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Staff

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Graphics: Cordelia Gaffney

Production: Luong La

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Copyrights

Copyrights

Fair use cases before appeals courts set for hearing in 2016 are likely to add to jurisprudence on the issue. Google, which is party to a case that may wind up before the U.S. Supreme Court, will remain a significant player pushing to broaden fair use law. Look for House lawmakers to continue a broad review of copyright law, but the complexity of the fair use issue, combined with an expected election-year legislative slowdown, makes comprehensive copyright legislation unlikely this year. Limited changes, such as independence for the Copyright Office, may be possible.

Fair Use to Hold Center Stage; Legislation Could Be Limited in 2016

DEVELOPMENTS IN FAIR USE DOCTRINE

Users of creative works, from large companies such as Google to individual Internet posters, will continue to test the limits of the fair use doctrine in 2016, after big court wins in the past year.

For copyright holders trying to enforce their rights, that means further appeals or implementing procedures to meet new fair use screening requirements.

Some of that action will be in the courts. There are already several proceedings underway that should produce significant statements in fair use jurisprudence, and some of the biggest fair use cases of 2015 might still appear on the Supreme Court's docket. However, bright-line rulings are unlikely.

Google will remain a major player in fair use—whether it continues fighting for its program scanning books and making them searchable, or puts muscle behind defending users facing unfair takedown notices under the Digital Millennium Copyright Act. Google announced late last year that it would provide legal defenses for posters on its YouTube video service who are unfairly targeted by takedown notices.

Authors Guild v. Google. Google's core business is making large amounts of information accessible, and its book-scanning program is testing the limits of fair use.

Google scored a big victory for expansion of the doctrine when Judge Pierre N. Leval of the U.S. Court of Appeals for the Second Circuit made his return to the fair use arena in 2015, ruling that Google Book Search's unauthorized digitization of entire books for search purposes was allowed. *Authors Guild v. Google, Inc.*116 U.S.P.Q.2d 1423 (2d Cir. 2015).

The Authors Guild petitioned for Supreme Court review of the October ruling on Dec. 31.

''It is crucial to set proper boundaries for fair use,'' Mary Rasenberger, executive director of the Authors Guild, said in a press release about the petition. ''If the Second Circuit's expansive view of fair use is not checked, the exception will swallow the rule in no time.''

Some view the Second Circuit's ruling as having delivered a fatal blow to the Authors Guild's case.

However, David Leichtman of Robins Kaplan LLP, New York, believes the Supreme Court will hear the Authors Guild's case.

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>
> MARY RASENBERGER,
> EXECUTIVE DIRECTOR OF THE AUTHORS GUILD

If the Supreme Court does take up the issue, what will be most significant is what it says about how the transformative use doctrine has come to dominate fair use cases. Whether a work is transformative is the first of the four tests used by the courts to determine fair use. A work is transformative if there is added value or meaning, such as in parody or criticism.

Stephen P. Demm of Hunton & Williams LLP, Richmond, Va., said that the Google Books case was one in a line of cases in which ''the courts are trying to keep up with new technology, not that the technology is necessarily new anymore.''

Look Out for Other Aggregation Cases. Demm suggested that observers should watch for other cases involving aggregation of the creative works of third parties.

One such case—and one that came out differently from the Google Book Search case—was *Penguin*

Group (USA) Inc. v. American Buddha, No. 13-02075 (D. Ariz. May 11, 2015). In that case, the court ruled that American Buddha's use of books published by Penguin was not transformative.

''American Buddha was putting the works online essentially verbatim, with a little bit of commentary,'' Demm said.

''The fact that they added a little bit of commentary and footnotes was not enough to transform it,'' Demm said of the court's ruling. ''A lot of the recent cases are that sort of thing, taking a large number of copyrighted works and aggregating them.''

Bright-Line Rules Unlikely to Emerge. Demm said the issue for future cases seems to be whether a court can find some kind of additional utility to what the aggregator is doing—such as with Google's research tools—''or are you just providing the entire work?''

He said that these fair use cases make it very difficult to create bright-line rules.

''To some degree, the fair use statute does give some things like commentary, criticism and teaching as examples of the kinds of uses that often should be considered fair use, but even then, the context makes a difference,'' he said. ''If, in the guise of criticism, I published two whole chapters of a book that were the heart of the book,'' then that very well may not be fair use.

'Pushback' on Transformative Use Doctrine. Many fair use cases hinge on the transformative use test to the exclusion of the other tests, some legal experts say.

''To me, it's pretty clear that there will be continued expansion of the fair use doctrine,'' Donald J. Curry of Fitzpatrick, Cella, Harper & Scinto, New York, told Bloomberg BNA. That's due to transformative use.

''No. 1, it's being defined very broadly as to what a transformative use is,'' Curry said. ''And No. 2, it seems to be the first question that every court asks.''

Curry noted that there has been significant ''pushback'' from academics and other observers that the statutory four-factor fair use test seems now to be a one-factor test of transformative use.

''The main thing to look for is whether the judiciary is going to look at some of the pushback, if you will, and maybe try to, I guess, revert back to older ways of analyzing fair use,'' Curry said.

"The main thing to look for is whether the judiciary is going to look at some of the pushback, if you will, and maybe try to, I guess, revert back to older ways of analyzing fair use."

DONALD J. CURRY, FITZPATRICK, CELLA, HARPER & SCINTO

Brandon Butler, a practitioner-in-residence at the Glushko-Samuelson Intellectual Property Clinic at American University, has a similar view of the Second Circuit's ruling in the Google Book Search case.

Butler said that Leval has essentially created a two-part test, one that first asks whether the use in question has a transformative purpose and then asks whether the use acts a marketplace substitution for the original work.

Georgia State 'E-Reserves' Case: Cambridge University Press v. Patton. A potential Supreme Court look at the Google Book Search case won't be the only aggregation case to anticipate in 2016.

Just more than a year ago, the U.S. Court of Appeals for the Eleventh Circuit rejected a trial court's rubric for determining whether Georgia State University's electronic reserves system was infringing the copyright interest of academic publishers. *Cambridge Univ. Press v. Patton*, 112 U.S.P.Q.2d 1697 (11th Cir. 2014).

The trial court had said that one chapter or 10 percent of a work taken without permission was fair use, but the Eleventh Circuit didn't like that formulaic approach. The matter is back on remand before the U.S. District Court for the Northern District of Georgia.

Unlike the Google Book case, the Eleventh Circuit didn't allow one broad logical approach to decide on the fair use of all the material. This is likely to make for a much more complicated proceeding.

''The interesting thing about it is that, what they basically said is, you kind of have to go work-by-work to make a determination whether qualitatively the defendants took too much, which is very different from the approach that the Second Circuit took in the Google Books case, which was that these excerpts were transformative,'' Leichtman told Bloomberg BNA.

In the Google case, ''Based on some funny math, they said that an individual could obtain only 16 percent of the books and they looked at it as a qualitative matter rather than a quantitative matter,'' he said, referring to the *Authors Guild* ruling.

However, ''in the Georgia State case, they said that just making excerpts is not transformative at all,'' Leichtman said. ''So, basically, the remand in the Georgia State case is a little bit messy and in the weeds and if they don't settle it—and they may because I think there's enough guidance to settle it in the decision—there's going to be intensive going work-by-work to make this qualitative decision.''

Rebecca L. Tushnet, a law professor at Georgetown University, told Bloomberg BNA that she ''was a little disappointed by the court of appeals ruling there, and we'll have to see what the district court does on remand.''

'Dancing Baby' Case: Lenz v. Universal Music. How much consideration to fair use should a copyright holder give when sending DMCA takedown notices? Another case involving Google, although indirectly, that has become known as the ''Dancing Baby'' case has raised the bar for copyright holders to look at fair use first.

In that case, Universal Music Corp. issued a takedown notice to YouTube for a video showing a baby dancing to a recording of a Prince song in the background.

In September, the U.S. Court of Appeals for the Ninth Circuit said that a copyright holder such as Universal is obligated to consider whether a use is a fair use before sending such a notice. *Lenz v. Universal Music Corp.*, 115 U.S.P.Q.2d 1965 (9th Cir. 2015).

Both sides in that case are seeking en banc review, having asked the entire bench of the Ninth Circuit to consider the issues. Meanwhile, Google has said that it will pay the legal fees of individuals who fight what

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Google perceives as unfair takedown notices by copyright holders. New technologies are allowing use of content on a large scale by companies and individuals, and defending or even expanding fair use is very important to Google's business, including YouTube.

"It's the tech industry, but particularly Google, trying to push the boundaries for fair use, but it's very troubling for rights owners," Leichtman said.

Java APIs Case: Oracle v. Google. Another Google case—originally about copyrightability—has seemed to have transformed into a fair use case.

That case involves Google's copying of Java's application programming interfaces (API), a base set of instructions used to create a programming language for Android mobile applications.

Google initially argued that the APIs were not protectable as creative works of expression under copyright law.

However, the U.S. Court of Appeals for the Federal Circuit ruled that the APIs were protectable. *Oracle Am., Inc. v. Google Inc.*, 110 U.S.P.Q.2d 1985 (Fed. Cir. 2015)

The Supreme Court declined to hear the case. So it is now back at the trial level, where the major issue will be whether Google's copying constitutes fair use. Although Google has said it will not use the proprietary API in the next version of Android, the issue of damages still remains for Google.

Fox v. TVEyes. Another ongoing fair use case involves a media clipping service that is popular among movers-and-shakers in Washington as well as in corporate boardrooms.

TVEyes tracks audio and video news programming and allows users to search for coverage of selected topics, persons or events.

A federal district court has found that some of the TVEyes services are transformative and, therefore, fair use, but others are infringing. It has issued an injunction in favor of Fox and other broadcasters .

The U.S. District Court for the Southern District of New York ruled that using the clips to create a searchable database is a transformative fair use. However, it found that features such as direct snipping of a portion of a designated service's content are infringing.

The case continues, and it is foreseeable that these issues will end up before the Second Circuit—eventually, if not in 2016—and perhaps even higher.

Election Year Could Put Damper on Comprehensive Copyright Legislation.

Discussions and outreach to the various stakeholders in the copyright community are expected to continue, but trying to get major legislation passed in an election year is always an uphill climb.

More focused bills or smaller changes aimed at solving specific problems—such as making the Copyright Office an independent agency — may be more likely.

Backlash against legislation focused on online piracy—the Stop Online Piracy Act and the Protect IP Act introduced in late 2011 and early 2012—are still in recent memory and will continue to give legislators reason to be wary of big changes.

Comprehensive Review, Study, Consultation Engaged. Given the fallout, House Judiciary Chairman Robert W. Goodlatte (R-Va.), whose committee has jurisdiction over intellectual property, has since steered a more fully considered—but still ambitious—course.

The last two years saw dozens of hearings, both before the House Judiciary Committee and outside Washington.

Judiciary aides have told Bloomberg BNA that such hearings will continue, as legislative leaders continue seeking some broad level of consensus before going public with support for any specific legislative language. The continuation of such hearings—some held as recently as the fall of 2015 in places including Tennessee and California—illustrates that the reform effort is persistent.

Copyright Office Independence on Table. Independence for the Copyright Office is one of the more likely legislative possibilities for 2016; a bill has even been introduced in the House. The retirement of the long-time Librarian of Congress and a term-limit on the office signed into law in late 2015 may take some of the urgency out of the effort.

Register of Copyrights Maria A. Pallante has pursued an ambitious program of legislative advocacy since assuming office in 2011. The Copyright Office has issued a regular stream of studies and recommendations on a range of topics that it has identified as ripe for congressional action.

Those efforts coalesced in mid-2015 with Pallante's plea to release the Copyright Office from the control of the Library of Congress, citing an irreconcilable clash in priorities and a woeful inattention to the IT infrastructure necessary to serve what Pallante sees as the needs of copyright holders and users of creative works in the digital age.

Pallante's effort seemed to spark momentum, and Rep. Thomas A. Marino (R-Pa.) and Rep. Judy M. Chu (D-Calif.) started circulating a bill to make the Copyright Office an independent agency.

The proposed legislation—the Copyright Office for a Digital Economy Act (H.R. 4241) introduced in mid-December—would create an independent Copyright Office as a legislative branch agency, with a director appointed by the president to a 10-year, nonrenewable term. It would also give the Copyright Office the authority to set rules about depositing and retaining copies of works.

Currently, the Copyright Act requires a copyright holder to deposit two complete copies of the best edition of a work when registering a copyright. This helps to bulk up the collection of the Library of Congress, but may not be needed for the functioning of a modern Copyright Office.

Appointment of New Librarian on Horizon. The Library of Congress has been criticized from many quarters as having neglected to keep up with technology during the 28-year administration of Librarian James H. Billington.

For several years, it was rumored that the Obama administration was eager to appoint a new librarian, but Billington was unwilling to step down. The post has traditionally been treated as a lifetime appointment, although there is no explicit legal provision designating it as such, and Billington's policy decisions about budgeting and infrastructure were at the heart of many of Pallante's complaints at the Copyright Office.

In 2015, Billington announced his retirement and stepped down at the end of September. Soon after that, Congress passed legislation limiting the librarian to a 10-year term.

It's not clear when a new librarian will be appointed. In recent years, the administration has taken a significant period of time to permanently fill such offices, including the directorship of the Patent and Trademark Office.

In the meantime, the House Administration Committee—which oversees the Library of Congress—held a hearing in early December in a show of support for the library and Acting Librarian David S. Mao.. Committee members expressed significant support for the library's efforts to live up to recommendations made by the General Accounting Office, Congress' investigatory arm, and set aside the question of Copyright Office independence.

'Containable' Issues Might Be Good for Legislation. More containable issues might be plausible targets for legislation, but something big like fair use doesn't seem likely, Tushnet told Bloomberg BNA.

Some of those issues include a ''small claims'' court for copyright infringement claims, federalization of pre-1972 sound recordings, mass digitization of books, public performance rights for recording artists, orphan works, copyright exceptions for libraries, market-based licensing for cable and satellite TV retransmission, group registration of photographs, deposit and retention requirements for copyright registration, and registration requirements for websites.

''Unlike 10 years ago, a lot of the fair use community is feeling good about what the courts are doing about fair use, so we have a lot to worry about if Congress decides to stick its fingers back in,'' Tushnet said.

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REBECCA L. TUSHNET,
GEORGETOWN UNIVERSITY

''In a rational world,'' she said, Congress would be doing something about fixing music licensing, such as setting up some sort of collective licensing scheme and ironing out all the ways different users are treated differently in various provisions of the Copyright Act. That seems unlikely, though, given the opposing forces.

Tushnet also expressed hope for the creation of a public performance right for recording artists whose works are played on traditional AM/FM radio, as well as federalization of pre-1972 sound recordings. Recordings made before 1972 are only protected under a patchwork of state laws.

''I think it's a terrible idea to create some state law version,'' she said. ''It's also completely ahistorical. If there's a public performance right under state law, we would have known that by now.''

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REBECCA TUSHNET

Meanwhile, Capitol Hill aides say there are plans for more town hall meetings and congressional hearings, in a continued effort to build consensus and stop momentum from dying entirely.

OTHER CASES MOVING THROUGH COURTS.

There are several proceedings that might affect copyright jurisprudence in the upcoming year in the federal courts.

These cases address a wide range of issues in the copyright realm, including whether state common law gives owners of rights in pre-1972 sound recordings exclusive public performance rights, whether digital retransmission services are eligible for compulsory licenses as cable TV systems, and how attorneys' fees should be awarded in copyright cases.

Performance Rights in Pre-1972 Sound Recordings: Flo & Eddie Cases. In a series of cases across the country, the original members of the 1960s pop group the Turtles have been trying to get Sirius XM, Pandora and other digital music services to pay royalties for playing ''Happy Together'' and other recordings.

Sound recordings made before 1972 are not protected by federal copyright law, so the big hits of the '60s, among others, have traditionally been protected under state law—usually the common law of contracts.

However, Sirius XM and Pandora have asserted that they aren't obligated to seek permission to use pre-1972 sound recordings. The Turtles have persuaded courts to find copyright-like protections in some states but not in others. *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 115 U.S.P.Q.2d 1053 (C.D. Cal. May 27, 2015); *Flo & Eddie, Inc. v. Pandora Media, Inc.*, 113 U.S.P.Q.2d 2031 (C.D. Cal. Feb. 23, 2015); *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 114 U.S.P.Q.2d 1997 (S.D. Fla. June 22, 2015); *Sirius XM Radio, Inc. v. Flo & Eddie, Inc*., No. 15-00497 (2d Cir., leave to appeal granted April 15, 2015).

This collection of disparate rulings is likely to become a growing pile, with several appeals already in motion, prompting some kind of ruling at a higher level sooner or later, but perhaps not by the U.S. Supreme Court.

Additionally, Leichtman suggested that ''there may either be makeshift legislation in that area or cases that go up to state supreme courts. This is a question of state common law rather than federal law.''

However, there are signs that major record labels are starting to reach settlements over these issues with major players, he added.

''It will be interesting to see if a significant body of law develops, or whether the industry develops a licensing scheme of their own,'' Leichtman told Bloomberg BNA.

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There are some distinctive underlying issues common to these cases, including a fairness aspect regarding whether streaming services should be treated like terrestrial radio stations, he said. Another is whether it will be possible for digital services to set up their systems to deal with different legal regimes in different states if the jurisprudence continues to reveal different results on a state-by-state basis.

''And, of course, there's a host of international issues that come into play when you start to talk about blocking users and things like that,'' Leichtman said.

Son of Aereo. As a greater number of television viewers decide to cut the cord, and cancel their cable television subscription services, compulsory licences for retransmission of local television broadcasts will become a bigger issue.

The biggest copyright ruling in 2014 was in *Am. Broad. Cos. v. Aereo, Inc.*, 134 S. Ct. 2498, 110 U.S.P.Q.2d 1961 (2014), which held that the Aereo service, which picked up terrestrial TV broadcasts and retransmitted them to subscribers' mobile devices, was ''publicly performing'' the works in question.

Subsequently, the FilmOn X service—which has also gone by the names AereoKiller and BarryDriller.com—set up a service very similar to Aereo's and tried to argue that it was eligible for a statutory license set up for cable TV systems.

The U.S. District Court for the District of Columbia and the U.S. District Court for the Southern District of New York have rejected this argument, but at the other end of the country, the U.S. District Court for the Central District of California has ruled that FilmOn X is a cable system .

It seems very likely that a federal appeals court will be reviewing this issue in the upcoming year.

''It's interesting because on sort of a plain reading of the regulations and statute, this kind of service ought to be entitled to a compulsory retransmission,'' Jeffrey M. Dine of Seward & Kissel LLP, New York, told Bloomberg BNA. ''Obviously the Southern District of New York didn't feel that way, but it's interesting that the California court came out in favor of granting a compulsory retransmission license.''

Cheerleader Uniforms Case Might Have Broader Implications. Clothing designs are not protected under copyright in the U.S. as creative works, but a case on cheerleaders uniforms could bring some protection.

Leichtman told Bloomberg BNA that he is watching a case involving whether copyright law can protect features of cheerleading uniforms.

In *Varsity Brands, Inc. v. Star Athletica, LLC*, 115 U.S.P.Q.2d 1773 (6th Cir. 2015), the Sixth Circuit ruled that stripes, chevrons, zig-zag and color block designs might be conceptually severable from the utilitarian aspects of a cheerleading uniform and, thus, conceivably protectable as creative works.

Besides the fact that there might be a petition for Supreme Court review in this case, ''Even though it's ostensibly just about cheerleading uniforms, it may have a broader implication,'' Leichtman said. The case may raise how questions of utility can combine with other issues, such as in *Alice Corp. v. CLS Bank*'s tightening patentability of software or the ruling that Java APIs can be protected by copyright.

Kirtsaeng's Attorney Fees Effort. The awarding of attorneys' fees in copyright cases is still an open question. An entrepreneur who has already won a copyright case at the Supreme Court on importing cheap textbooks from Asia is now looking to get attorneys' fees.

Donald J. Curry of Fitzpatrick, Cella, Harper & Scinto, New York, said that Supap Kirtsaeng's continuing effort to get his legal fees paid is ''an important case that is a little bit under the radar.''

In 2013, Kirtsaeng won a landmark case, when the Supreme Court said the publisher John Wiley & Sons Inc. couldn't stop him from importing cheap copies of textbooks intended for the Asian market and selling them to American students well below the cost of U.S. textbooks. *Kirtsaeng v. John Wiley & Sons Inc.*, 133 S. Ct. 1351 (2013).

Kirtsaeng is seeking Supreme Court review of the denial of an attorneys' fee award by the U.S. Court of Appeals for the Second Circuit. *John Wiley & Sons Inc. v. Kirtsaeng*, No. 14-00344 (2d Cir. May 27, 2015).

''There's a wide circuit split on what the fee-shifting standard is in the copyright litigation arena, and that's despite the fact that in 1994 the Supreme Court established a standard that really is the controlling standard,'' Curry told Bloomberg BNA, referring to *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 29 U.S.P.Q.2d 1881 (1994). Fogerty ''was designed to level the playing field in terms of giving each party an equal chance of getting a fee award.''

But now, ''there's sort of a four-way circuit split, where a whole bunch of circuits apply a whole bunch of different kinds of standards, which to me is a pretty good indication that the Supreme Court is going to want to address it,'' he said. ''And the notion of giving a small plaintiff an incentive to bring a meritorious position may well resonate with the Supreme Court.''

Curry pointed to the Supreme Court's ruling in *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962, 110 U.S.P.Q.2d 1605 (2014), which gave an heir to the author of the screenplay of Martin Scorsese's ''Raging Bull'' the right to bring an action almost 20 years after the alleged infringement had occurred.

''The court went out of its way to say that a copyright owner can sit back and decide when it's worth the cost of litigation,'' he said.

The Supreme Court has been faced with multiple petitions addressing the issue of attorneys' fees awards in copyright cases. It has declined to hear one of them, but the Kirtsaeng petition is scheduled for conference in early January.

By Anandashankar Mazumdar

To contact the reporter on this story: Anandashankar Mazumdar in Washington at amazumdar@bna.com

To contact the editor responsible for this story: Mike Wilczek in Washington at mwilczek@bna.com

Internet

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The Internet Corporation for Assigned Names and Numbers community, anxious to put two years of government oversight transition planning behind it, will devote significant energy in 2016 to critical issues sitting just outside the transition spotlight. Topping the list is the need to reach agreement on what a domain registrar must do in response to a claim that unlawful activity is occurring on a customer's website. Other important issues for businesses engaged with ICANN include studying the effectiveness of existing trademark right protections, planning for a new round of top-level domain applications and adjusting to new ICANN leadership.

Transition, Compliance, New CEO Top ICANN 2016 Agenda

The Internet Corporation for Assigned Names and Numbers heads into 2016—a pivotal year for shaping its future and the future of the domain name system—looking to make progress on several contentious issues that were largely set aside while the technical domain name system overseer planned to operate without direct U.S. government oversight.

In 2016, large-scale copyright holders and others concerned with massive online intellectual property infringement are likely to make progress in their quest to get help from domain name registrars. Large companies will also have a chance to weigh in on ICANN's expansion of the domain name system in recent years, and how a second expansion might be conducted within the next several years.

ICANN itself is also in flux. Contentious discussions about how to increase the organization's accountability will continue in 2016, and the organization will have new leadership, as Chief Executive Officer Fadi Chehade will be stepping down in March.

As 2016 gets underway, participation in ICANN's multistakeholder process is open to companies and institutions who want to get involved. Discussions will shape long-term issues—from how companies combat online piracy to when and how they will get a second chance to buy a piece of top-level Internet real estate.

Under a U.S. government contract, ICANN makes policy for the domain name system and provides technical services that keep Internet addresses pointing to the right places. But it has spent the last two years planning to take over the U.S. government's oversight role in what has been alternately characterized as the privatization—or the U.S. giveaway—of the Internet.

In reality, the U.S. government is ending a largely symbolic role overseeing behind-the-scenes Internet processing —a role that came with the threat of someday finding a new technical provider if ICANN's technical performance slipped.

The planning process of terminating the U.S. government contract in favor of ICANN self-governance is nearly complete. While implementation work will carry on throughout the year, policy makers' time should be freed up to address issues that have lingered in the shadow of the transition work.

Domain name registrars and intellectual property groups such as media conglomerates and the pharmaceutical industry are likely to make significant progress, and perhaps strike an agreement, on the scope of registrars' abuse investigation and response duties. The IP community has complained for years that registrars haven't done enough to curb major online infringements, while registrars have responded that domain name sellers shouldn't be responsible for end-user behavior.

A deal would provide much greater certainty for both sides by establishing a process for taking domain names offline without resorting to court orders, when there is evidence of significant intellectual property violations. A deal would likely create minimum standards as well for when registrars can ignore nuisance complaints that lack merit or sufficient detail.

The expansion of the Internet name space through the new generic top-level domains program will also be a hot topic in 2016. Long-standing generic top-level domains (gTLDs) such as .com and .edu have been joined in the last three years by hundreds of more specific extensions such as .nyc or .movie. ICANN accepted a first round of applications in 2012, and the process of delegating names to those applicants is just now winding down.

Large companies that avoided or ignored the first round of gTLD applications are lining up behind the idea of starting a new round sooner rather than later,

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which, for practical purposes, could mean by 2018. Companies that missed out on the first round will have to wait until then if they want their own branded top-level domain, such as Ford Motor Co.'s .ford.

ICANN Becomes Self-Governing. This should also be the year that the global Internet community takes control of the technical functioning of the Internet without U.S. government oversight. This transition involves back-end processes that should be invisible to Internet users. But the long-term ramifications of the U.S. stepping out of its historical oversight role, and the revised processes replacing it, are unpredictable.

The Department of Commerce has provided a backstop, guaranteeing that ICANN maintained a high-performance level at keeping the Internet up and running or risked losing its contract. With that backstop gone, no one expects performance to drop off—although no one is sure what would happen next if it did.

With Commerce expected to relinquish its longstanding ICANN overseer role Oct. 1, planning for a post-oversight ICANN is mostly finished, but with some implementation details, such as the exact language of proposed bylaws changes, still to be sorted out.

The department's National Telecommunications and Information Administration, which has monitored transition planning closely, is likely to approve the proposal.

''What follows is the part that's hard to get excited about, but it's where the hard work is, which is the implementation details,'' Steve Crocker, chairman of ICANN's board of directors, told Bloomberg BNA Dec. 15.

To be sure, ICANN's staff will still have much transition work to do in 2016. But while staff manages the implementation process, the business interests that drive the organization's policy-making efforts should be able to move on to other issues that have been on the back burner over the past two years.

While ICANN is open to all, the groups that drive the policy conversation are those most directly affected by its operations: domain name registries and registrars, intellectual property owners seeking to defending their rights online, and major brands concerned about protecting and expanding their trademarks.

Policy Reemerges From Transition Shadow. Observers said the issues on those groups' minds will include:

- Reviewing the need for additional expansion of the domain name space in a second round of new top-level domain (TLD) applications.

- Reviewing mechanisms for trademark holders to challenge domain name registrations.

- Considering a replacement for the Whois database of domain registrant contact information.

- Debating additional ICANN accountability issues that were deliberately postponed until after transition planning could be completed.

''People have talked about the transition taking all the air out of the room,'' Graeme Bunton, public policy manager at registrar Tucows Ltd., told Bloomberg BNA. ''I think we're going to begin to see some of the air come back into the room and that we'll be able to address some things that have been set aside.''

The new year will bring new leadership when Chehade steps down. Other senior staff brought on board by Chehade may follow him out the door.

ICANN's board is well into the process of finding his successor. Chehade has been an energetic, jet-setting leader, but even he has said a different style may be needed to finish and implement the transition. He has compared the situation to building a house, saying he was the framing team and the next CEO will need to be a finisher.

Compliance Agreement Coming in 2016? Multiple observers told Bloomberg BNA that 2016 could be the year that an agreement will be reached over the scope of domain name registrars' abuse response duties. Abuse would occur, for example, if a registrant used a website for distributing pirated copies of current movies or selling illegal drugs.

The 2013 Registrar Accreditation Agreement obligates domain registrars to take ''reasonable and prompt steps to investigate and respond appropriately to any reports of abuse.'' The ICANN community hasn't been able to agree on how to interpret that language.

Intellectual property rights holders—particularly large media companies and the pharmaceuticals industry—and law enforcement officials complain that ICANN has allowed registrars to shirk their responsibilities. ICANN officials have so far resisted what they believe is an unwarranted call for the organization to function as ''content police'' for the Internet.

Resolving this issue is critical for all involved, observers said, as both sides look for greater certainty. Rights holders want a sure avenue for going after infringing domain names and websites, and registrars want standards for valid complaints they must address versus insufficient complaints they can ignore.

''The community has to work out what it means to investigate and respond,'' Steve DelBianco, executive director of NetChoice, told Bloomberg BNA.

An ICANN effort to accredit proxy service providers could be a stepping stone toward agreement on how registrars should respond to claims of online abuse, according to Darcy Southwell, compliance officer at Endurance International Group, which operates registrars and Internet hosting companies.

Proxy service providers allow domain name registrants to hide their true identities, usually due to valid privacy concerns. But registrars, who often offer proxy services, and intellectual property interests recently agreed on a streamlined process for companies to seek the true identity of infringers without resorting to court orders.

''It's pretty evident that the key large registrars want to do the right thing, and we need to step up and define what the right thing is and work with those different reporting sources to have a dialogue and figure out what that best practice is,'' Southwell said.

Greg Shatan, president of ICANN's Intellectual Property Constituency and partner at Abelman Frayne & Schwab in New York, told Bloomberg BNA Nov. 30 that he also sees a potential agreement on the horizon.

''I think that it will come through grass-roots efforts, which is as it should be at ICANN,'' Shatan said. ''I think there will be continuing work toward a pragmatic, business-like solution that takes all the competing concerns into account.''

IANA Transition Timeline

1997–Oct. 1, 2000
IANA functions performed by Defense Advanced Research Projects Agency Tera-Node Project

June 5, 1998
U.S. government releases White Paper describing ICANN, defining mandate

Nov. 25, 1998
NTIA approves creation of ICANN

February 2000
NTIA and ICANN enter into first IANA functions contract

Aug. 15, 2006
NTIA renews IANA functions contract for five years

July 2, 2012
NTIA renews IANA functions contract for three years with two additional two-year options

March 14, 2014
NTIA announces intention to transition remaining IANA oversight to ICANN

Sept. 8, 2014
IANA Stewardship Transition Coordination Group (ICG) issues request for proposals

Dec. 1, 2014
First naming functions plan released

April 22, 2014
Second naming functions plan released

May 4, 2014
First accountability enhancement plan released

June 24, 2015
Stakeholder groups ratify naming functions proposal for ICG

Aug. 3, 2015
Second accountability enhancement plan released

Aug. 17, 2015
NTIA announces one-year extension of IANA functions contract

Sept. 2, 2015
ICANN board of directors proposes accountability alternative plan

Oct. 21, 2015
Board, drafters agree on outlines of compromise accountability plan

Oct. 29, 2015
ICG announces finalized transition proposal, pending completion of accountability proposal

Nov. 30, 2015
Third ICANN accountability proposal submitted for public comment and stakeholder group approval

Dec. 21, 2015
Comment period ended on accountability proposal

Jan. 7, 2016
Finalized accountability proposal goes to stakeholder groups for approval

Jan. 22, 2016
Comprehensive IANA transition plan expected to be submitted to ICANN board

February 2016
Comprehensive IANA transition plan expected to be submitted to NTIA

June-July 2016
NTIA expected to complete transition plan review

Sept. 30, 2016
Current IANA contract ends if not extended

Oct. 1, 2016
IANA functions expected to move to ICANN Post-Transition IANA subsidiary

A BNA Graphic/iana24g1

Accountability: Workstream 2 Looms. Accountability work will continue in 2016 as important but less time-sensitive issues have been saved for post-transition planning.

The Cross-Community Working Group on Enhancing ICANN Accountability (CCWG-Accountability) worked throughout 2015 to finish a proposal that met the immediate needs of the IANA transition. However, a handful of thorny accountability problems were pushed into a future process called Workstream 2. These problems include the need to:

- Increase diversity, transparency and accountability within ICANN's constituent organizations.
- Bolster ICANN's commitment to human rights.
- Clarify which social problems are ICANN's to solve and which ones are not.

"A lot of important issues have been put off to Workstream 2, such as a lot of detail on transparency, so that whole process is going to start up early in 2016," Phillip Corwin, founder of Virtualaw LLC in Washington and chairman of ICANN's business constituency group, told Bloomberg BNA. "I wouldn't be surprised to see the pace ease up a bit, but there's still an awful lot of work to do."

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More New Domains, More Problems. As the last of the new top-level domains come online, questions over the deployment of the new extensions will intensify.

ICANN's first effort to expand the Internet domain space is winding down. As of Nov. 18, ICANN said only 21 gTLDs are still in contention between multiple applicants.

ICANN is now considering when and how to conduct a second round of new top-level domain applications. New domains include .xyz, with more than 1 million registrations. It made headlines when Google's new parent company launched at alphabet.xyz in August 2015. New domains also include branded domains such as .sony and .apple that are reserved for exclusive use by their owners.

Many believe that interest in more new domains is being driven by large corporations that desire branded Internet domains (See previous story, 12/07/15).

Some high-profile TLDs from the first round will come online in 2016, and how they are deployed could be telling for future new domains, Michele Neylon, chairman of ICANN's Registrars Stakeholder Group and CEO of Blacknight Solutions in Carlow, Ireland, told Bloomberg BNA.

''Google spent a lot of money on .app, for example, so what kind of pricing and business model will they adopt?'' Neylon said.

Neylon observed that smaller, less-successful new domains will have to alter their business practices, sell or fail. ICANN has lowered its projections for new gTLD domain name registrations several times, and some niche domains have failed to gain traction. Of domains available to the general public, 35 had fewer than 1,000 names registered as of Dec. 22, 2015, according to greenSec Solutions.

ICANN will also begin a series of reviews of the new gTLD program, including one designed to determine whether the program has succeeded in its goal of enhancing competition, consumer choice and trust.

The health of the domain industry will have reverberations for registries that have committed to restrictive policies, DelBianco said. If their businesses struggle, DelBianco said, pressures might build for loosening standards.

''Are they going to drop their standards?'' DelBianco asked. ''For instance, .bank said they were only going to be available to chartered financial institutions. If they don't have enough registrations to keep the lights on, maybe they soften standards a little bit.''

Transition Issues Linger. Although ICANN policy makers are looking to address other issues, the transition away from U.S. government oversight will continue to sit atop the ICANN agenda, at least for the early part of the year. The policy work within ICANN is mostly finished, and now the U.S. government will weigh in.

''The first half, maybe three-quarters of the year will still be occupied by stewardship and accountability transition issues,'' Shatan said.

ICANN has performed the Internet Assigned Numbers Authority functions under contract with the U.S. government since 1998. If all goes according to plan, the IANA functions will have a new permanent home in an ICANN subsidiary when the current contract expires on Sept. 30, 2016.

The IANA transition plan—finalized in October 2015—has been gathering dust while the ICANN community works through the controversial companion plan for new procedures to enhance ICANN accountability. The working group and ICANN's board have clashed over the scope of the new accountability measures. The final version represents an uneasy compromise based on additional post-transition improvements.

Observers expect the accountability plan to be finished and delivered to ICANN's board by late January, after which it will be transmitted to Lawrence Strickling, NTIA administrator and assistant commerce secretary for communications and information, possibly as early as Feb. 1.

Strickling has said NTIA's review should take four to five months. Congress will then have 30 working days to review the plan, provided that it passes a pending measure that would give legislators a chance to hold hearings but wouldn't require an affirmative vote.

The House passed such a measure (H.R. 805) June 23, but the Senate version stalled July 21 after Sen. Ted Cruz (R-Texas) put a hold on the bill.

What's Next? Throughout 2016, ICANN will be working on several other significant policy issues.

Among these, an accreditation regime for domain name privacy and proxy registration services could go to the organization's board by January. The drafters retreated from a controversial plan to limit proxy domain registration for commercial entities, and the regime is likely to be implemented this year. There will be new rules for proxy services, often bundled with domain registrations and hosting services, that provide a streamlined mechanism for unveiling infringing proxy registrants' identities without a court order.

ICANN's board has proposed replacing the long-controversial Whois domain name registrant database with a next generation system.

And ICANN will also decide how to review all trademark rights protection mechanisms for domain names, including the 16-year-old Uniform Domain Name Dispute Resolution Policy (UDRP), which has never received a thorough review. These reviews will shape the avenues trademark owners use to defend their rights from domain name registrants. The UDRP review will be particularly controversial, as the International Trademark Association has come out against any review, while other commercial interests want to review other mechanisms first.

Each of these issues will fill a substantial portion of the policy vacuum left by the completion of the IANA transition planning process.

''There's going to be no rest for the weary, but there's going to be plenty of work for those involved in ICANN,'' Corwin said.

By Joseph Wright

To contact the reporter on this story: Joseph Wright in Washington at jwright@bna.com

To contact the editor responsible for this story: Thomas O'Toole at totoole@bna.com

Net Neutrality

Net Neutrality

Telecommunications industry members and analysts predict 2016 will represent a new stage in industry challenges to the Federal Communications Commission's net neutrality rules. Broadband providers are winding up their first round of court battles against Title II reclassification of Internet services and exploring the limits of the FCC's authority or willingness to regulate offerings that may be deemed anticompetitive, such as the practice of exempting certain content from monthly data use caps.

The FCC's next net neutrality challenge will probably come in the form of privacy rules, which will seek to apply consumer proprietary network information, developed for the original telephone network, to broadband providers in the Internet ecosystem. Significant questions remain as to how a federal court will rule on a challenge to the FCC's net neutrality order, and how the ruling will impact the agency's broadband privacy rules. Industry analysts say the prospect of congressional action on a bipartisan compromise net neutrality bill will dim as the November elections approach.

FCC, Telecoms Look to 2016 Net Neutrality Court Decision

Broadband service providers are anxiously awaiting a federal appeals court ruling early this year on the Federal Communications Commission's Open Internet rules.

The U.S. Court of Appeals for the District of Columbia Circuit is expected to hand down its decision by early April in a lawsuit by providers that challenges the agency's prohibitions on blocking or prioritizing content. It is not clear which way the court will go on the agency's latest ''net neutrality'' rulemaking. But observers expect the D.C. Circuit to uphold at least some of the FCC's rules—and carriers are already adapting their business practices to account for them.

T-Mobile US Inc., which didn't strongly oppose the net neutrality rules, has been among the most willing to test the waters with services and plans that could potentially run afoul of them, such as November's launch of its ''Binge On'' program allowing customers to stream video content without counting it toward monthly usage caps, a practice known as zero-rating, multiple sources said. AT&T Inc. and Comcast Corp. have also put out their own plans to exempt certain data-hungry video applications and other content from customers' monthly data usage.

But those companies' lead in such zero-rated offerings may also be due to a tactical decision on the part of other broadband Internet service providers who challenged the rules to wait and see how the FCC reacts before rolling out similar plans.

''We are now at the phase where we're starting to see the effect that net neutrality has on behavior'' in the marketplace, Berge Ayvazian, principal consultant for analyst group Wireless 20/20, told Bloomberg BNA.

''What's really interesting is you have Sprint and T-Mobile, who get a lot more benefit of the doubt than Verizon and AT&T,'' he said, resulting in the two smaller national carriers being almost forced into becoming industry innovators.

Roger Entner, an analyst with Recon Analytics LLC based in Dedham, Mass., predicted that evidence of a slowdown in broadband investment could fully emerge in 2016. ''It's not like you turn on and off a faucet; this is a gradual process,'' he said. ''It's the uncertainty of what is allowed and what is not allowed, combined with really massive fines,'' he said of the rules' potentially chilling effects on broadband Internet providers such as AT&T Inc. and Cox Communications, Inc.

An attorney for Cox echoed that sentiment during a Dec. 3 Practicing Law Institute conference panel. ''We are more cautious than we've ever been in launching new products,'' said Jennifer Hightower, the company's senior vice president of law and policy. Concern about potential enforcement action by the FCC has turned her company into a ''fast follower,'' Hightower said. ''So we're always curious to watch our competitors do something, see how it's reacted to in the marketplace, and then we follow quickly.''

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Corporate reluctance to test the limits of the FCC's rules is more expected in the less-competitive cable broadband space, where only one or two providers may serve a market, than in the competitive wireless market, Ayvazian said. Consumers and analysts are far more likely to see wireless companies push the limits of net neutrality rules for the time being, as price wars in an industry with four national carriers and many smaller, regional ones shift further to the net neutrality space, he said. ''Offering customers incentives to use and benefit from the content they're already seeking, and do that [in] an economic and attractive way, I think that's what the marketplace requires.''

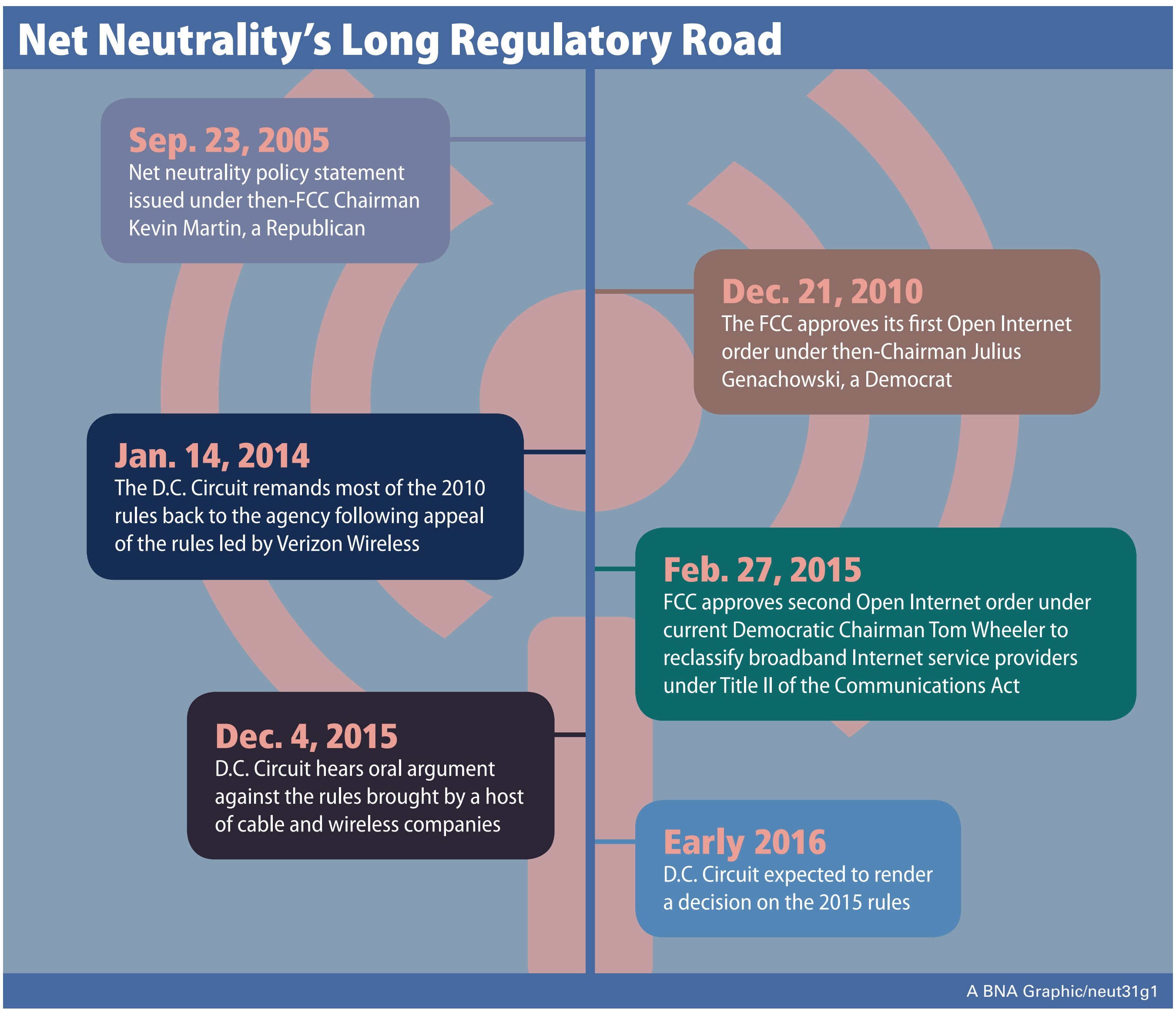
However, recent FCC letters of inquiry to AT&T, T-Mobile and Comcast Corp. indicate the agency is seeking to stay informed and possibly act on the issue of exempting data from caps—such as by giving customers zero-rated access to video or other content—in 2016 (See previous story, 12/18/15).

Regardless of what the FCC might think of some of the industry's moves, opponents of the commission's net neutrality rules have pointed out that no group has yet filed a complaint with the agency over any zero-rated offerings. However, public interest groups likely will do so soon in 2016.

''We are taking a look to see whether we should pursue something'' on exempted data, particularly against Comcast, Harold Feld, senior vice president of the public interest advocacy group Public Knowledge, told Bloomberg BNA. He added that his organization wanted to make sure it has a strong legal filing before submitting anything to the FCC.

Net neutrality advocates are looking at whether the cable company's service exempting Stream TV data usage from monthly usage caps might violate either the FCC's net neutrality order or the merger conditions the company agreed to when it acquired NBC-Universal in 2010, Feld said.

Comcast has repeatedly said its service is not a zero-rated one, as it doesn't run across the public Internet and is only available to its customers at home. Feld said Comcast's service resembles an over-the-top video service, despite the company's claims. ''It seems to be exactly the kind of behavior designed to circumvent the reason for which the general conduct rule was created,'' he said.



As the different permutations of zero-rating and exempted data flourish, the issues become ''more complicated, the ways to discriminate become more complex,'' said Feld. ''That's where you have to depend on an FCC that is willing to actively investigate these things.''

Privacy Rules Coming. A boost in FCC regulation of broadband service providers' privacy practices is perhaps the biggest net neutrality policy question in the pipeline for 2016. The FCC was originally expected to issue the rules in the fall of 2015, but their release has since been pushed back.

Industry observers disagree on whether Wheeler will wait for a decision in the net neutrality case *United States Telecom Assoc. v. FCC* (D.C. Cir., 15-1063, *oral arguments*, 12/4/15), or whether he will press ahead and modify the rules, if necessary.

After the Dec. 4 oral argument in the case, telecommunications practitioners thought the D.C. Circuit might uphold reclassification for wireline providers and strike it down as it pertains to wireless providers, or kick the wireless portion of the order back to the FCC to rework. Such a result would create different regulatory regimes for wireline and wireless services that, though technologically different, are usually seen by consumers as the same (See previous story, 12/07/15).

Litigation and policy battles over net neutrality could continue for several more years. Nearly any decision by the D.C. Circuit is likely to be appealed to the U.S. Supreme Court, though the high court is unlikely to hear an appeal by either side. The Supreme Court typically only hears cases that concern significant constitutional issues or have resulted in split circuits. Neither of those issues are implicated in the latest net neutrality case.

Feld is among those who think Wheeler will press ahead on privacy rules partly because, if oral argument in the case is any indication, the D.C. Circuit seems ready to uphold the FCC's order, at least with regard to wireline broadband providers.

''It's a matter that the chairman has signaled is important to him as a priority,'' Feld said.

On the other side are those who believe the FCC may want to continue to tap the brakes on the rulemaking to see if the court strikes down reclassification under the more stringent regulations of Title II of the Communications Act of 1934 for the wireless industry. Wheeler may want to hold back until after a decision to avoid introducing even greater asymmetry in privacy regulations for broadband providers, a wireless industry executive told Bloomberg BNA on background.

But a split in the industry over which types of carriers may or may not be reclassified wouldn't necessarily create too many wrinkles for the FCC to develop its privacy rules, said Feld. ''The FCC can run a parallel track for wireless'' privacy rules, if the court strikes down reclassification for that segment of the industry, or try to harmonize wireline and wireless privacy rules at a later point, he said. ''I'm pretty sure the FCC would like there to be a similar set of rules for broadband, from a consumer perspective.''

The privacy rules, which would apply protections for telephone-based customer data under Sec. 222 of the Telecommunications Act of 1996 to the broadband ecosystem, is a particularly sensitive issue for reclassified carriers, the wireless executive said.

Broadband providers now see less information from subscribers than edge providers, such as websites and applications from Amazon Inc. and Google Inc., because so much traffic is now encrypted, yet Title II regulation threatens to impose much more specific rules on the broadband Internet access service (BIAS) industry, the executive said.

FCC approval of final privacy rules probably wouldn't happen before the end of 2016, even on an aggressive timeline, multiple sources said. Broadband industry sources are uncertain about how to position themselves regarding FCC enforcement in the ''gray area'' of privacy as they await those rules.

''It's kind of like stepping out on the pond in the winter after the ice has appeared—will it hold? I think that's what people are doing,'' the wireless executive said. Industry members are testing things in the market and spending significant time reviewing business arrangements with lawyers ''and then guessing at what Wheeler may say or do,'' the executive said. ''That's unfortunate, you don't want to be guessing at this stuff.''

Lobbying Prospects. In the meantime, the telecommunications industry is watching for possible action on Capitol Hill. But little progress on any legislation is likely in an election year, multiple sources said.

Moving legislation in that climate ''is extremely difficult under the best of circumstances,'' public interest lawyer Andrew Schwartzman told Bloomberg BNA. ''Every day that goes by is a day that members of Congress are more focused on the election and less focused on legislation; and it becomes increasingly partisan,'' said Schwartzman, senior counselor at the Georgetown University Law Center Institute for Public Representation in Washington.

There is continued talk of the need to draft some sort of bipartisan ''compromise'' net neutrality legislation that would enshrine the core principles of the rules—no blocking, throttling or paid prioritization—while doing away with the Title II framework.

Members of Congress are also generally believed to be awaiting the results of the court decision before taking any action, further reducing the window for action between then and the presidential election.

The court case won't end the Internet regulation debate on the Hill, nor the negotiations between Sen. John Thune (R-S.D.) and Bill Nelson (D-Fla.), the top lawmakers on the Senate Commerce, Science and Transportation Committee, a GOP committee aide told Bloomberg BNA on background. ''Sen. Thune and Sen. Nelson continue to work together on a legislative alternative that could settle differences and aren't waiting on a judicial decision that may only marginally change various incentives for a bipartisan deal,'' the aide said.

The timeline for any major changes to net neutrality are likely at least a year out, Schwartzman said. ''Everybody will regroup after the election and it will be considered, if at all, in January 2017, based on who's in the White House and who's controlling the Senate,'' he said.

By Lydia Beyoud

To contact the reporter on this story: Lydia Beyoud in Washington at lbeyoud@bna.com

To contact the editor responsible for this story: Keith Perine in Washington at kperine@bna.com

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Patents

Patents

The number of patents being invalidated by the Patent and Trademark Office's Patent Trial and Appeal Board has decreased, but maybe not enough for the board to shed its patent ''death squad'' moniker in 2016. The Federal Circuit will be busy with appeals by patent owners who saw their patents cancelled in federal district courts after a 2014 Supreme Court decision that made inventions implementing abstract ideas unpatentable unless certain conditions were met. Whether stalled federal legislation is revived or not, 2016 will be another tough one for patent owners.

No Remedy in Sight in 2016 to Relieve Patent Owners' Heartburn

Patent owners may be happy to see 2015 in the rear-view mirror, but there is little indication that the attacks against them—primarily from Silicon Valley software giants, generic drug makers and hedge fund managers—will stop in 2016.

The anti-''patent troll'' narrative lost a little steam as legislation that would make it harder to bring patent infringement actions stalled in Congress, but its backers have too much money at stake to let it die completely.

The technology industry is otherwise winning in courts on patent eligibility challenges and at the Patent Trial and Appeal Board (PTAB) against the ''low hanging fruit'' of patents that observers say never should have been granted.

The Federal Circuit could come to patent owners' rescue in 2016. And reports that PTAB cancellation rates are dropping could swing the pendulum from the greater-than-50-percent petitioner success rate in that body.

But early signs from the appeals court suggest that the judges are going to toe the line set in four recent U.S. Supreme Court opinions generally seen as limiting what technologies are eligible for protection under the Patent Act, 35 U.S.C. § 101.

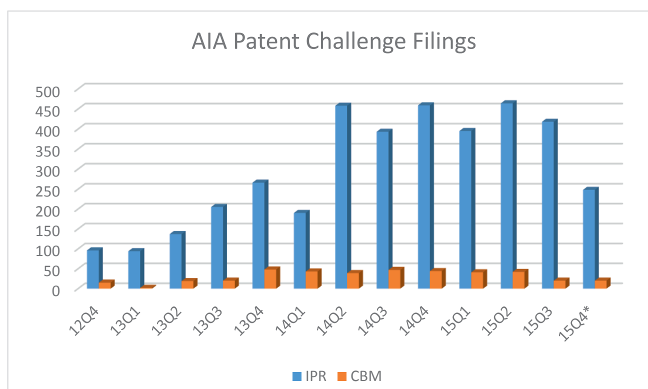
And the PTAB is still bound by language in the America Invents Act (Pub. L. No. 112–29) in chapters 31 and 32 of the Patent Act—that clearly gives alleged infringers a better shot before the board than in district courts.

'Low Hanging Fruit' Stage: Over at the PTAB?

The PTAB had more than 1,600 patent challenges in progress when 2016 began, and observers will be watching to see if patent owners continue to suffer patent claim cancellations that leave little hope of enforcing their claims in courts.

The Patent and Trademark Office set up the rules and procedures for running post-grant opposition proceedings at the PTAB, and complaints of a pro-challenger bias began immediately.

A former Federal Circuit judge dubbed the three-judge PTAB panels ''death squads'' after initial post-America Invents Act results, in 2013, largely went in favor of challengers. It quickly became expected for alleged infringers to bring validity challenges to the PTAB, via petitions for inter partes review, rather than fight ''the presumption of validity'' in court.



Source: Bloomberg BNA

According to data from Bloomberg BNA's PTAB Challenge Navigator, the quarter-to-quarter growth in petition filings leaves little doubt that early petitioner success led to more inter partes review (IPR) and covered business method (CBM) challenges. But many observers contend that the original results represented challenges to the ''low hanging fruit'' of patents that never should have been granted and were being asserted—typically against deep-pocketed high-tech firms unwilling to settle—with vague infringement charges.

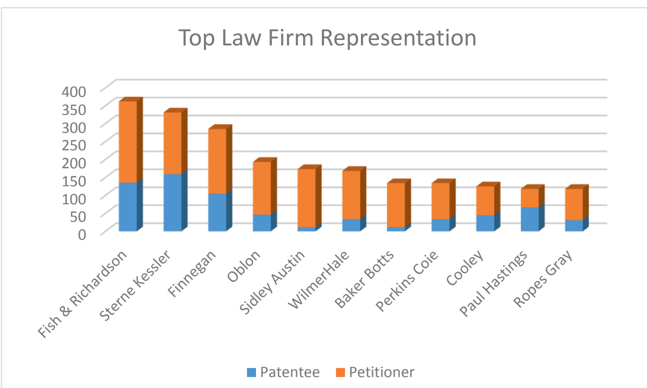
But just because the remaining fruit is higher up doesn't mean the incentive to file has lessened; there is no sign of a let-up for IPRs.

CBM filings started to drop after May, but the most likely explanation is not related to patent quality.

The AIA established the CBM challenge with the idea that the PTO improperly granted patents on such methods in the late 1990s and early 2000s, after the U.S. Court of Appeal for the Federal Circuit's decision in *State St. Bank & Trust Co. v. Signature Fin. Grp. Inc.*, 149 F.3d 1368, 47 U.S.P.Q.2d 1596 (Fed. Cir. 1998). But Congress did not foresee the *Mayo/Alice* aftermath that, for all practical purposes, reduced the success rate for claims of business method patent infringement in district courts to close to zero. The CBM class has largely become ineligible for patenting, regardless of quality.

Thus, CBM, as a tool, is necessary only if a challenge under Section 101 of the Patent Act, 35 U.S.C. § 101, fails in court, and that has not been the case very frequently in the last year or so.

Top Firms, Top Technologies. A total of 38 firms are involved in at least 50 cases before the PTAB, spreading out the representation significantly, based on a BBNA analysis of PTAB data. The top firms are more likely to be representing the petitioner, with the notable exceptions of Paul Hastings LLP and Sterne, Kessler, Goldstein & Fox PLLC.



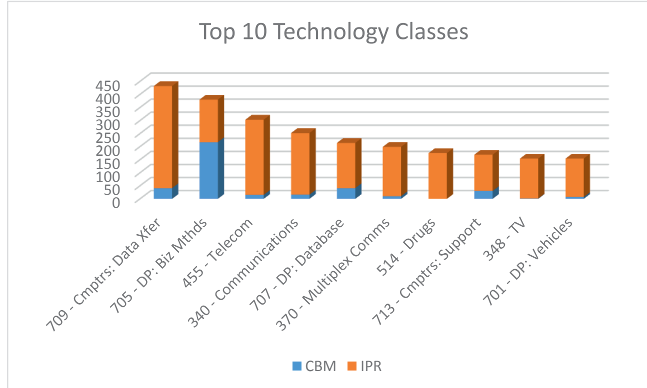
Source: Bloomberg BNA

Fish & Richardson P.C. leads overall and in representing parties involved in IPR petitions; Ropes & Gray LLC leads slightly in representing parties involved in CBM petitions.

The petitions challenge patents in almost every technology, but there are clear high volume targets among the PTO's classification codes.

Class 709—Electrical computers and digital processing systems: multicomputer data transferring—leads the way. As expected, most CBM petitions are directed to class 705—Data processing: financial, business practice, management, or cost/price determination.

Only one drug class code appears on the list. Counting all of technology center 1600—Biochemistry and Organic Chemistry—446 petitions were filed. That is dwarfed by the 1,390 filings in technology center 2100—Computer Architecture, Software, & Information Security—and 1,121 in the ''soft'' computer-related technology centers 2400—Computer Networks, Multiplex communication, Video Distribution, and Security—and 3600, which includes e-commerce.



Source: Bloomberg BNA

''IPRs will become ubiquitous once an infringement complaint is filed, making them, in virtually every case, a way-station to district court enforcement of patent rights—at an added cost of up to a million dollars and up to three years added delay,'' Paul R. Michel, former chief judge of the Federal Circuit, told Bloomberg BNA. ''Many patents will not survive the IPR that would have survived court challenge.''

More than 80 percent of the IPR petitions are filed by alleged infringers. If Michel is right, then the upper ceiling on IPR filings is roughly equal to the number of court cases filed. Patent infringement complaint filings are up, but most studies show that to be more a result of an AIA-created requirement that patent owners file separate lawsuits for separate alleged infringers in most cases.

The only possibility of IPR filings becoming disfavored is if the PTAB starts making more decisions favoring patent owners. Most statistical analyses study the board's final decisions for clues, but those decisions fail to get at the calculation a typical infringer would make. That is, does a PTAB result affect an ultimate court result?

There are several reasons why it may not:

- Two patents may be at issue in court with only one cancelled by the PTAB.

- If most but not all challenged claims are cancelled, the ones that survive might be enough for a patent owner to win in court.

- Multiple alleged infringers may challenge the same patent, but only one has to win. What might look like four out of five PTAB losses could actually be a win for all five parties in court.

One sign that patent owners are starting to get better results is that the number of IPR petitions denied has increased.

Petitions filed in 2014 were denied at a 24 percent rate, well above the 18 percent for petitions filed up to the end of 2013. Actions on petitions filed in 2015 show that 24 percent rate continuing.

There has been an increase in settlements as well, which could be instigated by either party. But settlements after a petition is filed and before the PTAB makes a trial institution decision likely show a patent owner's impetus—trying to avoid a PTAB judgment that puts the patent in doubt for enforcement against parties other than the IPR filer.

In the early months of PTAB review, patent owners possibly believed that they would get as good a result at

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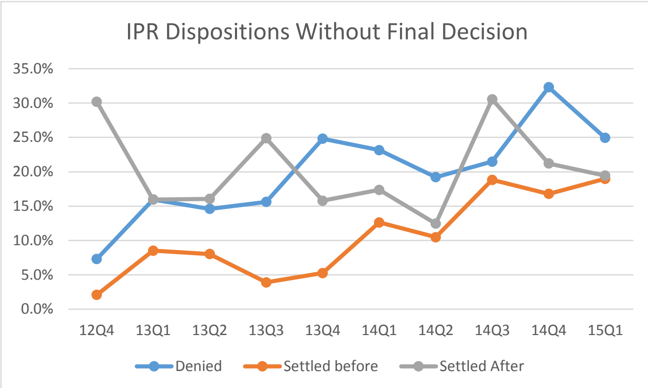

Source: Bloomberg BNA

the PTAB as in court and felt no need to settle. Indeed, the rate of pre-institution settlement was only 5 percent through 2013. As patent owners saw the early results favoring challengers, they, in theory, would be more likely to settle early. And—they did: The rate jumped to 15 percent for petitions filed in 2014, and 19 percent for petitions filed in the first quarter of 2015. The book is not closed on 2015 quarter two, as decisions on 138 petitions were pending as of Dec. 7.

But this is a lagging indicator. Patent owners should be less willing to settle if they sense the tide shifting at the PTAB. And that shift—if it is real—began only about a year ago. The pre-institution settlement figure thus bears watching in the coming months.

Kyle Bass Shake-Up. That is not the end of the story for those predicting the continuing popularity of IPR filings. Another 2015 development could still augur a growth in filings, depending on how the PTAB decides certain cases.

"The USPTO should go one step further and provide as an example of an improper purpose the filing of a petition for the purpose of affecting the price of a patent owner's stock or other securities."

BERNARD J. KNIGHT,
MCDERMOTT WILL & EMERY LLP, WASHINGTON

Hedge fund managers, most notably Kyle Bass, began filing IPRs in February 2015 as a form of ''reverse trolling'': Short the stock of a biopharmaceutical patent-owning company, file the IPR and watch the company's stock price drop as the market suspects the PTAB will cancel the challenged patent's claims.

The PTAB has stated explicitly that the motive behind the filings is irrelevant to its review . For the most part, though, the petitions filed by Bass's Coalition for Affordable Drugs LLC and others are not succeeding in cancelling claims. And there are reports that the actions are no longer impacting stock prices, as investors catch on to the ploy.

Even so, the filings continued through 2015 and are likely to persist in 2016. There is always a possibility that the reverse trollers will begin to show success, prompting another wave of IPR petitions—a possibility that concerns Bernard J. Knight of McDermott Will & Emery LLP, Washington.

Knight wants the PTO to stipulate—in proposed changes to PTAB procedures to be finalized in 2016—that petitions can't be filed for the purpose of affecting a patent owner's stock or securities prices. The PTO has already proposed noncontroversial language requiring petitioners to state that their petitions aren't being presented for any ''improper purpose.''

''This is a step in the right direction to help patent owners who have paid significant sums to secure and enforce their patents,'' the former PTO general counsel said. ''The USPTO should go one step further and provide, as an example of an improper purpose, the filing of a petition for the purpose of affecting the price of a patent owner's stock or other securities. Such a filing is not being made to improve the quality of patents, as the challenger has no interest in whether the patent is actually determined to be valid or invalid.''

Post-Grant Review to Begin. Also interesting in 2016 will be the results of the first PTAB trials on post-grant review (PGR) cases. Under the AIA, PGR challenges on grounds other than IPR are allowed as long as they come within nine months of the patent's issuance. However, only 15 cases have been filed so far, according to a Bloomberg BNA analysis of PTAB statistics. That may stem from a purported ''scrivener's error'' when the AIA was written that makes PGR unappealing because it forecloses arguments in court.

''Any patent reform legislation is likely to include a fix to the estoppel provisions that have made post-grant review proceedings so unappetizing to date,'' said Stuart P. Meyer of Fenwick & West LLP, Mountain View, Calif. Otherwise, prospective challengers may be taking a wait-and-see approach, looking for a success rate that's at least as high as with IPR challenges.

The first PGR trial results are due in June. If those cases go against the patent owners, it will be telling if filings increase after that.

Rule Changes Ahead. The PTO is in the process of changing procedures, for 2016 implementation, that could shift the balance a little more to patent owners. Specific proposals that are pro-patentee are:

- Allowing expert declarations in the patent owner's preliminary response.
- Replacing page limits with word count limits, which allow a more detailed rebuttal to a challenge.

The patent community, however, was not impressed. The PTO didn't propose changes in the two areas that patent owners want changed the most: reviewing the validity of challenged patents under the same standard used in courts, and allowing patent owners a better opportunity to amend their claims (231 DER, 12/02/15).

The Federal Circuit endorsed the ''broadest reasonable interpretation'' (BRI) approach the PTAB takes in a case now presented for Supreme Court review (*Cuozzo Speed Techs., LLC v. Lee*, No. 15-446 (U.S., response in opposition Dec. 11, 2015) (242 DER, 12/17/15) and has deferred to the board on its tough amendment standards. *Prolitec, Inc. v. ScentAir Techs., Inc.*, No. 2015-1020, 2015 BL 398230 (Fed. Cir. Dec. 4, 2015) (234 DER, 12/07/15).

Bills in Congress would have stopped the PTAB from using the BRI standard (see below), but the legislation stalled. It is unlikely patent owners will get relief any time soon.

A separate PTO initiative, one that will be discussed in 2016 but won't take effect until 2017, will result in higher fees for filing petitions (212 DER 212, 11/03/15).

It seems unlikely that will result in a drop in IPR filings, though. The biggest cost to PTAB patent challenges is in the legal fees, not the fees paid to the PTO. The PTO proposed increase, which could in some circumstances reach 40 percent, would not change the economics in favor of a PTAB challenge over a court validity battle.

Only One Supreme Court Case; More From Federal Circuit on Patent Eligibility.

The Federal Circuit appears poised in the coming year to follow recent U.S. Supreme Court standards and affirm a number of district court judgments that patents, particularly those claiming software applications, never should have been granted because they claimed subject matter outside the scope of the Patent Act.

Supreme Court on Patent Eligibility

Bilski v. Kappos, 561 U.S. 593, 2010 BL 146286, 95 U.S.P.Q.2d 1001 (2010) (123 DER A-21, 6/29/10)

Mayo Collaborative Servs. v. Prometheus Labs. Inc., 132 S. Ct. 1289, 2012 BL 66018, 101 U.S.P.Q.2d 1961 (2012) (54 DER A-1, 3/21/12)

Ass'n for Molecular Pathology v. Myriad Genetics, Inc., 133 S. Ct. 2107, 2013 BL 155804, 106 U.S.P.Q.2d 1972 (2013) (115 DER A-1, 6/14/13)

Alice Corp. Pty Ltd. v. CLS Bank Int'l, 134 S. Ct. 2347, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014) (119 DER A-9, 6/20/14)

The Supreme Court dealt a significant blow to patent owners in four decisions—*Bilski*, *Mayo*, *Myriad* and *Alice*—over the last four years on patent eligibility under Section 101.

The PTO interpreted *Mayo* and *Myriad* with guidelines for examiners—arguably expanding the ''law of nature'' and ''natural phenomenon'' exceptions to patent eligibility—that disappointed firms seeking patent protection on inventions in the life sciences.

Federal district courts' interpretations of *Bilski*, *Mayo* and *Alice*—ruling on the ''abstract idea'' exception—have left software patent owners with little hope of defending already granted patents or getting grants of new ones.

All signs show a Supreme Court willing to let the dust settle in courts below in 2016; it ended 2015 denying two petitions for review on the topic (240 DER, 12/15/15).

But the high court did take up one patent issue that it will hear March or April, and the result could help the justices shake their anti-patent owner reputation. If the court reverses the Federal Circuit—which it did unanimously in five cases in 2014—the result would actually favor patentees.

Easier Path to Willful Patent Infringement? On Oct. 19, the court granted petitions for review in two cases with the same topic: Does a patent infringer's ''objectively reasonable'' belief that it didn't infringe negate willful infringement? *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513 (U.S., *review granted* Oct. 19, 2015); *Stryker Corp. v. Zimmer*, No. 14-1520 (U.S., *review granted* Oct. 19, 2015) (202 DER 202, 10/20/15).

With a willfulness finding allowing a district court to treble damages, the answer to that question has significant repercussions.

The Federal Circuit uses the standard set in 2007 in *In re Seagate Tech. LLC*, 497 F.3d 1360, 2007 BL 83845, 83 U.S.P.Q.2d 1865 (Fed. Cir. 2007) (en banc). Under *Seagate*, the appeals court can override a district court's ''enhanced damages'' judgment so long as the appeals court sees merit in the infringer's arguments. It has done just that with more frequency than patent owners would like.

''The current willful infringement standard arguably is in accord with *Octane* already.''

G. Hopkins Guy III,
Baker Botts LLP

With a low chance of enhancing damages, infringers are liable only for compensatory damages. Juries making that calculation often end up awarding what the infringer would have paid had it licensed the technology before it infringed. Some argue that leaves little incentive to negotiate a license, and that the possibility of willfulness trebling the amount creates that incentive.

In April 2014, the Supreme Court told the appeals court to stop overriding district courts' judgments of what is an ''exceptional case''—which leads to an award of attorneys' fees to the prevailing party—in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 2014 BL 118431, 110 U.S.P.Q.2d 1337 (2014)(83 DER A-23, 4/30/14).

The petitioners in the pending case argue that the two issues are similar enough that the high court should overturn Federal Circuit standards on willfulness also.

The result is hard to predict because of an odd relationship between the attorneys' fee shifting and willfulness issues. The court's *Octane* ''exceptional case'' decision favored alleged infringers; aligning willfulness with that decision will favor patent owners.

The patent community's general view that the current high court is somewhat anti-patentee, then, will be tested, although G. Hopkins Guy III of Baker Botts LLP, Palo Alto, Calif., doesn't think the court will perceive a conflict.

''The current willful infringement standard arguably is in accord with *Octane* already,'' he said. ''In the two cases taken up by the court, both involved pre-suit knowledge of the patent where a meritorious defense was mounted at trial. It's unlikely that this conduct will be found to be 'exceptional' under either the new *Octane* standard or *Seagate*.''

Michel predicted no change to the *Seagate* standard from the high court.

''As shown in *Graham [v. Deere]* in 1966 and recently in *Alice*, the court assumes all versions of the patent

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statute merely codify established Supreme Court precedents and thus its judge-made law trumps statutory provisions,'' Michel said. ''Since willfulness long ago was imposed as the basis for enhancing damages by the court itself, the court will decide as if the statute specified willfulness. So the common law approach will result in retaining the status quo, despite *Octane Fitness*.''

Possibilities for 2016 High Court Review. Four other issues seem to be good possibilities for high court review in 2016:

- *Offshore contributory infringement*. The court asked for the government's views—a sign of its serious consideration—in *Life Technologies Corp. v. Promega Corp.* (193 DER, 10/06/15), a case addressing liability for patent infringement related to offshore manufacturing operations.

- *Design patent damages*. Samsung's petition challenging whether Apple should get Samsung's entire profits for infringing smartphone design patents is due in January. The Federal Circuit questioned whether 35 U.S.C. § 289 still makes sense with the multi-component products in the modern economy, but it refused Samsung's request for an apportionment of the profits, limited to the patented design element.

- *Laches*. A Supreme Court decision in 2014 let a copyright holder sue MGM for infringement more than a decade after the infringement began. *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962, 110 U.S.P.Q.2d 1605 (2014)). The full Federal Circuit, in a 6-5 decision, said that patent law is different. *SCA Hygiene Prods. AB v. First Quality Baby Prods., LLC*, 767 F.3d 1339, 112 U.S.P.Q.2d 1198 (Fed. Cir. 2014) (182 DER, 09/21/15). The high court may well be interested if SCA Hygiene Products files for review.

- *PTAB review*. (195 DER, 10/08/15). At issue are (a) when and how the AIA authorizes appellate review and (b) whether the PTAB should review patents using the BRI standard relevant to new patent applications, or the standard relying on the presumption of an existing patent's validity used in district courts.

Assault on Patent Eligibility. The high court has no current plans to tackle the problem most vexing for the patent community—Section 101 patent eligibility as applied to life sciences and computer-related inventions. The focus on that issue shifts to the Federal Circuit in 2016.

> **''This is the legacy of all the harsh rebukes of the Federal Circuit in the six Supreme Court decisions in 2014.''**
>
> JUDGE PAUL R. MICHEL
> FORMER FEDERAL CIRCUIT CHIEF

In December 2014, the appeals court provided patentees and current patent applicants with a reason for hope when it gave its patent eligibility blessing to an improvement in Internet advertising display. *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 2014 BL 342453 (Fed. Cir. 2014) (235 DER A-27, 12/8/14). Otherwise, though, the early appeals of the raft of district court decisions dismissing cases on Section 101 grounds all went against patent owners.

For computer-implemented patents, nothing measured up to *DDR*'s allowance for an invention ''necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.''

In the life sciences area, the most recent post-*Mayo*/*Myriad* setback for DNA patents came in *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, No. 2014-1139, 2015 BL 394898 (Fed. Cir., (en banc) *reh'g denied* Dec. 2, 2015) (232 DER, 12/03/15). Judges Alan D. Lourie, Timothy B. Dyk and Pauline Newman all wrote opinions preferring a standard that would give eligibility to Sequenom's patents. But the first two, at least, said their hands were tied by the high court's rulings.

The Federal Circuit could always find a way of ''under-ruling the Supreme Court,'' as Judge S. Jay Plager said at a recent conference. But former Chief Judge Michel told Bloomberg BNA to expect otherwise in the coming months.

''The Federal Circuit will not limit the reach or impact of the Supreme Court's Section 101 decisions because it feels bound even by dicta in these four cases: *Bilski*, *Mayo*, *Myriad* and *Alice*,'' he said. ''This is the legacy of all the harsh rebukes of the Federal Circuit in the six Supreme Court decisions in 2014''(133 DER C-1, 7/11/14) (see the sidebar for the list, in addition to *Alice*, of unanimous high court decisions reversing Federal Circuit rulings).

Supreme Court's Five 9-0 Reversals in 2014

Highmark Inc. v. Allcare Health Mgmt. Sys., Inc., 134 S. Ct. 1744, 2014 BL 118430, 110 U.S.P.Q.2d 1343 (2014)

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749, 2014 BL 118431, 110 U.S.P.Q.2d 1337 (2014)(83 DER A-23, 4/30/14)

Limelight Networks, Inc. v. Akamai Techs, Inc., 134 S. Ct. 2111, 2014 BL 151636, 110 U.S.P.Q.2d 1681 (2014) (106 DER A-5, 6/3/14)

Medtronic, Inc. v. Mirowski Family Ventures, LLC, 134 S. Ct. 843, 2014 BL 16043, 109 U.S.P.Q.2d 1341 (2014)

Nautilus, Inc. v. Biosig Instruments, Inc., 134 S. Ct. 2120, 2014 BL 151635, 110 U.S.P.Q.2d 1688 (2014).

Robert L. Stoll of Drinker Biddle & Reath LLP, Washington, agreed, but foresaw more involvement from the high court on this issue.

''Judge Lourie's opinion and Judge Dyk's concurrence in denying an en banc rehearing of *Ariosa v. Sequenom*, taken with Judge Newman's dissent, set the stage for a likely grant of cert. from the Supreme Court,'' Stoll told Bloomberg BNA.

Dyk had said in his opinion, ''any further guidance must come from the Supreme Court, not this court,'' so Stoll's prediction seems like a better bet for life sciences patent holders than does further development at the Federal Circuit.

''The earlier cases handed down by the Supreme Court on patent subject matter eligibility were very narrow, and the Court needs to clarify that it never meant to exclude from patentable subject matter revolutionary inventions like those for the less invasive fetal testing methods in the instant case,'' Stoll, the former PTO commissioner for patents, said.

''The Federal Circuit openly expressed concern about the state of patent eligibility and a patent system that denies coverage to valuable innovations such as the diagnostic test in *Sequenom*,'' according to Jennifer Spaith of Dorsey & Whitney, Seattle, who agreed with Stoll.

''It will also be interesting to see if there is a chilling effect on the publication of scientific discovery in fields where those discoveries find immediate use in diagnostics,'' she said. ''If you can't patent a diagnostic based on the discovery, many may choose to keep the discovery secret.''

''Judge Lourie's opinion and Judge Dyk's concurrence in denying an en banc rehearing of *Ariosa v. Sequenom*, taken with Judge Newman's dissent, set the stage for a likely grant of cert. from the Supreme Court.''

—Robert L. Stoll,
Drinker Biddle & Reath LLP

But she acknowledged that these cases on the ''law of nature'' and ''natural phenomenon'' exceptions to patent eligibility seem beyond the appeals court's power to change. On the other hand, computer-related inventions are subject to the ''abstract idea'' exception, Spaith said, and the Federal Circuit has work to do there.

''No definition of abstract idea has really been put forth or settled on,'' she said. ''I expect we will see several lower court decisions receive Federal Circuit review and the area of law will hopefully begin to gain some certainty, which has been totally lacking following the Supreme Court decisions.''

Other Hot Topics in Courts. Other court developments the patent community will watch in 2016 include:

■ *Divided infringement*. Divided infringement occurs when it takes more than one party to infringe. The Federal Circuit changed its standards to allow a greater likelihood that a patent owner can succeed in these cases in *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 797 F.3d 1020, 116 U.S.P.Q.2d 1344 (Fed. Cir. 2015) (en banc) (157 DER, 08/14/15).

■ *Claim construction*. In theory, the high court changed appellate review of a district court's claim construction judgments on Jan. 20, 2015, in *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 113 U.S.P.Q.2d 1269 (2015) (13 DER A-23, 1/21/15). But one would be hard pressed to see a significant difference in the handful of Federal Circuit decisions since. The court's likelihood of deferring to a lower court's rulings remains low. Litigants will be paying careful attention to which judgments are deemed dependent on ''subsidiary fact findings'' worthy of that deference under *Teva*.

■ *Standard essential patents*. A Dec. 3, 2015, Federal Circuit opinion on standard essential patents will be on the radar of practitioners in 2016. The appeals court left room for federal district courts to present new approaches to assessing damages when the defendant—by complying with an industry standard—infringes a patent that is necessary to the standard. *Commonwealth Scientific and Indus. Research Organisation v. Cisco Systems, Inc.*, No. 2015-1066, 2015 BL 396524 (Fed. Cir. Dec. 3, 2015) (233 DER, 12/04/15).

Litigation Reform in an Election Year?

Another push in 2016 for legislation that would dictate how courts handle patent infringement cases is highly likely, because the narrative of ''patent troll'' abuses is still alive and well. But sponsors are still licking their wounds from the setback in 2015.

Supporters of the bills had significant success until the summer recess last year. Their hopes ended in September, after the biopharmaceutical industry threw a wrench into the legislative machinery (137 DER 137, 07/17/15).

Judiciary committees in the Senate and House voted in favor of S. 1137 (108 DER A-12, 6/5/15) and H.R. 9 (113 DER A-42, 6/12/15) in June, but each acknowledged a task still unaddressed: The biopharmaceutical industry demanded that Congress include a provision barring review of their patents in PTAB proceedings. As the committees investigated that possible addition, opposition arose from generic drug firms, and legislative efforts stalled once Congress returned from its August recess (209 DER 209, 10/29/15).

Predictions for revival in 2016 are all over the map. But the longer the bills stay on the back burner, the more opponents are likely to have a strong counterargument that the courts are arguably set in 2016 to fix the biggest problems the legislation aims to address.

Case Management Changes. The bills before Congress would require much more detailed infringement pleading by patent owners and would defer high-cost discovery until cases were well underway. Federal courts are addressing both concerns.

Changes to the Federal Rules of Civil Procedure include making all patent infringement allegations subject to general pleading standards and to rein in excess discovery requests based on a concept called ''proportionality'' (225 DER, 11/23/15).

The court management changes took effect Dec. 1, 2015, and it will take the early months of 2016, at least, for courts to apply them. But the bare-bones pleading of ''Form 18'' is over, and the pleading change has the potential to severely curtail vague and ambiguous claims of patent infringement.

If that happens, the sponsors of the bills in Congress who push the ''patent troll'' narrative will lose a purported justification. They claim that non-practicing entities are suing without a serious hope of winning, just to force a settlement by the alleged infringer.

Furthermore, most observers believe district courts are inclined to clamp down on overbroad discovery re-

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quests and will use proportionality—roughly, the importance of the case—to do so.

Stripped Down Bill? If legislators can be convinced that the courts can handle most of the problems, there appears little of substance left to address:

■ *Loser pays*. H.R. 9, the Innovation Act, would significantly increase the occurrences of patent owners who lose in court paying the attorneys' fees of their alleged infringers. That would likely change the economics of the purported abuse: trolling for a settlement from the alleged infringer, who wants to avoid high litigation costs. With opposition by the trial lawyer lobby, though, the provision had problems from the start.

Furthermore, district courts have been granting fees to the prevailing party in much higher numbers since the Supreme Court eased the standard for shifting fees in the 2014 *Octane Fitness* case. The standard is apparently not generous enough for H.R. 9's supporters, but their argument is even weaker than it was when the legislative push began.

■ *Demand letters and substituting for customers*. Two problems relate to charges of infringement by customers of an off-the-shelf product rather than the manufacturer of the product. The demand letter problem—trolling by mass-mailing threats of lawsuits to users of network routers, copiers, etc.—is not really a litigation issue. The patent community appears generally to be behind stopping this behavior.

The second half of this problem is a ''customer-stay'' provision, allowing the manufacturer to step into a lawsuit against a customer if the infringement charge goes that far. Stakeholders appear in agreement that legislation should include this provision; the debate so far has only been about getting the wording right.

AIA Redux? ''Passage of the Innovation Act remains a top priority of the House Judiciary Committee,'' the bill's primary sponsor, House Judiciary Chairman Robert W. Goodlatte (R-Va.), told Bloomberg BNA. ''The legislation is the product of much bipartisan work and I am proud that it was reported out of the committee by an overwhelming vote and is supported by over 350 groups. The bipartisan nature of the bill makes it an ideal candidate for floor consideration in the coming year.''

''Businesses both big and small continue to be harmed by abusive patent litigation tactics,'' according to S. 1137's primary sponsor, Senate Judiciary Chairman Charles E. Grassley (R-Iowa). He, too, referred to ''strong bipartisan support in the Senate,'' and added, ''I remain hopeful that the bill will be considered by the full Senate in the new year.''

"I predict patent reform legislation will reappear in 2016 despite its being a presidential election year because the proponents of radical reform are so rich, powerful, angry and relentless."

FORMER CHIEF JUDGE MICHEL

What happened last year is reminiscent of what happened in the last round of patent legislation that ultimately led to the 2011 America Invents Act: The courts solved a number of the highest-ranking problems, provisions on those problems were stripped from successive iterations of the bill and, ultimately, the AIA looked nothing like the original.

It took about seven years from the impetus for legislation to eventually pass as the AIA. The two-year path that H.R. 9 and S. 1137 have taken so far may just be the beginning, with various provisions being added, removed or changed before a final compromise is reached.

It is already evident that many pro-legislation stakeholders have backed off H.R. 9 in favor of the Senate's pared down version. Stripping S. 1137 even further—maybe with demand letters and customer-stay provisions only—could be within reach.

Judge Michel said two provisions that have been discussed only peripherally to date could gain traction. He foresaw ''still another stalemate, unless the two sides agree on a narrow bill featuring venue reforms to shut down the Eastern District of Texas as the dominant district and to conform IPR procedures to those applicable in court.''

The venue provision would make it difficult for patent owners to file in that patentee-friendly court. The IPR reference includes, particularly, the elimination of the PTAB's BRI standard noted above.

Legislative aides have told Bloomberg BNA that Congress is unlikely to consider ''minor'' bills like such stripped-down legislation while a presidential race is in progress. Michel disagreed.

''I predict patent reform legislation will reappear in 2016 despite its being a presidential election year because the proponents of radical reform are so rich, powerful, angry and relentless,'' he said. ''They may also calculate that their chances will decrease in 2017, regardless of the election outcome.''

Another Wild Card? There is another wild card that, if introduced, would stir even more debate.

The possible addition on the horizon—one that could placate the biopharmaceutical stakeholder community—would call for a legislative change to Section 101 to override *Mayo* and *Myriad*. The issue was featured for discussion in October at the annual American Intellectual Property Law Association conference (206 DER 206, 10/26/15).

Such a change in the law would make it more likely that life sciences patents, at least, would be deemed eligible under Section 101. A stronger push from those interests to include it in the next version of patent legislation seems likely even though that could revive the high tech versus biopharmaceutical narrative that stalled the AIA.

The cheers for patent ineligibility decisions in light of *Bilski* and *Alice*—as to computer-related inventions—have mostly been coming from Silicon Valley. Crafting language that would please both biopharmaceutical and high-tech interests was elusive in the AIA debate, and it's unclear how the current bills' sponsors would have less difficulty.

Intertwined with Trade Secrets Bill. Finally, one other wrinkle may have an impact. As Goodlatte noted, leadership in Congress may want a bipartisan bill on intellectual property, but it doesn't necessarily have to be a patent bill.

"The Defend Trade Secrets Act (DTSA) likely will make it to a full vote early next year, and could result in new federal protection of trade secrets via civil actions," Fenwick's Meyer predicted.

In fact, the Senate Judiciary Committee is poised to move forward on the bill, with a markup scheduled when it first meets in 2016 .

The question, then, is whether the DTSA, if passed into law, will serve as Congress' main IP offering for 2016, or if patent legislation sponsors will keep pushing anyway, seeking patent bill support in return for their backing of the less controversial DTSA.

By Tony Dutra

To contact the reporter on this story: Tony Dutra in Washington at adutra@bna.com

To contact the editor responsible for this story: Mike Wilczek in Washington at mwilczek@bna.com

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Privacy

Privacy

Recent terrorist attacks could spur legislation this year to address the government's ''going dark'' problem, in which criminals or terrorists are able to avoid being tracked down when they use encrypted communications made available to consumers by technology companies. But any proposals to weaken encryption may face an uphill battle, even if recent attacks have shifted the political environment, observers say. While some lawmakers may seek to increase government surveillance, others may try to pass privacy bills, such as stalled legislation to update the Electronic Communications Privacy Act of 1986. But privacy advocates will probably be pinning their hopes instead on initiatives beyond Capitol Hill, such as a sweeping data protection proposal awaiting a vote by the European Parliament and an upcoming broadband privacy rulemaking at the Federal Communications Commission.

Looming Privacy Battles Include Renewed Encryption Debate

The new year is shaping up to be one full of privacy battles, including a potential fight in Congress over whether technology companies should be forced to assist the U.S. government with unlocking encrypted communications to track down criminals and terrorists.

The encryption debate could pit national security hawks on Capitol Hill such as Sen. Dianne Feinstein (D-Calif.) against privacy advocates and Silicon Valley. There could also be fireworks this year around a sweeping data protection proposal moving forward in the European Union and an upcoming broadband privacy rulemaking at the Federal Communications Commission.

Encryption Debate Reignited. The technology sector and the privacy community will be closely watching to see what, if anything, Congress does on encryption this year in the wake of terrorist attacks in Paris and San Bernardino, Calif.

''The recent attacks have obviously reignited this debate,'' Robyn Greene, policy counsel at New America's Open Technology Institute, told Bloomberg BNA. ''We've done a lot of work on this already and will continue to advocate for strong encryption. That will probably be one of our biggest priorities on the privacy and cybersecurity front.''

Industry groups such as the Computer and Communications Industry Association (CCIA), the Software and Information Industry Association and the Information Technology Industry Council are part of the debate as well.

At stake for the technology industry is the potential loss of consumer trust, if companies are forced to weaken encryption, according to Bijan Madhani, public policy and regulatory counsel for CCIA, which lobbies on behalf of Google Inc., Facebook Inc. and other leading technology companies.

The industry is still trying to repair damage caused by 2013 revelations about controversial National Security Agency surveillance access to massive amounts of phone and Internet data, Madhani told Bloomberg BNA.

The CCIA and other groups also worry that any efforts to weaken encryption could compromise the security of technology products and services.

The Obama administration wants technology companies to ensure that government officials can access encrypted communications anytime a lawful court order is presented. The government's concern is that criminals and terrorists will be able to use encrypted communications to avoid being tracked down—the so-called ''going dark'' problem.

''Lots of good people have designed their systems and their devices so that judges' orders cannot be complied with for reasons that I understand,'' FBI Director James Comey told lawmakers at a hearing in December. ''I'm not questioning their motivations. The question we have to ask is: Should they change their business model? That is a very, very hard question—lots of implications to that. We have to wrestle with it because of what's at stake.''

Companies such as Apple Inc. and Google incorporated stronger encryption in their products after government spying programs were exposed by Edward

Snowden, a former employee of a government contractor.

The administration decided in October not to pursue legislation, opting to have discussions with industry instead. But those conversations continue, with no immediate signs of a resolution. That's worrying some on Capitol Hill, particularly in light of the Paris attacks.

Possible Legislation. Feinstein, the top Democrat on the Senate Intelligence Committee, is among the members of Congress who are weighing legislative action.

Any proposals to increase government surveillance may face an uphill battle, even if recent attacks have shifted the political environment to some degree, observers said.

In a related effort, Sen. Tom Cotton (R-Ark.) has introduced a bill (S. 2344) that would roll back provisions of the USA Freedom Act, a government surveillance overhaul law enacted by Congress last year in response to the Snowden revelations. Co-sponsors of the bill include Senate Majority Leader Mitch McConnell (R-Ky.) and Sen. Marco Rubio (R-Fla.), who has raised the issue in his bid for the 2016 Republican presidential nomination. Among other changes, the Freedom Act reined in the government's access to U.S. phone customer records and other data.

On the flip side, some lawmakers are pushing to provide Americans with new data privacy protections through measures such as legislation to update the Electronic Communications Privacy Act of 1986. But it's unclear how much progress will be made on that front in 2016.

''Like with most things in an election year, it's going to be hard to get anything significant through Congress,'' said Christopher Wolf, director of the privacy and information management practice at Hogan Lovells LLP.

EU Developments. John Simpson, privacy project director for Consumer Watchdog, said that Congress has been largely unproductive on privacy—particularly when it comes to regulating business practices such as the tracking of consumers' online activity for marketing purposes—and that's unlikely to change much in the year ahead.

''I'm not terribly optimistic,'' he told Bloomberg BNA. Recent privacy developments in Europe are more encouraging, he said.

EU negotiators in December concluded nearly four years of talks on final text of a new data protection regulation, provisionally agreeing that companies that violate privacy rules could pay fines of as much as 4 percent of their global revenue.

''This may cause U.S. companies to be more privacy conscious in Europe, which could spill over into the U.S.,'' Simpson said.

The agreement is expected to be put to a vote by the full European Parliament early in 2016 and to enter into force within two years.

The proposal includes previously agreed-upon provisions on data portability, data breach notification and a supervisory system based on the concept of the ''one-stop-shop,'' meaning that EU data subjects can make complaints to their national data protection authority, which will work with other authorities to resolve the complaint, even if it concerns a data processor in another EU country.

A ''right to be forgotten'' principle was also included in the regulation, meaning that companies would be obligated to delete individuals' personal data from the Internet upon demand, provided there are no legitimate grounds for retaining the information.

Negotiators also inserted provisions allowing parents to exercise control over the processing of the data of their children. EU member states would be allowed to set the age at which parental consent is required, up to age 16.

Under another provision, data protection officers would have to be appointed by companies handling significant amounts of sensitive data or monitoring the behavior of many consumers. Small and medium-sized companies would be exempt, so long as data processing was not their core business activity.

''The broad extension of jurisdiction by the EU over U.S. online companies, the right to be forgotten and the potential limitation on use of Internet sites by kids under 16 are the most troubling aspects of the proposal, although there are many other troubling aspects,'' Wolf said.

D. Reed Freeman, co-chairman of the cybersecurity, privacy and communications practice at Wilmer Cutler Pickering Hale and Dorr LLP, said the proposed fines are especially significant.

U.S. Regulators to Be Active. A privacy initiative at the Federal Communications Commission is also seen as a potential game changer. The agency is poised this year to move forward with a major broadband privacy rulemaking promised by Chairman Tom Wheeler.

''They haven't tipped their hand as to the particulars, but what we do know is that we've seen an FCC that has been enormously interested and active when it comes privacy issues on the enforcement side,'' Janis Kestenbaum, a partner in the privacy and security practice at Perkins Coie LLP, told Bloomberg BNA. ''That's making everybody expect a pretty aggressive broadband privacy proposal.''

The FCC's upcoming rulemaking is viewed as one of multiple signals that the agency wants to be an active privacy cop. The commission has been ramping up its data privacy and security enforcement. Jonathan Mayer, a well-known privacy advocate, recently became the chief technologist for the agency's enforcement bureau.

''We're seeing this awakening of the FCC as an active enforcer on privacy issues,'' Steve Augustino, a partner in the communications practice at Kelley Drye & Warren LLP, told Bloomberg BNA. ''That's been a trend for the last year or so. I think it's going to continue, if not accelerate.''

Meanwhile, the Federal Trade Commission, which has a long track record of privacy enforcement, is facing a pivotal test case this year.

In November, FTC chief administrative law judge D. Michael Chappell ruled against the agency in a data security action against LabMD Inc. (*In re LabMD, Inc.*, F.T.C. ALJ, No. 9357, *case dismissed*, 11/13/15). In dismissing the case, the judge said the FTC failed to show that the company's allegedly lax data-security practices caused harm to consumers. FTC staff has appealed the decision to the agency's commissioners.

The ruling—if it stands—could potentially narrow the instances in which the FTC can pursue data privacy and security actions.

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"It's a very important case," said Kestenbaum, a former senior legal adviser to FTC Chairwoman Edith Ramirez. "The FTC commissioners will weigh in. If they disagree with the ALJ, it could very well go to a court of appeals."

The FTC will probably remain a vigorous privacy enforcer, even as the LabMD case continues to play out, according to Freeman.

The agency's data privacy and security enforcement program relies heavily on Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive practices.

"I think they're going to continue their current program and perhaps step it up," Freeman told Bloomberg BNA.

In a related case, the U.S. Court of Appeals for the Third Circuit held last year that the FTC has authority under the unfairness prong of Section 5 to take a data security enforcement action against hotelier Wyndham Worldwide Corp. (*FTC v. Wyndham Worldwide Corp.*, 3d Cir., No. 14-3514, 8/24/15). That case was subsequently settled.

FCC Privacy Rulemaking. With its upcoming rulemaking, the FCC is expected to spell out what steps Internet service providers should take on consumer privacy under Section 222 of the Communications Act. The rulemaking was expected last fall, but that timeline has slipped.

Industry stakeholders have mixed feelings about the prospect of new FCC privacy rules.

On one hand, specific standards would offer greater certainty than what is currently in place—a vague May 2015 enforcement guidance requiring ISPs to take "reasonable, good-faith" steps to protect the privacy of customer data, according to Augustino.

"That guidance wasn't too comforting to me, at least as someone who advises companies in this area," Augustino said. "As a practitioner, I would prefer a world of rules that I can advise people on rather than a broad, general standard like good-faith steps."

On the other hand, a potential worry for the ISP industry is that the FCC could propose a much stricter privacy regime requiring companies to dramatically overhaul their customer data-handling practices.

FCC Privacy Enforcement Highlights

The FCC's Enforcement Bureau has significantly ramped up its privacy and data security efforts under the leadership of Bureau Chief Travis LeBlanc, a trend that is expected to continue in 2016. Following are highlights of the agency's growing enforcement work in this area:

$595,000

Nov. 2015 Cox Communications Inc. agreed to pay $595,000 to settle an investigation into a 2014 data breach, marking the FCC's first privacy and data security enforcement action against a cable operator.

$25 million

April 2015 AT&T Services Inc. agreed to pay $25 million to resolve an investigation into data breaches tied to a cell phone unlocking scheme operated through the company's international call center contractors.

$10 million

Oct. 2014 The FCC announced plans to fine two phone companies, TerraCom Inc. and YourTel America Inc., a combined $10 million for failing to protect their customers' personal data online. The case marked the first time the FCC took the position that carriers are required under Section 201 of the Communications Act to employ "reasonable" data security practices and to notify consumers in the event of a breach.

$7.4 million

Sept. 2014 Verizon Communications Inc. agreed to pay $7.4 million for failing to notify customers that they could opt out of having their personal information used for marketing purposes.

A BNA Graphic/enfo16g1

A key question, for example, is whether the commission will propose that opt-in permission be obtained from customers before their personal data can be used to deliver targeted advertising.

"I think industry would view that kind approach as unnecessary and overly restrictive," Augustino said. "I don't think they would view it as comporting with the customer's expectations."

Also, if ISPs such as AT&T Inc. are subjected to an opt-in regime, they would potentially be left at a competitive disadvantage in the delivery of targeted marketing compared with website operators such as Google Inc., which would still be free to employ an opt-out approach.

"I suspect the FCC may propose some higher standards for ISPs than exist for other players, which could raise concerns about whether there's an even playing field," Kestenbaum said.

The commission's attempt at privacy rules stems from a 2015 Open Internet Order that reclassified broadband ISPs as common carriers subject to Title II of the Communications Act. Section 222 of the law imposes data privacy requirements on telecommunications carriers.

ISPs have challenged the reclassification decision at the U.S. Court of Appeals for the District of Columbia Circuit, which is expected to issue its ruling in the first few months of the year (*United States Telecom Assoc. v. FCC*, D.C. Cir., No. 15-1063, *oral argument*, 12/4/15).

Internet of Things on FTC Agenda. Besides moving forward with the LabMD case, the FTC's privacy agenda this year is expected to include continued scrutiny of the emerging "Internet of Things" market for possible enforcement actions.

The FTC announced such a case in September 2013. TRENDnet Inc., which markets video cameras designed to allow consumers to monitor their homes remotely, settled FTC charges that the company's lax security practices exposed the private lives of hundreds of individuals to public viewing on the Internet (*In re TRENDnet, Inc.*, , FTC, No. 122 3090, *final order*, 1/6/14).

"I think it's safe to say there will be more cases of that ilk in the future," Maneesha Mithal, associate director of the agency's Division of Privacy and Identity Protection, told Bloomberg BNA.

The commission is also expected this year to issue a report on how "big data" is impacting U.S. consumers, particularly low-income populations.

The agency will be helping the Commerce Department finalize an agreement with the European Union to replace the U.S.-EU Safe Harbor framework, a key data transfer program that was invalidated by the European Court of Justice (ECJ) last year. Negotiators are under pressure to announce a deal by the end of January, when EU data protection authorities have said they will start to enforce the ECJ's ruling if no replacement agreement is in place.

"This is a hugely important issue for U.S. businesses," Wolf said. "There are thousands of companies that relied on the Safe Harbor framework."

The invalidation of the Safe Harbor—which permitted transfers of personal data controlled in the EU to the U.S. on the basis that participants complied with principles similar to those in the EU Data Protection Directive (95/46/EC)—affected some 4,400 U.S. companies certified in the program.

Assuming an agreement is reached, that won't necessarily be the end of the story, observers said.

"There could certainly be more court challenges in Europe," Kestenbaum said. "Some may or may not feel the new Safe Harbor system is adequate or sufficient under EU law. In addition, the ECJ decision gives individual data protection authorities the ability to take a look at the new agreement and decide whether they think it's adequate in adjudicating individual privacy complaints."

Congressional Outlook. In light of concerns raised in Europe, Congress is under pressure to quickly pass legislation that would extend to foreigners the right to seek civil damages for unauthorized disclosures of personal information under the U.S. Privacy Act. The House has passed such a bill (H.R. 1428), dubbed the Judicial Redress Act. But a Senate version (S. 1600) is still pending before the Senate Judiciary Committee. The panel is expected to take up the measure in early 2016.

Observers are also waiting to see whether lawmakers will finally move forward with legislation to overhaul the Electronic Communications Privacy Act (ECPA), which governs law enforcement access to electronic communications. Technology companies and privacy advocates strongly support stalled bills (H.R. 699, S. 356) that would update the 30-year-old statute by establishing a uniform warrant requirement for stored communication content. But the legislation has prompted concerns from law enforcement community stakeholders such as the Securities and Exchange Commission.

"That continues to be a significant issue that could block reform," Wolf said. "I think the outlook is potentially better for Judicial Redress. It's an easier give for Congress, I think, than an ECPA overhaul."

The outlook is also murky for legislation to establish national data breach notification standards. Lawmakers have struggled for years to reach agreement on such legislation.

By Alexei Alexis

To contact the reporter on this story: Alexei Alexis in Washington at aalexis@bna.com

To contact the editor responsible for this story: Keith Perine at kperine@bna.com

Social Media

Social Media

This year is shaping up as a year of increased enforcement by the Federal Trade Commission and the Food and Drug Administration against misleading advertising on social media. The agencies already have issued numerous warning letters over companies' marketing practices. Recently updated FTC guidance on advertising is a signal that more enforcement is in the offing. The Consumer Financial Protection Bureau, meanwhile, appears ready to follow suit. Advertisers will have to be mindful of relevant federal rules to withstand any increased scrutiny by watchful regulators.

Federal Agencies Train Spotlight on Social Media Ads

Federal regulators are poised to ramp up their policing of marketing on social media in 2016, causing more headaches for advertisers.

The Federal Trade Commission and the Food and Drug Administration are already active in the space, and the Consumer Financial Protection Bureau (CFPB) is showing signs of following suit.

In recent years, the FTC and FDA have written or drafted guidelines and issued dozens of warning letters about marketing activities. Now, advertising attorneys—who tell Bloomberg BNA that the FTC's updated guidance on social media endorsements is a sure sign of heightened enforcement to come—expect both agencies to step up efforts, joined by the CFPB.

Increased enforcement usually follows new guidance, according to Andrew Lustigman, a partner at Olshan Frome Wolosky LLP in New York. ''The FTC telegraphs that it will bring increased enforcement in a given area after first announcing guidance, potentially bringing one or more enforcement actions to demonstrate that the agency is serious,'' he told Bloomberg BNA.

An FDA spokesperson told Bloomberg BNA that the agency couldn't speculate on future actions, except to say that it may send a warning letter to a company or impose an injunction if a product promotion results in a violation of a statute or regulation. An FTC spokesperson declined to comment on that agency's specific enforcement agenda. The CFPB did not respond to requests for comment.

Advertisers using social media must, under FTC rules, disclose any facts necessary to ensure their claims are accurate, honest and not misleading, including disclosing the existence of any material connection between an endorser and the product or its seller.

To avoid warning letters and possible enforcement actions, companies should review their social media advertising campaigns and remove content inconsistent with FTC rules, and advertisers should make reasonable efforts to monitor all endorsers who post on their behalf.

"I would expect stepped up enforcement against non-compliant sponsored social media posts to be around the corner."

ANDREW LUSTIGMAN,
OLSHAN FROME WOLOSKY LLP

Social media marketers must be prepared for heightened federal scrutiny, said Bloomberg BNA's Social Media Law & Policy Report Board Member Marc Roth, a partner at Manatt Phelps & Phillips LLP in New York. ''The FTC is on the beat, and it is actively looking at every industry,'' he said.

Fresh Guidance Heralds Enforcement Activity. The FTC updated its ''Frequently Asked Questions'' on social media endorsements last May, underscoring the need for advertisers to disclose all material connections between advertiser and endorser on social media platforms such as Twitter, Facebook, Pinterest and YouTube (106 DER A-14, 6/3/15).

So far, the FTC and FDA have been the most active agencies watching social media marketing. The FTC has charged numerous companies over the past few years with deceptive social media practices. The FDA has issued 24 warning letters in the past three years, challenging promotional claims for FDA-regulated products on Facebook and other social media sites.

Although the CFPB has not yet taken action directly related to social media marketing, Anthony DiResta, a partner at Holland & Knight in Washington D.C., told Bloomberg BNA that he expects that agency—which looks into all forms of deceptive advertising by financial services companies—to begin scrutinizing social media as well.

FTC Timeline

May 29, 2015
FTC updates its FAQs to address the challenges of making disclosures on specific social media platforms, including Twitter, Facebook, Pinterest and YouTube.

June 23, 2010
FTC publishes an informal, frequently asked questions page on the guides, addressing general questions involving bloggers and social media.

Oct. 5, 2009
FTC revises the guides to ensure they apply to new media formats, such as blogs and social media.

Jan. 18, 1980
FTC adds to the guides three new sections on general considerations, consumer endorsements and disclosures of material connections.

May 21, 1975
FTC issues the "Guides Concerning the Use of Endorsements and Testimonials in Advertising," with regard to ads found on TV, in print, radio and word-of-mouth marketing.

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FTC Officials Speak Out. Following the FTC's new guidance, top agency officials publicly highlighted the commission's interest in social media marketing practices.

On Dec. 22, the FTC issued an enforcement policy statement and accompanying guidance on native advertising and in what scenarios disclosures may be necessary to avoid deception. The term ''native advertising'' refers to advertising that mimics the medium in which it is distributed. Examples cited by the FTC include advertising that appears to be news on social media platforms, or advertising that is embedded in social media content such as in a YouTube video.

On Nov. 16, the FTC announced in its fiscal year 2015 financial report that it will continue in 2016 to bring enforcement actions against deceptive advertisements in social media. The agency said it would prioritize investigating the use of false online reviews, undisclosed material connections with reviewers, and prohibitions on negative reviews.

On Oct. 6, FTC Bureau of Consumer Protection Director Jessica Rich told a Word of Mouth Marketing Association gathering that the FTC will continue in 2016 to focus on social media endorsements, as consumers are increasingly becoming enlisted in social media campaigns to tout products. ''In general, when there are material connections (like payment) between a marketer and an endorser, they must be disclosed clearly and prominently,'' Rich said.

''It's pretty clear that the FTC now accepts social media marketing as an integral part of its agenda,'' said DiResta.

Peter Brody, a partner at Ropes & Gray LLP in Washington D.C., echoed DiResta's sentiment. ''The FTC has really been warning the industry for a while,'' he told Bloomberg BNA.

DiResta and Brody are advisory board members of Bloomberg BNA's Social Media Law & Policy Report.

FDA Enforcement Also Signals Increase. Advertisers in regulated industries should also check their marketing efforts against guidance from the FDA, said Benjamin M. Zegarelli, a partner at Epstein Becker Green P.C. in New York.

''The presence of social media guidance means that the FDA is watching promotional communications closely,'' Zegarelli told Bloomberg BNA Dec. 2. ''The FDA's monitoring is certain to continue as promotional communications over social media become more prevalent, leading to a likely increase in enforcement letters addressing company communications on social media,'' he said.

On Aug. 7, 2015, the FDA sent a warning letter to drugmaker Duchesnay Inc. over Kim Kardashian's social media post that endorsed the morning sickness drug Diclegis. The paid endorsement was false or misleading, the FDA asserted, because it failed to communicate risk information associated with the drug's use. The FDA asked the drug company to stop what the agency called misbranding of the drug and to submit a plan of action to disseminate corrective advertising. Following the warning, Kardashian posted corrective statements on Instagram, Facebook and Twitter with the hashtag #CorrectiveAd.

The FDA's warning letter sent a signal that the agency will be vigorously enforcing social media marketing practices, and that brands should be actively monitoring their endorsers' social media posts, Lustigman said.

Zegarelli said the FDA will continue to watch social media closely in the new year.

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"We have no reason to believe the FDA will slow down issuing warning letters generally around violative promotional claims made in the context of social media."

NIKKI REEVES, KING & SPALDING

"The FDA will not hesitate to bring enforcement actions against companies that use social media platforms in ways that are inconsistent with the FDA's traditional limitations on product promotion," he said.

In Congress, Rep. Billy Long (R-Mo.) introduced legislation May 22 that would require the FDA to issue up-to-date regulations on the dissemination of information about medical product information on social media. The bill, H.R. 2479, is pending in the House Energy and Commerce Committee.

Advertisers Should Watch CFPB Too. Advertisers should also study the social media guidance released by the Federal Financial Institutions Examination Council (FFIEC), DiResta said. The FFIEC is an interagency body empowered to prescribe uniform principles and standards for the Consumer Financial Protection Bureau.

The CFPB's recent crackdown on marketing services agreements is a sign that the agency will soon turn its attention to violations of the FFIEC's social media guidance, Debbie Hoffman, chief legal officer of Digital Risk in Maitland, Fla., told Bloomberg BNA.

FTC Enforcement Over Disclosure of Material Connections

- App maker who failed to disclose his connection with the company in promoting his research must stop representing that the app is backed by science and must make the required disclosures in the future (*In re Carrot Neurotechnology, Inc.*, FTC , No. 142 3132, consent order accepted 9/17/15) (See previous story, 09/18/15).
- Online entertainment network must refrain from posting YouTube videos by paid "influencers" endorsing an Xbox game console (*In re Machinima Inc.*, FTC, No. 142 3090, consent order accepted 9/2/15) (See previous story, 09/03/15).
- Video game company and its advertising agency must disclose the material connection between any endorser of its PlayStation game console (*In re Sony Computer Entertainment America LLC*, FTC, No. C-4514, final order issued 3/24/15, *In re Deutsch LA, Inc*, FTC, No. C-4515, final order issued 3/24/15) (62 DER A-29, 4/1/15).

"That enforcement will naturally lead to a ripple effect of enforcement over social media," Hoffman said.

The CFPB has jurisdiction over banks, credit unions and other financial service providers. However, it would be a good idea even for companies outside the CFPB's jurisdiction to study the agency's actions, DiResta said. Its guidance serves as a broad "communications policy" that ensures all communications made on behalf of a company are accurate, transparent and compliant with all consumer protection regulations, he said.

"I would not be surprised in 2016 if the government—both the FTC and the CFPB—looks for more rigorous policies concerning their advertising compliance during investigations and supervisory examinations," he said.

Steps Marketers Can Take Now. Enforcement activity related to social media marketing has come in the form of warning letters from either the FDA alone or, in some instances, jointly from the FDA and FTC.

According to Kristi Wolff, special counsel at Kelley Drye & Warren LLP in Washington D.C., the FTC commonly engages in private investigations of a company's advertising, including advertising on social media platforms. It will file enforcement actions in cases of deceptive commercial practices. Settlements in enforcement actions provide good guidance for the entire industry.

"I would not be surprised in 2016 if the government—both the FTC and the CFPB—looks for more rigorous policies concerning their advertising compliance during investigations and supervisory examinations."

ANTHONY DIRESTA, HOLLAND & KNIGHT

For example, the FTC obtained in September a settlement order barring a video game advertiser from posting YouTube videos by paid influencers endorsing the Xbox One system without disclosing the material connection (See previous story, 09/03/15).

In the XBox One case, the settlement order directed the advertiser to clearly and prominently disclose all material connections between an endorser and the advertiser in future influencer campaigns. It also ordered the advertiser to establish, implement and maintain a system to monitor its endorsers' disclosures and to conduct a review of any endorsement prior to compensating the influencer. The advertiser must continue to monitor the endorsements after they have been posted and conduct a second review within a 90-day time frame.

Wolff said that, over the last 18 months, there has been an increase in industry-wide or issue-specific warning letters from the agency. Last year, the FTC—in an initiative called "Operation Full Disclosure"—sent warning letters to more than 60 companies that allegedly failed to make adequate disclosures in their television and print advertising (185 DER A-15, 9/24/14). Companies can expect an increase in investigations over social media advertising practices as well, she said.

Wolff said these government efforts are likely to continue.

Nikki Reeves, a partner at King & Spalding in Washington D.C., told Bloomberg BNA that she expects the FDA to continue issuing warning letters in the new year. ''We have no reason to believe the FDA will slow down issuing warning letters generally around violative promotional claims made in the context of social media,'' she said.

''The FTC is on the beat, and it is actively looking at every industry.''

MARC ROTH, MANATT PHELPS & PHILLIPS LLP

Companies with robust advertising review processes review all content before posting to social media, Wolff said. ''Companies that aren't reviewing social media content as part of their regular advertising review processes should start doing so and work on removing content that is not consistent with current guidance,'' she added.

Advertisers should start to make more disclosures and better distinguish between sponsored and unsponsored content, Wolff said.

Both companies and advertisers should also monitor their endorsers to ensure the required disclosures are being made. According to FTC guidance, the activity of a rogue blogger would not likely be the basis of an enforcement action if a company has a reasonable training and monitoring program in place.

Updates to FTC Guidance. Section 5 of the FTC Act, 5 U.S.C. § 45, prohibits unfair or deceptive acts or practices in or affecting commerce.

The FTC's 2009 Guides Concerning the Use of Endorsements and Testimonials in Advertising address the application of this provision to the use of endorsements in advertising. The guides provide, among other things, that endorsements must reflect the honest opinions of the endorser and that any material connection to an advertiser must be disclosed when such a relationship is not apparent from the context of endorsement.

The FTC returned to the topic of endorsements in May 2015, this time with an emphasis on endorsements made on social media platforms. The agency said that a disclosure should be in a place where the majority of the intended audience will notice it. Individuals who are part of a paid campaign to promote a product likely need to disclose that fact when pinning a photo, sharing a link, or even clicking a ''like'' button. Because Facebook's ''like'' button doesn't offer space for a clear and conspicuous disclosure of a connection between the advertiser and the endorser, the use of paid endorsers to ''like'' a product could be misleading, the agency said in its updated guidance.

Lustigman said that, as a result of the FTC's guidance update, he expects the agency to rev up enforcement against endorsements made without the proper disclosures. ''I would expect stepped up enforcement against non-compliant sponsored social media posts to be around the corner,'' he said.

Guidance From FDA, FFIEC. Congress in 2012 directed the FDA to issue guidance on product promotions via social media, passing the Food and Drug Administration Safety and Innovation Act. Section 1121 called on the FDA to issue guidance on social media advertising.

''The FDA's monitoring is certain to continue as promotional communications over social media become more prevalent, leading to a likely increase in enforcement letters addressing company communications on social media.''

BENJAMIN M. ZEGARELLI, EPSTEIN BECKER GREEN P.C.

The FDA released draft guidance on social media in 2014 (117 DER A-7, 6/18/14). It recommended that, on character- and space-limited media, the content of the risk information should—at a minimum—include the most serious risks associated with the product. Manufacturers should also include in their communications a direct hyperlink to a Web page devoted exclusively to the communication of risk information.

The FDA is planning to issue new draft guidance on the use of hyperlinks to third-party websites in social media product promotion, according to its 2015 guidance agenda.

The FFIEC's guidance, issued in 2013, recommends that financial institutions take steps to ensure that their social media advertising complies with all existing laws, including Section 5 of the FTC Act. Companies should ensure the information they communicate on social media is accurate, consistent and not misleading, according to the FFIEC.

The guidance also provides that, because employee communications via social media may be viewed by the public as reflecting the employer's official policies, companies should establish internal rules to ensure employees make all legally required disclosures.

BY ALEXIS KRAMER

To contact the reporter on this story: Alexis Kramer in Washington at akramer@bna.com

To contact the editor responsible for this story: Thomas O'Toole at totoole@bna.com

The FTC's endorsement guides are available at https://www.ftc.gov/sites/default/files/attachments/press-releases/ftc-publishes-final-guides-governing-endorsements-testimonials/091005revisedendorsementguides.pdf.

The FFIEC's social media guidance is available at https://www.ffiec.gov/press/PDF/2013_Dec%20Final%20SMG%20attached%20to%2011Dec13%20press%20release.pdf.

The FDA's draft social media guidance on benefit and risk information is available at http://www.fda.gov/downloads/Drugs/GuidanceComplianceRegulatoryInformation/Guidances/UCM401087.pdf.

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Spectrum Auctions

Spectrum Auctions

A Federal Communications Commission auction of prized spectrum previously licensed to television broadcasters promises to have broad ramifications for the broadcast and wireless industries in 2016. Early in the year, the agency will work out some of the last remaining technical details ahead of a March 29 auction kickoff. Telecommunications industry watchers expect modest returns for a complex, two-part auction that will help shape the future of U.S. mobile competition. It is unclear how quickly broadcast spectrum can be cleared for mobile use, an issue likely to be the focus of congressional lobbying and industry discord.

Broadcast, Wireless Industries Eye 2016 Spectrum Auction

After years of planning, the Federal Communications Commission—in an effort to free up more spectrum for broadband Internet—will for the first time conduct an auction in which television broadcasters will hand over spectrum licenses in return for proceeds from new license sales to wireless carriers. How the auction will play out, however, still isn't clear.

Broadcasters willing to give up spectrum will seek as much cash as possible for their prized low-frequency airwaves—and push for guarantees that stations remaining on the air won't have their signals shunted to undesirable parts of the spectrum. Wireless carriers, meanwhile, are looking for spectrum bargains—and for the FCC's help in ensuring that the airwaves they acquire will be quickly cleared and readied for mobile broadband.

''Telecom carriers are likely to capitalize on this opportunity to buy more spectrum as data growth continues to strain network capacity,'' Bloomberg Intelligence analysts John Butler and Matthew Kanterman said.

The biggest question for the FCC is just how many broadcasters and wireless companies—and other potential bidders seeking to get into the wireless industry—will actually participate.

At stake is potentially 84 megahertz of 600 MHz spectrum band, according to a mid-range estimate—a swath of so-called ''beachfront'' spectrum now occupied by broadcasters and coveted by wireless carriers. The FCC hopes to reclaim licenses to that spectrum from television stations and sell them to carriers—led by AT&T Inc., T-Mobile US, Inc. and Verizon Wireless—and possibly other bidders such as Comcast Corp. and Dish Network Corp., who are rumored to be interested in bidding.

Two filing deadlines, Jan. 12 for broadcasters interested in surrendering licenses and Feb. 9 for bidders, will be bellwethers for determining the auction's ultimate success or failure.

''If either side comes in too low, with too few participants, that's clearly a sign of trouble,'' said Harold Feld, senior vice president at Public Knowledge, a public interest advocacy group. Conversely, many participants on both sides signals an active auction, Feld said.

The FCC's outreach and education efforts have boosted chances for a successful auction, observers said.

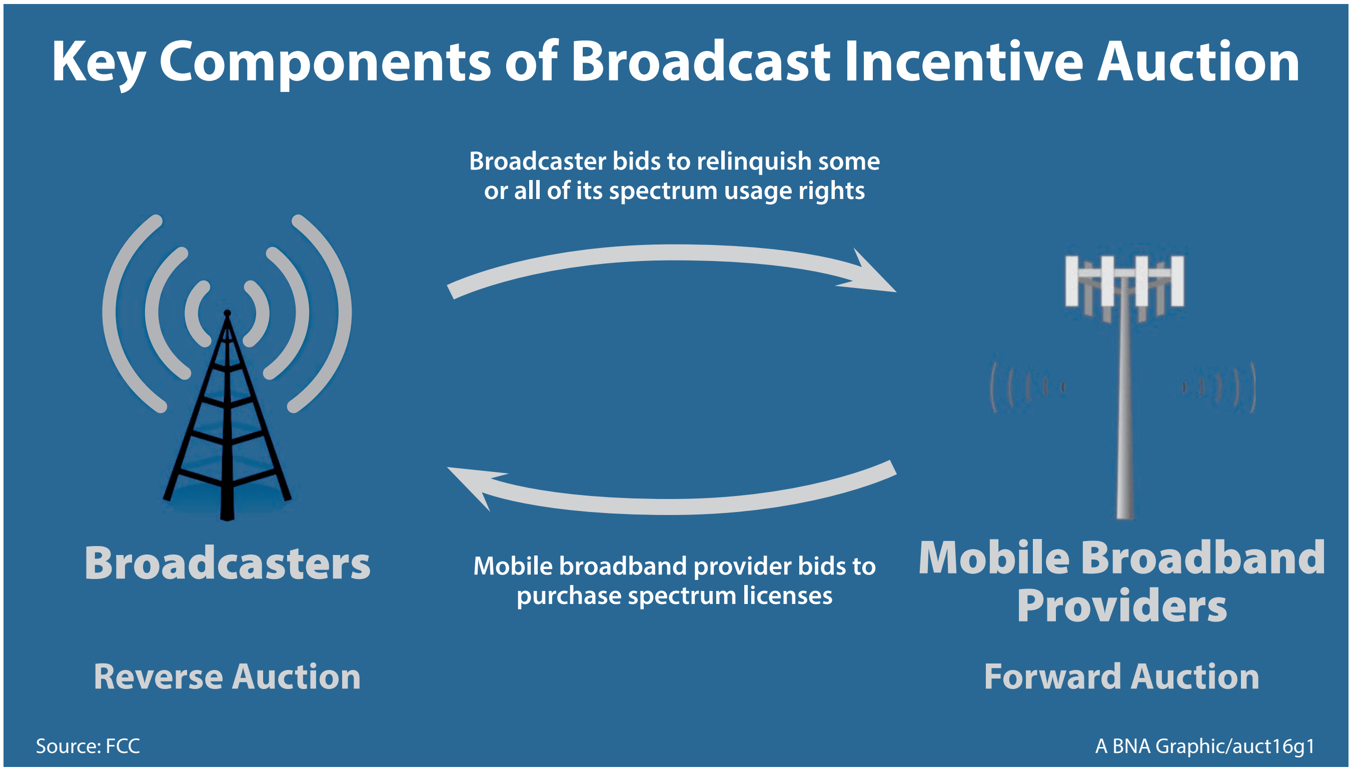
''There's still a lot of confusion, but much less than there was six months ago,'' said Dennis Wharton, a spokesman for the National Association of Broadcasters (NAB), an industry group.

The gamesmanship of public announcements on companies' interest in the auction will likely continue throughout the time leading up to a March 29 kickoff, with broadcasters indicating they expect significant returns for their relinquished spectrum and wireless companies seeking to tamp down expectations and, thus, lower spectrum prices.

The 600 MHz band is a desirable part of the airwaves because signals travelling over it can go long distances and penetrate walls and windows. That makes it attractive for wireless carriers seeking to reduce the cost of networks offering wide-area indoor and outdoor coverage with fewer cell sites.

While the spectrum's true value will emerge during the bidding rounds, wireless carriers may not be able to pass up the last foreseeable opportunity to get their hands on spectrum licensed only to them, even with the possibility of some impairment, Feld said.

A complicating factor in spectrum valuations is mobile wireless operators' ongoing push to find alternate ways to diversify their network coverage and expand capacity, said Berge Ayvazian, principal consultant for analyst group Wireless 20/20. Investment in those tech-



nologies could cool some of the wireless industry's ardor for access to the broadcast spectrum, leading to lower bidding.

Another key question for wireless bidders is how the FCC will pair the broadcasters' spectrum, which has been used to transmit signals in only one direction, with other spectrum bands for the two-way uses associated with wireless, Ayvazian said. That knowledge will help auction bidders better calculate the value of the spectrum they hope to vie for, but will only be available once the FCC concludes its broadcasters' spectrum buyback.

Clarity on the FCC's proposed band plan following the reverse auction and determining the level of signal impairment bidders face for each license, will be among the primary goals in the next few months for CTIA-The Wireless Association, a wireless industry group, according to Scott Bergmann, vice president of regulatory affairs.

''We're focused on how to make sure the FCC makes information on those impairments available to bidders, so they have it in advance and that they have an understanding of how the software will work at the FCC,'' Bergmann said.

While the wireless industry and other bidders are counting on many broadcasters willingly showing up for the auction, most industry observers say an overwhelming show of participation resulting in a high water mark of $84 billion in auction revenue, as projected by Preston Padden, a former ABC executive and former representative of the now-disbanded Equal Opportunities for Broadcasters Coalition, seems unlikely.

''We can pretty much predict that starting prices that are being bandied about are unlikely in most cases to not be what the final price will be in terms of what a station will receive,'' Wharton said. ''Those prices will drop fairly dramatically in most cases.''

Industry analysts and other observers seem to be coalescing around a forecast of $40 billion in total auction revenue, projected by the Office of Management and Budget, as being a mark of success for the FCC, the wireless industry, and federal coffers.

Clearance Aftermath. While clarity on some of the auction's gray areas will necessarily emerge in the first half of 2016, more uncertainty lies ahead for broadcasters and wireless companies—and the FCC—after the auction concludes.

''Even if the auction is successful, it will take several years for the spectrum to be cleared. If the auction fails, then there will be a lot of finger-pointing going around,'' said Roger Entner, an analyst with Recon Analytics, based in Dedham, Mass. In that event, an ensuing political and industry outcry would result in a loss of ''valuable momentum in getting spectrum in the hands of carriers who need it in the large metro areas,'' he said.

Broadcasters who want to stay on the air after the auction remain concerned about the 39-month repacking period, during which the FCC will reassign their signals to different places on the spectrum. The NAB has battled with the FCC in court over the length of that period and what they view as an insufficiently-funded $1.75 billion relocation fund intended to help pay for that process.

Meanwhile, wireless industry members and other auction bidders are expected to keep pushing for clearance of the surrendered spectrum as quickly as possible.

''If you're going to have companies step up and bid hundreds of millions,'' they need to be certain they will have timely access to the spectrum they purchase and what the interference challenges are, Bergmann said. ''The longer they have to wait, the less valuable'' the spectrum becomes, he said.

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Broadcasters are expected to continue to seek additional time and funds for TV stations to be relocated beyond the repacking period. They will probably push Congress to codify an oral commitment by all five commissioners not to revoke broadcast licenses if stations aren't ready by the end of the period. The commissioners made that pledge during a Nov. 17 FCC oversight hearing in the House Energy and Commerce Communications and Technology Subcommittee. FCC Chairman Tom Wheeler also indicated broadcasters would be able to apply for a six-month extension, if needed.

''It's one of those trust, but verify things,'' Wharton told Bloomberg BNA. Broadcasters would feel more comfortable with a commitment with the force of law for a future time when most of the agency's current commissioners may be in different jobs, he said. Broadcasters are likely to lobby the House Energy and Commerce and Senate Commerce, Science and Transportation committees to advance such a bill, rather than seeking a policy rider on an appropriations bill.

Spectrum Holdings by Carrier
(Average MHz)

	AT&T	Verizon	Sprint	T-Mobile	Dish	Others
700 MHz	27.8	21.7	—	6.0	4.6	9.8
Cellular/SMR	22.6	24.5	14.0	0.1	—	2.8
Total low-Frequency	50.5	46.2	14.0	6.1	4.6	12.6
PCS	38.0	21.0	36.6	28.3	—	6.1
AWS	32.3	46.2	—	40.2	70.0	16.3
WCS	28.3	—	1.6	—	—	0.1
2.5 GHz	—	—	150.0	40.2	—	—
Total Spectrum	149.1	113.4	202.3	74.6	74.6	35.1

Source: FCC, Bloomberg Inteligence A BNA Graphic/dash16g1

5G Future. The wireless industry, meanwhile, is expected to lobby against any delay, with the argument that spectrum availability is vital for the U.S. to maintain a competitive footing internationally.

Broadcasters' low-band spectrum, perfect for building out network coverage, is an important component of the portfolio of low-, mid- and high-band spectrum that carriers are seeking to build the next evolution of wireless networks, Bergmann said.

''We're thinking today about what the future of 5G will be,'' he said, while adding that 4G technology still has a long runway ahead of it. ''This lead we have built around 4G is important for our economy, and it's one that we're going to continue to be benefitting from for many years to come.''

U.S.-Only Auction Model. If successful, the spectrum auction could prove to be a regulatory tool for future spectrum clearance, but probably one that will be limited to use in the U.S.

That is because the U.S. market has a unique combination of factors whose complexity is unmatched by nearly any other country in the world, Hyacinth ''H'' Nwana, executive director of the Dynamic Spectrum Alliance, a global policy advocacy group whose members include Google Inc., Microsoft Inc. and Facebook Inc., told Bloomberg BNA.

''The incentive auction in the U.S. is a product of the complex market structure'' of multiple broadcast markets across many states, each of which have co-regulatory powers with the FCC, said Nwana, who formerly served as partner of the Spectrum Policy Group at Ofcom, the U.K.'s communications regulatory authority, where he oversaw Britain's 3G and 4G auctions. ''The rest of the world is not as complicated.''

While a spate of 4G auctions could take place in 2016 for countries in Africa as well as India and Indonesia, none are likely to look to the incentive auction model as a viable option, he said.

''Having said that, I would like to see it succeed,'' Nwana said. ''Clearing people out of their spectrum bands is one of the most difficult tasks of any regulator.''

BY LYDIA BEYOUD

To contact the reporter on this story: Lydia Beyoud in Washington at lbeyoud@bna.com

To contact the editor responsible for this story: Keith Perine in Washington at kperine@bna.com