and Federal courts may ultimately shape UTSA decisions merely because plaintiffs have used the DTSA to get into Federal court.

Ex Parte Seizure Has Been Appropriately Rare

The *ex parte* seizure provision, unprecedented in American civil law, was the most controversial part of the DTSA when enacted. In fact, it was the only provision that had both witnesses testifying for it and witnesses testifying against it in pre-enactment hearings. Based on that testimony, additional safeguards against the overuse of the *ex parte* provisions were put into place. Those protections form almost half of the entire DTSA itself. And, at least from the experience so far, those protections appear to have worked.

There is a complex set of procedural and substantive safeguards that protects defendants against *ex parte* seizures; most importantly, a seizure order can be granted only under "extraordinary circumstances."¹ According to the legislative history, "[t]he *ex parte* seizure provision is expected to be used in instances in which a defendant is seeking to flee the country or planning to disclose the trade secret to a third party immediately or is otherwise not amenable to the enforcement of the court's orders."² It thus requires a very strong showing of imminent harm from the defendants' actions, including a finding that a temporary restraining order or preliminary injunctions would not protect the plaintiff.

While plaintiffs have sought *ex parte* seizure orders several times, courts have generally seized on the availability of standard

temporary restraining orders and preliminary injunctions to deny them. In *OOO Brunswick Rail Mgmt. v. Sultanov*,³ the plaintiff moved for *ex parte* seizure of one defendant's laptop and phone, preservation of e-mail evidence, and a temporary restraining order against evidence destruction and dissemination of trade secrets. The Court denied the *ex parte* seizure for lack of extraordinary circumstances. Instead, it ordered Google and Rackspace to preserve the defendants' e-mail, and ordered the defendants to preserve other evidence (and provide the computer and phone to the court). In comparison, in *Magnesita Refractories Co. v. Mishra*,⁴ the plaintiff moved for a TRO against potential evidence destruction and dissemination of trade secrets, and for a third party to image a laptop and phone. The court ordered the defendant to turn over his laptop to the plaintiff's counsel for imaging. In doing so, the court made it clear that it was ruling based on Rule 65 (TRO), rather than the DTSA's *ex parte* seizure provision.

Only one reported decision has involved an *ex parte* seizure order under the DTSA, and it appeared to involve the very sort of circumstances that the provision was designed for. That is, it arose out of the court's imposition of a seizure after the defendant failed to comply with a standard temporary restraining order, not the plaintiff's initial motion for an *ex parte* seizure. In *Mission Capital Advisors, LLC v. Romaka*,⁵ the plaintiff filed a complaint under the DTSA and state trade secret law and contemporaneously sought an *ex parte* seizure. The court refused to enter the *ex parte* seizure order, and instead issued a temporary restraining order and order to show cause why a preliminary injunction should not be entered.⁶ The defendant ignored the court's order, neither responding to e-mail notice of the orders nor accepting in-person service.⁷ In response, the court entered an *ex parte* order for the U.S. Marshal to copy the plaintiff's customer contact list from the defendant's desktop computer as evidence, then delete the file from the computer.⁸ As it turned out, the defendant had not sought to leverage the customer contact list – or any of the plaintiff's other files that he had

on his computer – but had simply stopped responding to anyone. When the plaintiff sent a private investigator to his apartment, he willingly turned his entire computer over to the investigator and never asked for it back.⁹ Thus, while the defendant’s contempt of court motivated the order, the order itself did not actually prevent any imminent spoliation of evidence or misuse of trade secrets.

Because the *Mission Capital* seizure order was both atypical and uncontested, it has left important questions of implementation of the seizure provisions unanswered. Unlike the seizure cases contemplated in the drafting of the DTSA, the marshal did not seize a physical device – such as a personal computer – that could have both relevant and irrelevant information stored on it. How will seizure orders play out to protect a defendant’s privacy and property rights when non-trade secret information is stored on the seized device? Also, what will happen if misappropriated trade secrets are held on a third party’s devices, such as in the cloud? How will the statute’s prohibition on a plaintiff’s publicizing an alleged misappropriation square with the requirements for Federal court openness and publication of orders on PACER? All of these questions remain to be answered in the years to come, and may call for amending the DTSA to react to changes in technology.

We Still Await Clarity on the Whistleblower Provisions

As a counterbalance to the increased power of employers to enforce their trade secret rights against employees (both current and former), the DTSA included whistleblower protections. Specifically, the Act insulates individuals from trade secret misappropriation liability under either State or Federal law if they are turning information over, in confidence, to governmental officials or a lawyer “solely for the purpose of reporting or investigating a suspected violation of law.”¹⁰ Based on the one reported case weighing in on the provisions, however, it appears that the defense may not work as smoothly as intended.

In *Unum Group v. Loftus*,¹¹ the plaintiff was a benefits provider and the defendant was its recently-departed Director of Individual Disability Insurance Benefits. The plaintiff’s in-house counsel interviewed the defendant as part of an internal investigation on claims practices; within the next week, the defendant

was seen coming to work on a Sunday afternoon and returning to work late on a week night, in both cases leaving with boxes or bags of documents. The plaintiff sued the defendant for trade secret misappropriation, and the defendant filed a motion to dismiss under the whistleblower provisions.

The *Unum* court analyzed the whistleblower defense under traditional motion to dismiss jurisprudence. That is, it looked to the face of the complaint to determine whether the defense was supported there. Of course, the plaintiff had not pled that the removed documents would be relevant to a whistleblower suit, that the defendant had turned all of the documents over to a lawyer, or that the documents were being used only in relation to the investigation of a suspected violation of law. Notably, no whistleblower lawsuit had yet been filed by the court’s resolution of the motion to dismiss, over two months after the documents were taken. As a result, the *Unum* court denied the motion to dismiss and granted a motion for preliminary injunction, compelling the return of the documents.

Certainly, the whistleblower provisions were not meant to protect defendants only when the use of trade secrets for the purpose of reporting or investigating a suspected violation of law appears on the face of an aggrieved party’s complaint. That would render the protections useless, as a plaintiff is highly unlikely ever to admit the existence of an appropriate justification for a defendant’s actions, especially when those facts would not be necessary for the proper pleading of a misappropriation claim. On the other hand, the provisions were not meant to insulate every defendant who turns the trade secrets over to a lawyer. Accordingly, the whistleblower provisions will need to be clarified, either through further court decisions or further legislation.

The DTSA Has Borrowed from State Law, and Vice Versa

Because the DTSA was drafted against the backdrop of the UTSA, courts construing the DTSA’s provisions have often looked to the UTSA for guidance. For example, in *Panera LLC v. Nettles*,¹² the court analyzed the plaintiff’s claims under the Missouri UTSA, then simply dropped a footnote reaching the same conclusion under the DTSA because “[a]lthough

the Court’s analysis has focused on Panera’s Missouri trade secrets claim, an analysis under the Defend Trade Secrets Act would likely reach a similar conclusion.”¹³ Similarly, in *Earthbound Corp. v. MiTek USA, Inc.*,¹⁴ the court performed its analysis under the Washington UTSA then stated, “The same evidence demonstrates a likelihood of success on the merits on Plaintiffs’ claim for violation of the Economic Espionage Act, as amended by the Defend Trade Secrets Act.”¹⁵ And, in *Kuryakyn Holdings, LLC v. Ciro, LLC*,¹⁶ the court simply relied on the parties’ agreement that the Wisconsin UTSA and the DTSA are “essentially the same” substantively and that “courts may look to the state UTSA when interpreting the DTSA.”¹⁷

On the other hand, the State of Texas has revised its version of the Uniform Trade Secrets Act to more closely track the DTSA.¹⁸ The amendments, which take effect on September 1, 2017, include revised definitions of a “trade secret,” “owner,” “willful and malicious misappropriation,” and “clear and convincing.”¹⁹ All four revised definitions draw the Texas statute closer to the DTSA, although the definition of a trade secret continues to include a “list of actual or potential customers,” unlike the DTSA.²⁰ In addition, the section on remedies was amended to limit injunctions for actual or threatened misappropriation to situations in which “the order does not prohibit a person from using general knowledge, skill and experience that person acquired during employment.”²¹ Thus, just as state law has informed the DTSA, the DTSA has been used as a model for revising state law.²²

Courts Have Found Continuing Misappropriation Sufficient to Assert a Claim that Started with Pre-DTSA Conduct

One way in which the DTSA clearly differs from the UTSA is in its effective date provision. The UTSA expressly excludes a claim for “continuing misappropriation”: The UTSA “does not apply to misappropriation occurring prior to the effective date. With respect to a continuing misappropriation that began prior to the effective date, the [Act] also does not apply to the continuing misappropriation that occurs after the effective date.”²³ In contrast, the DTSA applies “with respect to any misappropriation of a trade secret [as defined therein] for which any

(continued on page 8)

(continued from page 7)

act occurs on or after the date of the enactment of this Act.”²⁴ Federal courts have read this distinction as allowing claims that began before May 11, 2016, but continue afterward.

In *Henry Schein, Inc. v. Cook*,²⁵ acts of misappropriation started no later than May 10, 2016, but there were additional acts of misappropriation on May 12, 2016 and later. The court entered a TRO and preliminary injunction with no discussion of the continuing misappropriation issue. In *Allstate Insurance Co. v. Rote*,²⁶ the defendant quit her position as an agent on February 29, 2016, months prior to the DTSA’s enactment. However, she refused to honor the geographic term of her non-compete agreement and retained confidential information. The court entered a preliminary injunction ordering return of the confidential information, but not relocation. The *Rote* court thereby “split the baby” between the pre-DTSA conduct and post-DTSA conduct without addressing the continuing misappropriation issue.

After *Cook* and *Rote*, defendants began to challenge the viability of claims under a continuing misappropriation theory. They have failed. In *Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Group, Inc.*,²⁷ the plaintiff terminated a software consulting agreement in February 2015 based on November 2014 notice of termination; the trade secrets were allegedly downloaded between the notice and termination. In September 2016, after discovery, the defendant sought to amend counterclaims to add DTSA claims (among others) based on post-DTSA conduct. The court stated,

The plain language of the Act defines misappropriation to include ‘disclosure or use of a trade secret without the consent of another.’ Accordingly, as Defendants allege that Syntel continues to use its Intellectual Property to directly compete with Trizetto, the wrongful act continues to occur after the date of the enactment of DTSA.²⁸

Similarly, in *Adams Arms, LLC v. Unified Weapon Sys., Inc.*,²⁹ the defendants got access (subject to an NDA) to the plaintiff’s rifle designs, prices, and plant from 2014 through 2015. One of the defendants then signed an agreement with the Peruvian army for arms sales based on the confidential information on

May 16, 2016. It relied on the DTSA’s statute of limitations provision to argue against liability for continuing misappropriation. The statute of limitations provision states,

A civil action under [the DTSA] may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. *For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.*³⁰

The *Adams Arms* court relied on the introductory phrase to limit that last sentence to application only to statute of limitations questions. It then noted that the DTSA’s language regarding initial application was different from the UTSA and concluded that the

While the unexpectedly consistent linking of DTSA claims to UTSA claims is not overly troubling, it does carry with it some unintended consequences.

difference was intentional. It therefore drew a distinction between liability for pre-DTSA conduct (for which there would be none, and *Adams Arms* appeared not to be seeking) and post-DTSA conduct, which would be subject to the Act.

The issue of continuing misappropriation came to a head in *Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Group*.³¹ Former *Brand* employees had gone to *Irex* in 2014-15, allegedly taking financial, technical, and client information. *Irex* was allegedly continuing to use *Brand*’s information and “Market Playbook” after enactment of the DTSA. *Brand* sued, and *Irex* challenged timeliness of the claim based both on the statute itself and constitutionality as an *ex post facto* law. The court relied on prior decisions and the distinction between the UTSA and the DTSA to find that the DTSA applied to

continuing misappropriation. *Brand* had pled factually specific allegations of continued use of its trade secrets to support a claim for continuing misappropriation, so the court turned to the question of constitutionality under the *ex post facto* clause of Article I, Section 9. The critical question there was whether it would be permissible for the statute to apply retroactively. The *Brand* court applied the Supreme Court’s previously-established framework for whether the DTSA could apply retroactively. That required it to ask whether Congress had expressly prescribed the statute’s proper reach. If so, the inquiry was over; if not, the court should “try to draw a comparably firm conclusion about the temporal reach specifically intended by applying our normal rules of construction.”³² Here, nothing in the DTSA expressly prescribes its proper reach and its language is amenable to different readings. But, although the DTSA was generally modeled upon the UTSA, it strikingly left out UTSA § 11’s prohibition against continuing misappropriation claims. Thus, the *Brand* court held, Congress’s choice to omit the anti-retroactivity language was conscious, so a continuing misrepresentation claim is constitutional.

Under the existing case law, it appears that a claim for continuing misappropriation will be recognized under the DTSA, even if the original misappropriation occurred before May 11, 2016. However, the claim has to be pled with some post-DTSA conduct identified, and recovery will be limited to post-DTSA misappropriation. Nonetheless, it provides an alternative to the UTSA for such claims, while the UTSA would not provide such an alternative to the DTSA in the same circumstances.

The DTSA May Not Have Eliminated the Inevitable Disclosure Doctrine

The DTSA appeared to limit equitable remedies in a way that prevented trade secret owners from invoking the inevitable disclosure doctrine in order to prevent a former employee from taking a job at a competitor when there is no proof that the employee took information improperly. First applied in a case under the Illinois UTSA, *PepsiCo, Inc. v. Redmond*,³³ the inevitable disclosure doctrine allows a trade secret owner to “prove a claim of trade secret misappropriation by demonstrating that [the] defendant’s new employment will inevitably

lead him to rely on the plaintiff's trade secrets." Against the backdrop of the *Redmond* case, the DTSA limited injunctive relief to situations in which a court's order would not "prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows."³⁴ In doing so, it appeared that the DTSA had chosen not to recognize the inevitable disclosure doctrine.

On the DTSA's first birthday, however, a district court appeared to bring the possibility of applying the inevitable disclosure doctrine back to life. In *Molon Motor & Coil Corp. v. Nidec Motor Corp.*,³⁵ the plaintiff brought claims under the DTSA and the Illinois Trade Secrets Act against a competitor that hired its former head of quality control.³⁶ That competitor argued that the plaintiff may have a case against the former employee, but that it had done nothing wrong. In response, the plaintiff argued that disclosure and use of trade secrets could be inferred under the inevitable disclosure doctrine.³⁷ The defendant moved to dismiss; the court analyzed the DTSA claim under the standards of the Illinois UTSA for

inevitable disclosure and refused to dismiss.³⁸ Thus, without citing the DTSA's equitable remedies provision, the *Molon* court appeared to revive the possibility of a claim for inevitable disclosure under the act.³⁹

Conclusion

The first year of the DTSA has shown us that it has generally worked well, although with some unintended consequences and a few hiccups. We will have to see how the law continues to develop, and whether Congress sees the need to fix any of the issues with the DTSA.

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Endnotes

- 1 18 U.S.C. §§ 1836–1839 (2016).
- 2 H.R. Rep. No. 114-529 at 9–10 (2016).
- 3 No. 5:17-cv-00017-EJD (N.D. Cal. Jan. 6, 2017).
- 4 No. 2:16-cv-524-PPS-JEM (N.D. Ind. Jan. 25, 2017).
- 5 No. 1:16-cv-05878-LLS (S.D.N.Y. July 22, 2016).
- 6 *Id.* at Dkt. #7, p.1 (July 29, 2017).
- 7 *Id.* at 2.
- 8 *Id.* at 5.

- 9 *Id.* at Dkt. #22, p. 2 (Sept. 20, 2016).
- 10 18 U.S.C. §§ 1833(b)(1)(A)(ii) (2016).
- 11 No. 4:16-cv-40154-TSH (D. Mass., Dec. 6, 2016).
- 12 No. 16-cv-1181-JAR (E.D. Mo. Aug. 3, 2016).
- 13 *Id.* at n.2.
- 14 No. C16-1150 RSM (W.D. Wash. Aug. 19, 2016).
- 15 *Id.* at 10.
- 16 No. 15-cv-703-jdp (W.D. Wisc. Mar. 15, 2017).
- 17 *Id.* at 5.
- 18 See Texas Uniform Trade Secrets Act, Title 6, Chapter 134A (2017).
- 19 See Texas House Bill H.B. No. 1995 (May 8, 2017).
- 20 *Id.*
- 21 *Id.*
- 22 The amendments to the Texas UTSA also included the adoption of a seven-factor test for determining whether a party can participate and assist counsel in the presentation of the party's case. There is no analogous provision in the DTSA.
- 23 UTSA § 11.
- 24 See Pub. L. 114–153, § 2(e), 130 Stat. 381 (May 11, 2016).
- 25 No. 16-cv-03166 (N.D. Cal. June 10, 2016).
- 26 No. 3:16-cv-01432 (D. Or. Aug. 7, 2016).
- 27 No. 15-cv-211(LGS)(RLE) (S.D.N.Y. Sept. 23, 2016).
- 28 *Id.* at 13 (citations omitted).
- 29 No. 8:16-cv-1503 (M.D. Fla. Sept. 27, 2016).
- 30 *Id.* at 14 (emphasis in original).
- 31 No. 16-2499 (E.D. Pa. Mar. 23, 2017).
- 32 *Id.* at 5.
- 33 54 F.3d 1262, 1269 (7th Cir. 1995).
- 34 18 U.S.C. § 1836(b)(3)(A)(i)(I).
- 35 No. 1:16-cv-03545 (N.D. Ill. May 11, 2017).
- 36 *Id.* at 1.
- 37 *Id.* at 11.
- 38 *Id.* at 11–15.
- 39 The U.S. District Court for the Eastern District of Missouri also made use of the inevitable disclosure doctrine under the DTSA, saying, "Although Missouri has not formally adopted the doctrine of inevitable disclosure—and neither has the Eighth Circuit, with regard to federal trade secrets claims—the Court finds the rationale underpinning such a theory helpful to understanding why [the defendant's] performance of his new role would almost certainly require him to draw upon and use trade secrets and the confidential strategic planning to which he was privy at [the plaintiff]." *Panera LLC v. Nettles*, No. 16-cv-1181-JAR (E.D. Mo. Aug. 3, 2016).

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Charting the Waters of International Service Requirements in the Wake of *Water Splash v. Menon*

By George “Trey” Lyons, III

Partially obscured by the significant patent venue ruling in *TC Heartland*, another decision issued by the Supreme Court on the same day, *Water Splash v. Menon*, presents guidance for multinational plaintiffs and defendants charting the rarely tested waters of international service.¹ Specifically, in determining that service by direct mailing is not expressly prohibited under the Hague Service Convention, the Court opened the flood gates for parties to attempt Convention-compliant service by direct mailing.²

Background

Starting from the beginning, in 2013, Water Splash, Inc., sued Tara Menon, a former employee, alleging, among other things, unfair competition, conversion, and tortious interference with business relations. Like many modern lawsuits, however, effectuating service and process presented a problem, because the parties were diverse and outside of the locale of the controversy. Specifically, Water Splash, a Delaware corporation sued Menon, a Canadian citizen living in Quebec, Canada, concerning her and her new employer’s misuse of Water Splash’s drawings and designs when submitting construction bids to the City of Galveston, Texas. Accordingly, Water Splash sued Menon in a Texas state court, and faced serving Menon under the laws of Texas (locale of the controversy), as well as those of Canada (residence of the defendant).

Citing Texas law, Water Splash served Menon by direct mail. When Menon did not respond, the Texas trial court entered a default judgment against Menon. Menon, appearing for the first time in the controversy, then filed a post-judgment motion seeking a new trial and to set aside the default judgment. Specifically, Menon argued proper service was never effectuated under the Hague

Service Convention. The trial court denied Menon’s motion; Menon appealed; the Texas Court of Appeals reversed, holding that the Hague Service Convention prohibits service by direct mailing; and the en banc Texas Court of Appeals denied review, as did the Texas Supreme Court. Then, the U.S. Supreme Court, recognizing the import and variance among courts throughout the U.S., granted certiorari to resolve the conflict.³

Specifically, in determining that service by direct mailing is not expressly prohibited under the Hague Service Convention, the Court opened the flood gates for parties to attempt Convention-compliant service by direct mailing.

The question presented to the Court in *Water Splash* related to the interpretation of Article 10 of the Hague Service Convention controlled the controversy.⁴ More specifically, section (a) details that under the Hague Service Convention, “[p]rovided that the State of destination does not object,” parties are “free[] to send judicial documents, by postal channels, directly to persons abroad.” Under this section, Water Splash argued that its direct mailing to Menon sufficed as proper service under the Convention. Menon disagreed, arguing that unlike any other provision of the Hague Service Convention, Article 10 used the word “send”

instead of “service” — and, thus, service by direct mailing was insufficient.⁵

The Court’s Analysis

The Supreme Court, in a unanimous decision, read the phrase “send judicial documents” to include sending such judicial documents for the purpose of service under Article 10.⁶ With Justice Alito writing the opinion, the Court held that nothing within the Hague Service Convention expressly precluded service documents being exchanged by direct mailing as long as the receiving country (e.g., Canada) and/or the state from which the service documents were mailed (e.g., Texas) *do not prohibit such service methods*. In the context of *Water Splash* “[b]ecause the [Texas] Court of Appeals concluded that the Convention prohibited service by mail outright,” this was a non-dispositive inquiry as the court “had no occasion to consider whether Texas law authorizes the methods of service used by Water Splash.”⁷

Moreover, the Court noted that “[m]ultiple foreign courts have held that the Hague Service Convention allows for service by mail.”⁸ Additionally, the Court noted that because they have “either objected, or declined to object,” several of the Convention’s signatories have “acknowledge[d] that Article 10 encompasses service by mail.”⁹ Thus, because the waters have been cleared for international service by the Court, as long as no objection exists from the sending state or receiving country, the sufficiency of direct mailing for service requirements will be an emerging area of law on at least two fronts: the U.S. side (sufficiency under the laws of the sending state), as well as abroad (sufficiency under the laws of the receiving country). And, although this body of quickly emerging law is still in its infancy, a few details from the few district courts that have attempted to interpret and apply *Water Splash* are worth noting.

So, What To Do In the Wake?

First, plaintiffs who provide clear evidence, as early as possible, that neither the receiving country, nor the laws of the sending state, *expressly object* to service by mail have fared better in district courts applying the analysis under *Water Splash*.¹⁰

Second, plaintiffs who ensure that the documents to be served by direct international mailing under Article 10 comply with Federal

Rule of Civil Procedure 4 *to the letter* (including the requirement for a signed receipt of the mailed documents as required by Federal Rule of Civil Procedure 4(f)(2)(C)(ii)) seem to also fare better.¹¹

Third, as this body of law continues to emerge, plaintiffs may want to consider relying more and more on the clerks of the federal courts in which they file their complaints to help ensure compliance with the Federal Rules, and proceeding under Fed. R. Civ. P. 4(f)(2)(C)(ii) whenever possible—as it has provided the only verifiably sufficient service of process by direct mailing post-*Water Splash*.¹²

George “Trey” Lyons, III, an MBHB associate, helps clients protect their intellectual property by providing advice and crafting solutions related to the validity, enforcement, and infringement of patent, copyright, and trademark rights. lyons@mbhb.com

Endnotes

- 1 137 S. Ct. 1504 (2017).
- 2 It is no secret that complying with service requirements under the Hague Service Convention can be an incredibly expensive (sometimes tens of thousands of dollars) and time-intensive process (sometimes taking more than a year to effectuate), especially for countries that do not allow for fairly open and reciprocal service requirements, for instance, China (see, e.g., *Serving A China Company Under The Hague Service Convention: Have Fun With That*, China Law Blog (June 11, 2015)).
- 3 See *id.* at 1508 (comparing *Bankston v. Toyota Motor Corp.*, 889 F.2d 172, 173-174 (8th Cir. 1989) (holding that the Convention prohibits service by mail), and *Nuovo Pignone, SpA v. STORMAN ASIA M/V*, 310 F.3d 374, 385 (5th Cir. 2002) (same), with, e.g., *Brockmeyer v. May*, 383 F.3d 798, 802 (9th Cir. 2004) (holding that the Convention allows service by mail), and *Ackermann v. Levine*, 788 F.2d 830, 838-840 (2d Cir. 1986) (same)).
- 4 See *Convention Done at the Hague Nov. 15, 1965*, Art. X, T.I.A.S. No. 6638 (Feb. 10, 1969).
- 5 Menon further argued that the use of the phrase “send” was intentional to indicate that Article 10 pertained only to non-service documents (e.g., documents to be exchanged post-answer).
- 6 For reference, Justice Gorsuch took no part in the decision.
- 7 *Water Splash*, 137 S. Ct. at 1513.
- 8 *Id.* at 1512 (citing courts from Canada (see *Wang v. Lin*, [2016] 132 O.R.3d 48, 61 (Can.Ont.Sup.Ct.J.)), the U.K. (*Crystal Decisions (U.K.) Ltd. v. Vedatech Corp.*, EWHC (Ch) 1872 (2004)), Greece (see *R. v. Re Recognition of an Italian Judgt.*, 2000 WL 33541696, ¶ 4 (D.F.Thes.2000)), and Italy (see *Case C-412/97*, ED Srl v. Italo Fenocchio, 1999 E.C.R. I-3845, 3877-3878, ¶ 6 [2000] 3 C.M.L.R. 855); see also *Brockmeyer v. May*, 383 F.3d 798, 802 (9th Cir. 2004) (noting that foreign courts are “essentially unanimous” in the view “that the meaning of ‘send’ in Article 10(a) includes ‘serve’”).
- 9 *Id.* (noting that courts in the Czech Republic, Latvia, Australia, Slovenia, Bulgaria, Hungary, Kuwait, and Turkey have all objected to the service of judicial documents under Article 10).
- 10 *Compare In Re LLS Am., LLC*, No. 2:12-CV-422-RMP, 2017 WL 301323260 (E.D. Wash. July 14, 2017) (upholding judgment against because they were properly served under Article 10 because the “Plaintiff provided the Court with a copy of Canada’s Accession Document to the Hague Convention, which states that ‘Canada does not object to service by postal channels’” and a copy of the service documents sent by the clerk of the court, using a form of mail requiring a signed receipt, as required by Fed. R. Civ. P. 4(f)(2)(C)(iii) with Fed. Ins. Co. v. Cessna Aircraft Co., No. 16-2755-JWL, 2017 WL 2905576, at *2 (D. Kan. July 7, 2017) (denying motion for default judgment as plaintiff did not show that “the law of Israel permits service by mail in any particular fashion or that Israel has responded to a letter rogatory or letter of request,” nor did plaintiff show that the mailed documents required a signed receipt upon delivery (or that one was obtained), as required by Fed. R. Civ. P. 4(f)(2)(C)(iii)).
- 11 See, e.g., *Fed. Ins. Co.*, 2017 WL 2905576 at *2 (“Plaintiff apparently relies on paragraph (C)(iii), as it previously argued that Israel does not prohibit service by mail. Plaintiff has not shown, however, that it used a form of mail (such as certified mail) that requires a signed receipt, as required by Rule 4(f)(2)(C)(i). The proof of service filed by plaintiff indicates that the summons and complaint were mailed by ‘United States Mail, International Delivery,’ and it includes a tracking document with a notation that the item was delivered in Israel, but there is no indication that a signed receipt was required or obtained.”) (emphasis added).
- 12 See *In Re LLS Am., LLC*, 2017 WL 301323260 (and again, remember that the sufficiency of this service was gauged in light of Canada being the receiving state, the specific country the Court addressed in *Water Splash*).

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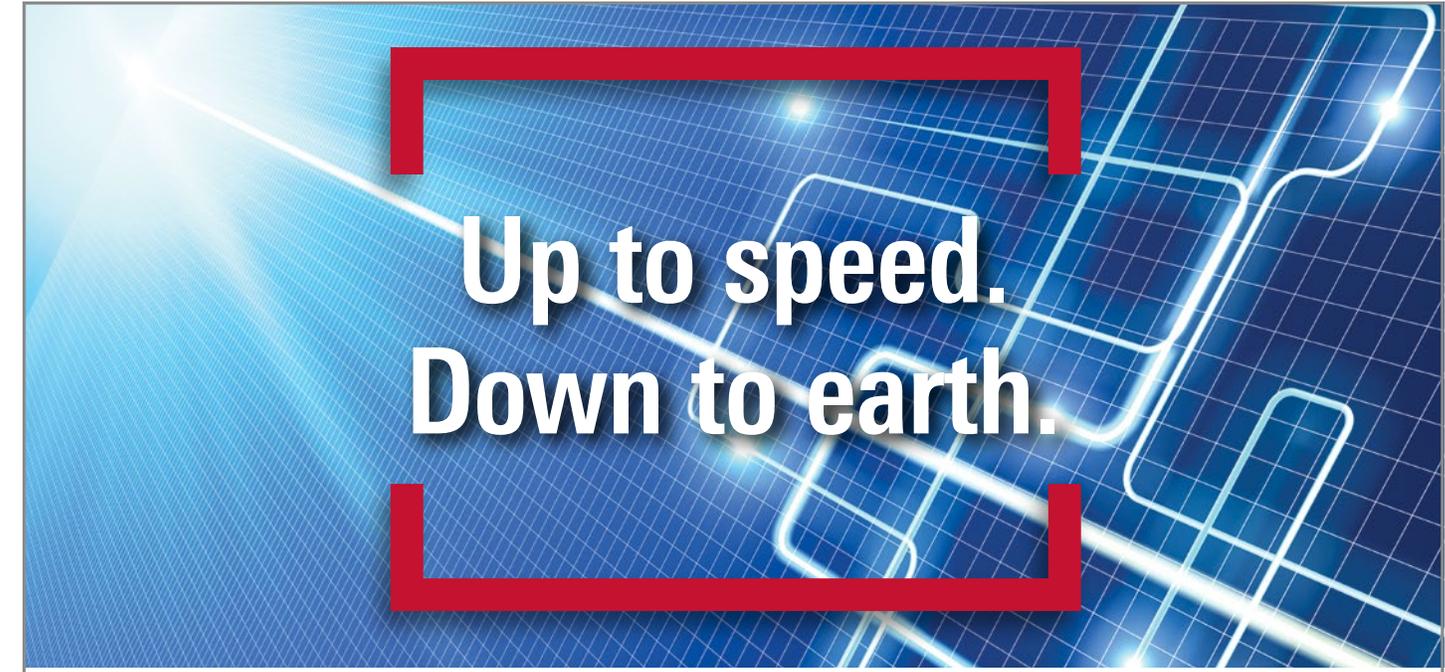
(continued from page 3)

- 7 See Justin Scheck, *Patent Office Raises High Hopes, Then Snuffs Them Out*, WALL STREET JOURNAL (July 19, 2010), available at <http://www.wsj.com/articles/SB10001424052748704682604575368783687129488>.
- 8 *Id.*
- 9 See, e.g., 15 U.S.C. §§ 1051, 1127.
- 10 *In re Brown*, 119 U.S.P.Q.2d 1350, 1351 (T.T.A.B. 2016) (noting that the USPTO and TTAB have “consistently held that, to qualify for a federal service mark [or trademark] registration, the use of a mark in commerce must be “lawful” and affirming the refusal of a mark for the sale of cannabis-based herbs based on lack of a lawful use in commerce).
- 11 See TMEP § 907 (citing 21 C.F.R. § 1308.11; U.S. Const. art. VI, cl. 2; 2; Gonzales v. Raich, 545 U.S. 1, 27, 29 (2005); U.S. v. Oakland Cannabis Buyers’ Coop., 532 U.S. 483, 491 (2001); *In re JJ206, LLC*, 120 U.S.P.Q.2d at 1571; *In re Brown*, 119 U.S.P.Q.2d at 1352).
- 12 *Supra* notes 7-11.
- 13 See *In re JJ206, LLC*, dba JuJu Joints, Serial Nos. 86474701 & 86236122, (T.T.A.B. 2016) (refusing to register the marks “POWERED BY JUJU” and “JUJU JOINTS” on the principal register, related to cannabis vaporizing devices, for constituting illegal drug paraphernalia under the CSA).
- 14 Historically, ancillary products and services concerning cannabis have also been denied by the USPTO, but not in the context of illegality under the CSA. Instead, they have been denied under Section 2(a) of the Lanham Act, commonly known as the “disparagement clause,” which prohibits the registration of a mark that “[c]onsists of or comprises immoral, deceptive, or scandalous matter, or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute.” In light of the Supreme Court’s recent decision in *Matal v. Tam*, however, this result seems unlikely moving forward. Specifically, the Court in *Tam* held that Section 2(a) of the Lanham Act violates the Free Speech Clause of the First Amendment, as “[i]t offends a bedrock First Amendment principle: Speech may not be banned on the ground that it expresses ideas that offend.” 137 S. Ct. 1744, 1751 (2017).
- 15 See TMEP §§ 907, 814. In short, until cannabis is declassified as a Schedule I narcotic, the USPTO will likely continue to refuse cannabis-related trademarks and service marks, at least in the first instance.
- 16 For example, in some states, state statutory law provides protection for cannabis trade- and service marks—the most recent and noteworthy of which was California (see A.B. 64, 2017 Leg., Reg. Sess. (Ca. 2017) (authorizing state trademark protection beginning January 1, 2018)). Further, states like Oregon, Washington, Colorado, and Illinois seem to be taking similar approaches, but with varying degrees of legal clarity. Regardless, these state trademark registrations may provide an added benefit for illustrating uses in commerce, including first uses, for more expansive trademark registrations moving forward.
- 17 See 17 U.S.C. § 102(a).
- 18 Furthermore, this assertion seems even stronger in light of the Supreme Court’s recent decision in *Star Athletica, L.L.C. v. Varsity Brands, Inc.* in which the Supreme Court delivered a rare victory for many intellectual property (IP) owners by holding that artistic features of a claimed design may be eligible for copyright protection *even as applied to a useful article* if the features: “can be perceived as a two- or three-dimensional work of art separate from the useful article;” and “would qualify as a protectable pictorial, graphic, or sculptural work either on its own or in some other medium if imagined separately from the useful article.” 137 S. Ct. 1002, 1016 (2017).
- 19 See 35 U.S.C. §§ 101 and 154.
- 20 See, e.g., U.S. Patent Nos. 9,370,164 (utility), D789,598 (design), and PP27,475 (plant).
- 21 *Lowell v. Lewis*, 15 F. Cas. 1018, 1019 (C.C.D. Mass. 1817).
- 22 See, e.g., *Brewer v. Lichtenstein*, 278 F. 512 (7th Cir. 1922); *Schultze v. Holtz*, 82 F. 448 (C.C.N.D. Cal. 1897); *Reliance Novelty Co. v. Dworzek*, 80 F. 902 (C.C.N.D. Cal. 1897); *Nat’l Automatic Device Co. v. Lloyd*, 40 F. 89 (C.C.N.D. Ill. 1889).
- 23 See, e.g., *Rickard v. Du Bon*, 103 F. 868 (2d Cir. 1900).
- 24 *Ex Parte Murphy*, 200 U.S.P.Q. (BNA) ¶ 801 (Apr. 29, 1977).
- 25 *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366–67 (Fed. Cir. 1999).
- 26 MPEP § 706.03(a).
- 27 See, e.g., 1-4 Chisum on Patents § 4.03 (“A patent will be withheld only if the invention cannot be used for any honest and moral purpose.”).
- 28 *Id.*
- 29 See, e.g., U.S. Patent Nos. 9,717,683 (covering methods of treatment), 9,642,317 (covering methods of growing cannabis plants), 9,480,647 (covering cannabis-infused edible products), 9,408,986 (covering cannabis consumption methods and devices), 9,370,164 (covering cannabis strains), and 8,895,078 (covering methods of THC extraction).
- 30 In fact, the USPTO recently issued the first plant patent on December 20, 2016, PP27,475, titled “Cannabis plant named ‘Ecuadorian Sativa.’”
- 31 See, e.g., U.S. Patent No. 4,219,032 “Smoking Device,” which was filed on November 30, 1977 and issued as a patent on August 26, 1980.
- 32 See U.S. Patent No. 6,630,507 (issued October 7, 2003, and directed to a method of treating oxidative stress by administering a nonpsychoactive cannabinoide, and which is assigned to the U.S. Dept. of Health and Human Services).
- 33 These numbers are conservative estimates based on searches for patents and applications containing the term “cannabis” or “cannabinoid” in the title itself.
- 34 See, e.g., A&A Global Imports, Inc. v. Central Bag & Burlap Co., No. CACD-2-17-CV-03442 (C.D. Cal. 2017); *Medbox, Inc. v. Dispenselabs, LLC*, No. AZD-2-13-CV-00262 (D. Ariz. 2013).
- 35 See, e.g., Complaint, A&A Global Imports, Inc. v. Central Bag & Burlap Co., No. CACD-2-17-CV-03442 (C.D. Cal. May 5, 2017) (involving a design patent directed to a plastic bag); Complaint, *Medbox, Inc. v. Dispenselabs, LLC*, No. AZD-2-13-CV-00262 (D. Ariz. Feb. 6, 2013) (involving a patent directed to a vending machine to dispense herbal medications and prescription medicines); First Amended Complaint, *Udoxi Scientific, LLC v. Precision Extraction Corp.*, No. ORD-3-16-CV-01062 (D. Or. Oct. 11, 2016) (involving patents directed to systems and methods for extracting solute from source materials).
- 36 Complaint, *Mallingckrodt IP v. B. Braun Medical, Inc.*, No. PAED-5-17-CV-02474 (E.D. Pa. June 1, 2017).
- 37 As the old adage goes: “Fortune favors the bold.” *Latin proverb*.
- 38 Compare *supra* note 1 with Joseph Mulkerin, *Jeff Sessions Draws New Battle Lines for War on Drugs: Attorney general sets his sights on medical marijuana crackdown*, THE OBSERVER (June 23, 2017, 6:45 AM), available at <http://observer.com/2017/06/jeff-sessions-war-on-drugs-medical-marijuana/>.

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