Intellectual Property and Tech Transactions Update

March 28, 2018

Notable Developments

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First Circuit Finds that Trademark Licensee Loses Rights under Trademark License when Debtor-Licensor Rejects Trademark License

On January 12, 2018, in *In re Tempnology, LLC*, 879 F.3d 389 (1st Cir. 2018), the First Circuit held that the rejection by a debtor-licensor of a trademark license agreement terminates the licensee's rights to use the licensed trademarks. The First Circuit's decision rejected the rationale in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC,* 686 F.3d 372 (7th Cir. 2012) and sided with the Fourth Circuit's decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), expanding the circuit split on the issue.

Mission Products Holdings, Inc. ("**Mission**") originally filed suit on November 12, 2015 following Tempnology, LLC's ("**Tempnology**") voluntary Chapter 11 case and motion to reject certain contracts pursuant to Section 365(a) of the Bankruptcy Code, including an agreement granting Mission a limited, nonexclusive license to use Tempnology's trademark and logo for the purpose of performing its obligations under such agreement. Mission alleged that Section 365(n) of the Bankruptcy Code allowed it to retain its trademark licenses under the agreement. Following the Fourth Circuit's decision in *Lubrizol Enterprises*, the New Hampshire Bankruptcy Court ruled that, because trademarks are not included in the definition of "intellectual property" in Section 101(35A) of the Bankruptcy Code, Section 365(n) does not apply to trademark rights and Tempnology's rejection of the agreement terminated Mission's rights to use the licensed trademarks.

Section 365(n) of the Bankruptcy Code permits a non-debtor licensee to elect to retain its rights to "intellectual property" licensed under a rejected license as such rights existed prior to the bankruptcy filing. However, the definition of "intellectual property" in Section 101(35A) of the Bankruptcy Code omits trademarks while explicitly including other forms of intellectual property, such as trade secrets, patents and copyrights. According to the Senate Committee Report on the bill for Section 365(n), Congress excluded trademarks from the definition of "intellectual property" in the Bankruptcy Code due to a concern

that debtor-licensors would be required to conduct quality control of the products or services sold by the licensee.

On appeal, the Bankruptcy Appellate Panel for the First Circuit concurred with the Bankruptcy Court's decision with respect to the scope of Section 365(n), but overturned the Bankruptcy Court's ruling with respect to the effect of the rejection of the license agreement on Mission's ability to use the licensed trademarks. The Bankruptcy Appellate Panel concluded that such rights do not necessarily end upon the debtor-licensor's rejection of the underlying license. In making its determination, the Bankruptcy Appellate Panel adopted the Seventh Circuit's reasoning in *Sunbeam Products* that the post-rejection rights of a non-debtor licensee are governed by the terms of the agreement and applicable non-bankruptcy law, and held that Mission may continue using the licensed trademarks post-rejection.

However, on appeal from the Bankruptcy Appellate Panel, a panel of the First Circuit unanimously held that Section 365(n) does not apply to trademark licenses, and a majority of the panel held that a licensee's right to use licensed trademarks terminates once the underlying license is rejected. In its decision, the First Circuit reasoned that following *Sunbeam* would limit a debtor's options for shedding cumbersome obligations stemming from trademark agreements and undermine its ability to start anew. The majority noted that "effective licensing of a trademark requires the trademark owner [. . .] to monitor and exercise control over the quality of the goods sold to the public under the cover of the trademark." Not doing so would result in naked licensing, which could endanger the validity of the trademarks. The First Circuit took issue with the Seventh Circuit's approach as it would permit Mission to retain use of Tempnology's trademarks in a way that would force Tempnology to choose between certain obligations arising from continued performance of the license or the risk of permanently losing such trademarks, a choice that "would depart from the manner in which section 365(a) otherwise operates."

As a result of *In re Tempnology, LLC*, there is now a more prominent split among federal courts of appeals with respect to a licensee's ability to use a licensed trademark following the rejection of the trademark license by a debtor-licensor.

The First Circuit's opinion is available **here**.

S.D.N.Y. Rules Embedded Tweets May Constitute Copyright Infringement

On February 15, 2018, in *Goldman v. Breitbart News Network, LLC*, No. 17-CV-3144 (KBF), 2018 WL 911340 (S.D.N.Y. Feb. 15, 2018), the United States District Court for the Southern District of New York denied a motion for partial summary judgment brought by several defendant websites,[1] finding instead that the defendants may have engaged in direct copyright infringement by embedding tweets featuring a copyrighted photograph of New England Patriots quarterback Tom Brady in articles posted on their respective websites. This decision, should it survive appeal, has the potential to upend established case law relating to in-line linking and could create significant risks for website operators.

The plaintiff, photographer Justin Goldman, took a photograph of Brady and shared it on the social media platform Snapchat. The photograph quickly became popular on the Internet and multiple Twitter users tweeted the photo. The defendants embedded these tweets in news articles posted on their respective websites, causing the photograph of Brady to be displayed on those websites. Embedding an image, the court correctly explained, does not actually store the image on a website, but rather adds a portion of HTML code which "directs the browser to the third-party server to retrieve the image." Nonetheless, plaintiff Goldman argued that embedding the photograph violated § 106(5) of the Copyright Act as an unauthorized display of his copyrighted work.

[1] The defendants are Breitbart News Network, LLC; Heavy, Inc.; Time, Inc.; Yahoo, Inc.; Vox Media, Inc.; Gannett Company, Inc.; Herald Media, Inc.; Boston Globe Media Partners, Inc.; and New England Sports Network, Inc.

The defendants argued that the "Server Test" (as delineated in *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007)), which focuses on whether the subject image is located on the defendant's server or a third-party server, should determine whether or not the defendant can be held liable for direct infringement of the exclusive display right. In *Perfect 10*, the Ninth Circuit found Google could be liable for direct infringement of the exclusive display right only if the thumbnail images appearing in users' search results displayed underlying images stored on Google's servers; to the extent that the underlying images were stored on third-party servers, and displayed by Google's thumbnails only through "in-line linking," Google would not be directly liable for infringement of the exclusive display right. The defendants in *Goldman* asserted that they should not have direct liability under the Server Test because they merely directed viewers to the third-party host of the photograph via in-line linking, rather than hosting the Brady photograph on their respective servers.

In a departure from the leading precedent, the court rejected the defendants' use of the Server Test, finding that neither the location nor possession of an image is determinative as to whether one displays the image under the Copyright Act. Rather, the court found that "defendants' websites actively took steps to 'display' the image" by pasting the line of code within their articles, which caused the photograph to be transmitted and then displayed. The court distinguished between *Perfect 10*, in which the defendant was a search engine whose users performed a "volitional act" to view certain websites, and this case, in which the websites themselves took actions to embed the photograph in their articles. The court did not rule on the applicability of any defenses to the copyright infringement claims, including potential defenses based on fair use or the Digital Millennium Copyright Act.

The district court's opinion can be found **here**.

SEC Approves Issuance of Cybersecurity Interpretative Guidance

On February 21, 2018, the Securities and Exchange Commission ("**SEC**") issued an interpretive guidance to public companies regarding the disclosure of cybersecurity risks and incidents ("**Cybersecurity Interpretative Guidance**"). While the Cybersecurity Interpretative Guidance does not provide additional rules, it provides the SEC's latest views on cybersecurity disclosure and supplements the Division of Corporate Finance's disclosure guidance on cybersecurity provided in October 2011. For example, the SEC states that it "recognize[s] that a company may require time to discern the implication of a cybersecurity incident;" however, "an ongoing internal or external investigation—which often can be lengthy—would not on its own provide a basis for avoiding disclosures of a material cybersecurity incident." The SEC states that it "expects companies to disclose cybersecurity risks and incidents that are material to investors, including the concomitant financial, legal, or reputational consequences." In addition, the SEC suggested the inclusion of (i) financial statement disclosures that incorporate information about the range and magnitude of financial impacts of a cybersecurity incident and (ii) disclosures regarding a company's cybersecurity risk management program and how the board of directors engages with management on cybersecurity issues. The SEC also emphasized the importance of (i) cybersecurity risk management policies and procedures and (ii) refraining from making selective disclosures of material nonpublic information about cybersecurity risks or incidents.

The Cybersecurity Interpretative Guidance is available **here**.

PTAB Rules Filing Patent Infringement Suit in Federal Court Waives Sovereign Immunity

On December 21, 2017, an expanded Patent Trial and Appeal Board ("**PTAB**") panel ruled that a state cannot invoke sovereign immunity under the Eleventh Amendment of the U.S. Constitution in order to avoid *inter partes* review ("**IPR**") proceedings after having filed a patent infringement case in federal court. Under the Eleventh Amendment, states cannot be sued in federal court without their consent, and the PTAB had affirmed in January 2017 that state sovereign immunity also extends to IPR proceedings.

The University of Minnesota initially filed suit in November 2014 in a Minnesota federal court against AT&T, Sprint, T-Mobile, and Cellco Partnership for infringement of certain of its patents relating to wireless communication technology. On March 30, 2017, Ericsson Inc., which supplies equipment to the defendants, filed IPR petitions with respect to five University of Minnesota patents, arguing that its sovereign immunity had been waived. The University of Minnesota argued that waiver of sovereign immunity only applies to proceedings in the same forum, and that the PTAB and district court are distinct forums.

The seven-member PTAB panel agreed with Ericsson Inc., ruling that the University of Minnesota "waived its Eleventh Amendment immunity by filing an action in federal court alleging infringement of the patent being challenged." The PTAB relied on *Regents of Univ. of New Mexico v. Knight*, 321 F.3d 1111 (Fed. Cir. 2003), in which a state was found to have waived its sovereign immunity as to compulsory counterclaims, as persuasive authority for its rationale: "Similarly, a party served with a patent infringement complaint in federal court must request an *inter partes* review of the asserted patent within one year of service of that complaint *or be forever barred from doing so*. *See* 35 U.S.C. § 315(b). Thus, it is reasonable to view a State that files a patent infringement action as having consented to an *inter partes* review of the asserted patent."

The PTAB further cited fairness to support its holding, reasoning that "[i]t would be unfair and inconsistent to allow a state to avail itself of the federal government's authority by filing a patent infringement action in federal court, but then selectively invoke its sovereign immunity to ensure that a defendant is barred from requesting an *inter partes* review of the asserted patent from a different branch of that same federal government." One PTAB judge, who concurred in the opinion, argued (counter to the PTAB's January 2017 ruling) that a state university's act of invoking U.S. Patent and Trademark Office procedures in order to secure patent rights should itself render it unable to invoke sovereign immunity as a defense against IPR petitions.

While this expanded panel's decision is not binding on other PTAB panels, it was authored by the PTAB's chief judge and signed by its deputy chief judge and two vice chief judges. The decision's implications for patentees seeking refuge in the shield of sovereign immunity—including via the assignment of patents to Native American tribes as recently seen in *Mylan Pharmaceuticals Inc. v. Saint Regis Mohawk Tribe*, IPR2016-01132 (PTAB Feb. 23, 2018)—remains to be seen.

The PTAB panel's opinion is available **here**.

Federal Circuit Rules En Banc That PTAB Time-Bar Rulings Are Appealable

On January 8, 2018, the United States Court of Appeals for the Federal Circuit held in *Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364, 1368 (Fed. Cir. 2018), in a 9 to 4 *en banc* decision, that PTAB decisions ruling on the timeliness of IPR petitions are appealable. The case began in 2010 when Telefonaktiebolaget LM Ericsson ("**LM Ericsson**") filed a patent infringement complaint in a Texas district court against multiple defendants.[2] A jury found that the defendants infringed the asserted claims and the Federal Circuit subsequently affirmed the decision. In 2013, Broadcom Corp. ("**Broadcom**"), which was not a party to the prior litigation, filed an IPR petition with respect to the previously litigated patents, which LM Ericsson then transferred to Wi-Fi One LLC ("**Wi-Fi**"). Wi-Fi argued before the PTAB that it lacked authority to institute an IPR because Broadcom was in privity with the defendants in the previous litigation and was therefore time-barred, but the PTAB held that Wi-Fi failed to demonstrate such privity

[2] D-Link Systems, Inc.; Netgear, Inc.; Acer, Inc.; Acer America Corp.; Gateway, Inc.; Dell, Inc.; Belkin International, Inc.; Toshiba America Information Systems, Inc.; Toshiba Corp.; and Intel Corp.

and that Broadcom's IPR petition could be granted. Wi-Fi appealed and a Federal Circuit panel held that PTAB time-bar rulings in connection with IPR proceedings are nonappealable.

Wi-Fi petitioned for rehearing and, in its *en banc* decision, the Federal Circuit decided that PTAB decisions on IPR timeliness are reviewable, holding that the time-bar is not a minor technicality and that there is a strong presumption in favor of judicial review of agency decisions. The Federal Circuit explained that it could find "no clear and convincing indication in the specific statutory language in the [Leahy-Smith America Invents Act ("**AIA**")], the specific legislative history of the AIA, or the statutory scheme as a whole that demonstrates Congress's intent to bar judicial review of [35 U.S.C.] § 315(b) time-bar determinations."

The Federal Circuit further noted that the Supreme Court's opinion in *Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131 (2016) "strongly points toward unreviewability being limited to the [Director of the U.S. Patent and Trademark Office's] determinations closely related to the preliminary patentability determination or the exercise of discretion not to institute." However, the Federal Circuit specifically noted that it issued no opinion on whether other issues relating to IPR are appealable.

The Federal Circuit's opinion is available **here**.

Cybersecurity Regulation Recommendation from US-China Business Council

The US-China Business Council ("**USCBC**") released a report on February 5, 2018 ("**USCBC Report**"), pursuant to which USCBC outlined three challenges posed by China's Cybersecurity Law that came into effect in June of 2017: (i) disruptions caused by China's policies on data flows and localization; (ii) burdens due to China's overly restrictive licensing regime; and (iii) the burdens from requirements to use unique "secure and controllable" technologies. The USCBC Report's recommendations include: (i) narrowing/clarifying the scope of the current policies (for example, narrowing "the definition of national security and 'state secrets' to ensure that companies do not unintentionally violate regulations regarding the storage and transfer of such information"); (ii) allowing "implied consent" to be a sufficient standard for outbound data transfer; (iii) allowing greater transparency regarding the licensing approval process; and (iv) providing nondiscriminatory technology requirements and conformance with global standards. The hope for the USCBC Report is to invite discussions with the Chinese government regarding the drafting of new rules and standards such that they are more aligned with global practices.

The USCBC Report is available **here**.

2017 FTC Privacy and Data Security Update

On January 18, 2018, the Federal Trade Commission ("**FTC**") released its annual report summarizing its privacy and data security work in 2017 ("**2017 Annual Report**"). The FTC is an independent agency in charge of protecting consumers and promoting competition across industries. Section 5 of the Federal Trade Commission Act empowers the FTC to prevent deceptive trade practices in the market. The FTC also has authority to enforce several sector specific laws. The FTC has brought over 130 spam and spyware cases, over 50 general privacy lawsuits, and over 60 cases against companies that have engaged in unfair or deceptive practices that failed to adequately protect consumer's personal data. Notable cases from 2017 include:

(i) the FTC alleging that Lenovo preinstalled a software program that allowed the program to access, without any notice, consumers' sensitive personal information transmitted over the Internet; and

(ii) Uber Technologies, Inc. settling with the FTC regarding a claim that Uber Technologies, Inc. failed to satisfy its claims that it closely monitored employee access to consumer and driver data.

In addition, the FTC has brought over 100 cases against companies for violating the Fair Credit Reporting Act, which sets out requirements for companies that use data to determine, among other things, credit worthiness or suitability for employment, and 30 cases for violation of the Gramm-Leach Bliley Act

("**GLBA**"), which requires financial institutions to send consumers initial and annual privacy notices and allow them to opt out of sharing their information with unaffiliated third parties. In 2017, the FTC brought a case against TaxSlayer alleging that it violated the GLBA's Safeguards Rule, which requires financial institutions to implement safeguards to protect customer information and the Privacy Rule and Regulation P, which requires financial institutions to deliver privacy notices to customers. Internationally, the FTC is involved with (i) the EU-U.S. Privacy Shield, which provides legal mechanisms for companies to transfer personal consumer data from the European Union to the United States, (ii) the Swiss-U.S. Privacy Shield Framework, which is modeled after the EU-U.S. Privacy Shield and applies to companies transferring personal consumer data from Switzerland to the United States, and (iii) the Asia-Pacific Economic Cooperation Cross-Border Privacy Rules, which is a voluntary, enforceable code of conduct for transferring personal consumer data among the United States and other Asia-Pacific Cooperation members.

The 2017 Annual Report is available **here**.

European General Data Protection Regulation Goes Into Effect on May 25, 2018

On May 25, 2018, the European General Data Protection Regulation will go into effect. Davis Polk has recently published a memorandum summarizing the impact of the European General Data Protection Regulation on U.S. mergers and acquisitions. A copy of the memorandum is available **here**.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

Frank J. Azzopardi	**212 450 6277**	**frank.azzopardi@davispolk.com**
Pritesh P. Shah	**212 450 4147**	**pritesh.shah@davispolk.com**
Matthew J. Bacal	**212 450 4790**	**matthew.bacal@davispolk.com**
David R. Bauer	**212 450 4995**	**david.bauer@davispolk.com**
Michelle Ontiveros Gross	**650 752 2073**	**michelle.gross@davispolk.com**
Bonnie Chen	**212 450 4063**	**bonnie.chen@davispolk.com**
Daniel Forester	**212 450 3072**	**daniel.forester@davispolk.com**