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the IP book

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editors | Stephen R. Baird | David J.F. Gross | Calvin L. Litsey

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acknowledgements

Welcome to the Sixteenth Edition of *The IP Book*, a collection of articles published in conjunction with the 2018 Midwest Intellectual Property Institute. The Institute is presented by Minnesota CLE, a subsidiary organization of the Minnesota State Bar Association.

These chapters focus on important developments relating to patents, trademarks, copyrights, and trade secrets. Twenty-six of our colleagues in intellectual property practice have spent many hours writing and editing their contributions to this book. We are extremely grateful for their willingness to share their time and expertise.

We would also like to thank everyone at Minnesota CLE who worked on this important and time-consuming project. We are proud to associate ourselves with such an excellent team of people.

As we continue to improve *The IP Book* each year, we urge you to provide any comments or suggestions. Please provide us with any feedback, as well as recommendations for future chapters, by email to Celeste Hollerud-Jones at chollerud@minncle.org, or call her at 1-800-759-8840.

Enjoy.

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The Supreme Court Continues to Weigh in on IP: A Year in Review 2017–18

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§ 1.1 INTRODUCTION

The United States Supreme Court has continued its path of taking up hot intellectual property issues for review. First, the role of inter partes review (IPR) by the U.S. Patent and Trademark Office (USPTO) has been legitimized, solidified, and expanded. Second, the doctrine of laches has given way to the statute of limitations, and plaintiffs now have longer to file their patent infringement lawsuits. Third, companies now need to be aware of patent exhaustion through sales. Fourth, *Matal v. Tam* has come back to haunt Washington, D.C. Finally, damages for patent infringement may include overseas activities.

§ 1.2 UPDATES ON U.S. PATENT AND TRADEMARK OFFICE AND INTER PARTES REVIEW

IPR is a relatively recent addition to the patent review process, and its powers and scope are still being defined. Two recent cases helped clarify the IPR process: *Oil States Energy Services* and *SAS Institute.* In the first, the Supreme Court upheld the constitutional legitimacy of the IPR, and in the second, the Court ensured that all claims will be heard when the USPTO agrees to IPR. This area will likely continue to develop as more and more patents are subject to IPR.

A. Two Big Fracking Companies, One Big Fracking Problem – *Oil States Energy Services, LLC v. Greene's Energy Group*

Any time the executive branch starts dabbling in administrative agency adjudication, constitutional questions are not far off. And when an executive administration adjudicates something as contentious and lucrative as oil field technology, the response can be… explosive.

In 2011, Congress passed the America Invents Act (AIA) to increase efficiency in patent litigation. The AIA allows the Patent Trial and Appeal Board (PTAB), part of the USPTO, to review and invalidate issued patents under 35 U.S.C. §§ 311(a) and 318(a), through a process known as IPR proceedings (or referred to by others as the patent killing fields).

The USPTO fulfills "the mandate of Article I, Section 8, Clause 8, of the Constitution" by providing patents to inventors and entrepreneurs. United States Patent and Trademark Office, *About Us*, <https://www.uspto.gov/about-us>. But the IPR process has recently come under fire for revoking patents without an Article III adjudication.

This issue came to a head in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018). Oil States Energy Services, LLC and Greene's Energy Group, LLC are both oil companies, and both develop equipment used in hydraulic fracturing ("fracking"). This suit began when Oil States sued Greene's Energy for infringing on its wellhead equipment patent. Greene's Energy fired back, arguing that the asserted patent was not novel and thus improperly granted. Greene's Energy asked the PTAB to review the claims of the patent for patentability.

In a moment of poetic irony, and perfectly showcasing the issue at hand, the IPR and district court case proceeded in parallel, and they each came to a different conclusion. The district court "foreclosed Greene's Energy's arguments" about the patentability while the USPTO concluded the patent was improperly issued. *See Oil States Energy*, 138 S. Ct. at 1372.

Oil States, understandably upset at the executive branch administration revoking its patent, sought review in the Federal Circuit. Going for broke, Oil States challenged the constitutionality of the IPR process, hoping to subvert the USPTO's authority to revoke patents in the first place. Oil

States argued that patents may only be revoked "in an Article III court before a jury." *Id.* The Federal Circuit rejected the argument, just as they did in a recent parallel case, and the Supreme Court granted certiorari.

The specific question for Supreme Court review was whether "inter partes review—an adversarial process used by the [USPTO] to analyze the validity of existing patents—violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury."

In a 7-2 opinion, the Supreme Court sided with the USPTO. Central to the conclusion was the idea that granting a patent is a "matte[r] involving public rights," so IPR "falls squarely within the public-rights doctrine." *Id.* at 1373. And if granting a patent is a matter of public rights, it naturally follows that revoking a patent is a matter involving public rights as well. In this way, a court frames "the grant of a patent [as] a matter between 'the public, who are the grantors, and… the patentee.'" *Id.* (quoting *United States v. Duell*, 172 U.S. 576 (1899)). Granting a patent therefore does not bestow individual rights; rather, it limits the public's right to emulate the patented material. Put simply, when the administrative agency giveth, the administrative agency can taketh away, too.

Recognizing the potential impact of its ruling on administrative adjudication, the Court sought to "emphasize the narrowness of our ruling. We address the constitutionality of inter partes review only. We do not address whether other patent matters… can be heard in a non-Article III forum." *Id.* at 1379. Notably, the opinion admits that because Oil States failed to raise a due process challenge, that area of law was not addressed by the Court. It is anyone's guess how a due process or takings clause challenge might be resolved in an IPR case.

The *Oil States* case, though narrow, conclusively defines patents as a type of public right. Patent holders may understandably chafe at this definition, as it shifts patents from a personal property right to a "specific form of property right—a public franchise." *Id*. at 1374.

The IPR process makes it easier for parties to challenge a patent by simplifying and streamlining the process for challenging patents.

B. Don't Start Something You Can't Finish – *SAS Institute Inc. v. Iancu*

Can the USPTO be picky about the claims it does or doesn't hear? It doesn't look like it.

In *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018), SAS suspected that Complement-Soft's software patent was invalid, and sought IPR to challenge its validity. Though SAS challenged all 16 claims of the patent, the USPTO granted review of only some of them (claims 1 and 3–10). The IPR resulted in a final written decision finding claims 1, 3, and 5–10 to be unpatentable while affirming the patentability of claim 4. The USPTO's decision did not address the remaining claims. SAS, wanting full review of *every* claim, appealed the USPTO's institution decision to the Federal

Circuit, which upheld the USPTO's discretion to review some claims and not others. Again, SAS appealed and the Supreme Court granted certiorari.

At issue in this case is 35 U.S.C. § 318(a), which states: "If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board *shall issue a final written decision* with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d)." 35 U.S.C. § 318(a) (emphasis added). The lower courts held that a "final written decision… of any patent claim" includes the right to review some claims and deny others. SAS argued, contrary to the lower courts' holdings, that a "final written decision" should include all claims brought by a petitioner.

The Supreme Court reversed. Under *SAS Institute*, 138 S. Ct. at 1351, when the USPTO starts an IPR, "it must decide the patentability of all of the claims the petitioner has challenged." In other words, the USPTO is now an "all-or-nothing" body, where review is granted in full or denied in full.

This ruling could have several impacts going forward. First, it could make the USPTO more discerning for IPR because it can no longer select the most worthy claim of several presented. Or, going in another direction, this could throw wide open the gates for IPR, ushering in a new wave of mass adjudication. So either patents will become easier to protect, or much harder. Only time will tell.

§ 1.3 "ARTICLES OF MANUFACTURE"

As everyday items grow more technologically complex, the courts have struggled to define whether the item itself, or a component of the item, infringes on another's patent. Major household names like Apple, Samsung, and Google are fighting over this question, often with millions or billions on the line.

A. The Bigger They Are, the Harder They Brawl – *Oracle America, Inc. v. Google, Inc. & Samsung Electronics Co., Ltd. v. Apple Inc.*

Skirmishes over intellectual property become full-out wars when companies like Apple, Samsung, and Google join the fray. This year, computer source code as intellectual property was seen and the near-return of a case truly gargantuan in scope. First, it is *Oracle America, Inc. v. Google, Inc.*, 886 F.3d 1179 (Fed. Cir. 2018). This is just the latest step in a suit dating back to 2010. These parties were heard by the Federal Circuit in 2016, and they are coming back for more. Why? There are billions of dollars on the line.

Oracle developed a computer programming system that could transfer code across computer hardware without rewriting. This system, the Java Application Programming Interface (API),

"is a collection of pre-written Java source code programs for common and more advanced computer functions." *Oracle Am.*, 886 F.3d at 1185. Google used Oracle's API in its Android software, and Oracle sued.

After a series of trials, the Federal Circuit held that the APIs—those little chunks of code—are entitled to copyright protection. The case was remanded back to the district court for trial on the question of whether Google's use was protected by the fair use doctrine. A jury sided with Google, finding that Google's use was protected and thus avoiding liability for copyright infringement that could have reached nearly $9 billion. Oracle again appealed to the Federal Circuit.

The saga continued this year, when the Federal Circuit decided Oracle's appeal. The Federal Circuit held that "Google's use of the 37 Java API packages was not a protected fair use as a matter of law, and reversed the district court's decisions denying Oracle's motions for JMOL and remanded the case for a trial on damages." *Id.* at 1211. Keep in mind that at the time of the last trial in 2016, Oracle was seeking nearly $9 billion.

COMMENT

With the proliferation of smart technologies, copyrighted code is a new frontier of intellectual property. Computer operating systems may have straightforward rules, but what about the code in a "smart" refrigerator? Or an Internet-connected car? *Oracle* is likely the tip of the "Internet of Things" IP iceberg, and practitioners better be ready.

It is said that an object in motion stays in motion. And the momentum principle remains true for *Samsung Electronics Co., Ltd. v. Apple Inc.* Like the *Oracle* case, these companies have been locked in an intellectual property battle for years involving their competing smartphones, and, though they looked like they were not slowing down, the end may be near. Although the facts are well-settled, they bear repeating because of their startling scope.

Back in 2012, Apple accused Samsung of infringing on Apple's smartphone patents. *Samsung Elecs. Co. v. Apple, Inc.*, 137 S. Ct. 429 (2016). The allegedly offending design features include the smartphone's shape, its front face and rim, and its use of icons. *Id.* at 431. At the first trial, Apple sought $2.75 billion, and Samsung wanted $421 million for its counter-claims. *Id*. The jury returned with a verdict in favor of Apple, totaling $1.05 billion. But that number was later reduced to $399 million in damages, which was Samsung's entire profit from the sale of its infringing smartphones.

Samsung argued on appeal to the Federal Circuit that the award should not have been based on the profits of the entire phone, but rather on the infringing portion of the phone, and the damages

should be limited to the "total profits" made from selling such components within the phone. The applicable statute provides that whoever "applies the patented design, or any colorable imitation thereof, to any 'article of manufacture' for the purpose of sale…or sells or exposes for sale *any article of manufacture* to which such design or colorable imitation has been applied *shall be liable* to the owner to the extent of his *total profit[s]*, but not less than $250, recoverable in any United States district court having jurisdiction of the parties." 35 U.S.C. § 289 (emphasis added). The Federal Circuit affirmed the award, holding that the relevant "article of manufacture" must always be the entire end product, not an individual component, sold to consumers.

The Supreme Court granted certiorari, and the Court subsequently reversed and remanded, holding that the relevant article of manufacture for arriving at a damages award need not only be the end product sold to the consumer. The "relevant article" may also be only a component of the finished product. The Court held that this reading was also consistent with 35 U.S.C. § 171(a), which makes certain designs for an article of manufacture eligible for design patent protection and which has been understood to permit a design patent that extends to only a component of a multicomponent product. Justice Sotomayor, writing for the Court, explained the challenge as: "In the case of a design for a multicomponent product, such as a kitchen oven, identifying the 'article of manufacture' to which the design has been applied is a more difficult task." *Samsung Elecs.*, 137 S. Ct. at 432.

Interestingly, Justice Sotomayor sidestepped the smartphone issue, refusing to say whether Samsung's designs, or its final product, are the all-important "article of manufacture." Instead, the Court overturned the judgment, and remanded Apple and Samsung back to the Federal Circuit, which in turn remanded it to the district court. The Federal Circuit panel told the district court that it "will have the opportunity to set forth a test for identifying the relevant article of manufacture…." *Apple Inc. v. Samsung Elecs. Co.*, 678 F. App'x 1012, 1014 (Fed. Cir. 2017). On May 24, 2018, a jury awarded Apple $539 million in damages…and the saga continues.

COMMENT

This case highlights the growing complexity of manufacturing and technology. For example, when an aerospace engineering firm builds an airplane, and one computer within one navigational instrument infringes on a patent, what is the article of manufacture? The computer or the plane? That determination could shift the cost from $50 to millions of dollars per unit.

B. More Than the Sum of Its Parts: *Life Technologies v. Promega*

Promega Corporation sublicensed a patent involving a toolkit for genetic testing to Life Technologies for the manufacture and sale of the kits for use in certain law enforcement fields worldwide. One of the five components of the kit is the Taq polymerase, which was manufactured by Life Technologies in the United States and then shipped to the United Kingdom, where the four other components were made.

When Life Technologies started selling the kits outside the licensed fields of use, Promega sued for patent infringement, based on 35 U.S.C. § 271(f)(1), which prohibits the supply from the United States of "all or a substantial portion of the components of a patented invention" for combination abroad. The district court granted Life Technologies' motion for judgment as a matter of law, holding that "all or a substantial portion" did not encompass the supply of a single component of a multicomponent invention. The Federal Circuit reversed, holding that a single important component could constitute a "substantial portion" of the components of any invention under section 271(f)(1).

The Supreme Court reversed the Federal Circuit and held that the supply of a single component of a multicomponent invention for manufacture abroad does not give rise to section 271(f)(1) liability. *Life Techs. v. Promega*, 137 S. Ct. 734 (2017). The court reasoned that "substantial portion" refers to a quantitative measurement, and although the statute does not define the phrase, the ordinary meaning of the term refers either to qualitative importance or to quantitatively large size.

Applying this approach, the Court found that a single component cannot constitute a substantial portion. This conclusion is reinforced by the statute's text, context, and structure. The statute refers to "components" as plural, indicating that multiple components make up a substantial portion. Second, reading section 271(f)(1) to cover any single component would also leave little room for section 271(f)(2), which refers to "any component" and would undermine that section.

C. The Sum of Its Parts Can Be Lucrative – *WesternGeco L.L.C. v. ION Geophysical Corp.*

In *WesternGeco,* the plaintiff manufactured underwater seismic technology that allowed exploration companies to map the ocean floor. The defendant (ION Geophysical Corporation) manufactured parts for a similar device, and sold the individual parts for use on the high seas. In 2009, WesternGeco sued ION for patent infringement under section 271(f) because ION's overseas clients assembled the parts in such a way that, were the final product assembled in U.S. territories, it would infringe on WesternGeco's patents. Although the use of the infringing system took place outside U.S. territory, a jury found that ION infringed WesternGeco's patents and awarded reasonable royalties and $93.4 million in lost profits.

ION appealed the judgment, arguing that WesternGeco was not entitled to lost profits for extraterritorial use of its technology. The presumption against extraterritoriality is a jurisdictional limitation that bars the application of U.S. laws to foreign activities. *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454 (2007) created the well-established rule that "patent law operates only domestically and does not extend to foreign activities." The Federal Circuit reversed the district court's ruling that section 271(f) is not an exception to the presumption against extraterritoriality and found that lost damages could not be awarded. ION argued WesternGeco could not recover lost profit damages because the service contracts were performed overseas, beyond the United States jurisdiction. *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1349 (Fed. Cir. 2015). The Federal Circuit found adequate compensation was sufficient by awarding reasonable royalties.

The Supreme Court granted certiorari to determine whether the presumption against extraterritoriality bars lost profits damages under section 271(f) and reversed the Federal Circuit holding that patent owners may recover lost foreign profits. Importantly, the Supreme Court rejected the Federal Circuit's bright-line rule barring recovery of lost profits that arise from foreign activities. In particular, the Court's holding recognizes that infringement under section 271(f)(2) focuses on domestic conduct, "as it was ION's domestic act of supplying the components that infringed WesternGeco's patents." *WesternGeco L.L.C. v. ION Geophysical Corp.*, 201 L. Ed. 2d 584, 593–94 (2018). Accordingly, "the lost-profits damages that were awarded to WesternGeco were a domestic application of §284" and do not implicate the presumption against extraterritoriality. *Id.* at 594.

§ 1.4 PROCEDURAL ISSUES AND COURT RULES

Procedural and court rules are not the most glamorous part of legal practice, but the following cases show their importance. Whether it is filing on time or in the proper jurisdiction, the Supreme Court has given new guidance on the minutiae of procedure.

A. Home Is Where the Suit Is – *TC Heartland, LLC v. Kraft Foods Group Brands*

In *TC Heartland, LLC v. Kraft Foods Group Brands, LLC*, 137 S. Ct. 1514 (2017), the Supreme Court unanimously ruled that a defendant may be sued for patent infringement only: (1) in its state of incorporation; or (2) where it has committed acts of infringement and has an established place of business. This decision held that "reside[nce]," as applied to domestic corporations, in 28 U.S.C. § 1400(b) refers only to the state of incorporation. The amendments to 28 U.S.C. § 1391 did not modify the meaning of section 1400(b) as interpreted by *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957), where the Court declined to read the broad definition of corporate "residence" in the general venue statute section 1391(c) into section 1400.

The Eastern District of Texas, a popular venue for patent plaintiffs, will likely see a drop in filings against companies that are not incorporated in Texas and do not have an established place of business there. In contrast, the District of Delaware will likely see above average patent filings in light of the high level of incorporations in Delaware.

1. Background

Venue in patent cases is set by section 1400(b), providing that venue is appropriate either: (1) in the judicial district where the defendant resides; or (2) where the defendant has committed acts of infringement and has a regular and established place of business. The language of section 1400 does not define the term "resides" or expand on how it should be applied to corporate defendants.

The Supreme Court had previously addressed the meaning of "resides" in *Fourco*, where the Court declined to read the broad definition of corporate "residence" in the general venue statute section 1391(c) into section 1400. Under *Fourco*, venue in a patent case against a corporate defendant was proper only if: (1) the defendant was incorporated in that district; or (2) the defendant committed acts of infringement in that district and had an established place of business there.

2. Supreme Court Holding

The Supreme Court decision reversed the Federal Circuit and established that a corporation "resides" in its state of incorporation. The Court noted its prior holding that section 1400(b) "is the sole and exclusive provision controlling venue in patent infringement actions, and … is not to be supplemented by … §1391(c)." *TC Heartland*, 137 S. Ct. at 1519. Considering whether Congress had altered the import of section 1400(b) by amending section 1391, the court confirmed that Congress had not. In *Fourco*, the Court definitively and unambiguously held that the word "reside[nce]" in section 1400(b) has a particular meaning as applied to domestic corporations: It refers only to the state of incorporation. The Court noted that Congress had not amended section 1400(b) and that section 1391, as amended, included language that "expressly contemplates that certain venue statutes may retain definitions of 'resides' that conflict with its default definition." *Id*. at 1521.

With this decision, a patent plaintiff's ability to forum shop has likely been curtailed. A patent defendant may be sued for patent infringement only: (1) in its state of incorporation; or (2) where it has an established place of business and has committed acts of infringement. The Court's ruling will limit patent plaintiffs' selection of the plaintiff-friendly Eastern District of Texas, and patent case filings in that district will likely decline significantly. It is also expected that the District of Delaware will see a higher rate of case filings, as a number of companies are incorporated under Delaware law.

B. You Can't Just Laches That Window Shut – *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*

If the door for litigation is propped open by statute, it cannot be closed with equity.

That's the basic premise of *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 137 S. Ct. 954 (2017). In that case, SCA and First Quality were both claiming the valid patent to an adult incontinence product. SCA initiated contact, telling First Quality that its products infringed on SCA's patent. First Quality responded by saying that it had a valid patent and, in fact, its patent pre-dated SCA's. SCA met with the USPTO, which confirmed their patent's validity, and SCA sued First Quality for patent infringement. *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, No. 1:10CV-00122-JHM, 2013 WL 3776173 (W.D. Ky. July 16, 2013).

First Quality escaped liability when the district court granted summary judgment under the doctrine of laches. Although SCA was still within the statute of limitations, the Federal Circuit affirmed that SCA took too long to file suit. SCA filed certiorari, and the Supreme Court granted the petition.

Before *SCA*, the analysis of the remedy of laches in limiting patent damages was controlled by the holding in *A.C. Auckerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020, 1030 (Fed. Cir. 1992). In *Auckerman*, the Federal Circuit held that 35 U.S.C. § 282 recognized a laches defense in harmony with 35 U.S.C. § 286, as the laches defense "invokes the *discretionary* power of the court to limit the defendant's liability for infringement by reason of the equities between the particular parties." *Auckerman*, 920 F.2d at 1030 (emphasis in original). In this case, First Quality argued that Congress had implicitly ratified the proposition that section 282 includes a laches defense by leaving the language of section 282 untouched after this interpretation of section 282 had been applied by lower courts.

The Supreme Court rejected the premise that the remedy of laches was codified by section 282, holding that the period of limitation codified in section 286 by Congress "reflects a congressional decision that the timeliness of covered claims is better judged on the basis of a generally hard and fast rule rather than the sort of case-specific judicial determination that occurs when a laches defense is asserted." *SCA Hygiene Prods. Aktiebolag*, 137 S. Ct. at 960. The Supreme Court found that Congress' clear establishment of the period of reasonableness for bringing a patent infringement claim is reflected in the language of 35 U.S.C. § 286, which reads, in part:

> Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.

At issue was the trial court's use of laches to dismiss SCA's suit, even though SCA filed suit within the six-year statute of limitations period under section 286. The trial court, by invoking the doctrine of laches, implied that SCA slept on its rights, and thus, forcing First Quality to defend a suit would be inequitable. Noting its decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), the Supreme Court held that the equitable doctrine of laches cannot be invoked as a defense against a claim for damages brought within the six-year limitations period of section 286—and further held that such a remedy is not codified in section 282.

As one would guess, *SCA Hygiene Products* has already started affecting the Federal Circuit's decisions. In March 2017, the Supreme Court granted certiorari in *Romag Fasteners, Inc. v. Fossil, Inc.*, 137 S. Ct. 1373 (2017), only to tell the Federal Circuit Court of Appeals to start applying *SCA Hygiene*. The Federal Circuit promptly vacated the reduction in damages under the laches defense for the *Romag* case.

This happened again in *Medinol Ltd. v. Cordis Corp.*, 137 S. Ct. 1372 (2017). The Supreme Court granted certiorari just to invoke *SCA Hygiene* and remand the case back to the Federal Circuit Court of Appeals. *Medinol* is ongoing.

§ 1.5 MASCOTS AND UNIFORMS

The cases discussed in this section both relate to sports, but they have much broader implications. The first is a consequence of the *Matal v. Tam* case from last year, and the second could change the intellectual property world's approach to fashion and "useful articles."

A. Insult to Injury – *The Redskins*

The consequences of *Matal v. Tam*, 137 S. Ct. 1744 (2017), the 2017 Supreme Court case that struck down section 2(a) of the Lanham Act as unconstitutional, are already being seen. In that case, an Asian-American rock band, through its founder Simon Tam, sought to trademark the name "THE SLANTS." Because of the racial overtones in the name, the trademark was rejected under the disparagement clause of the Lanham Act. Tam appealed, saying that the band wanted to "reclaim" the hitherto racially-insensitive phrase.

The case made it to the Supreme Court, which ruled that the disparagement clause of the Lanham Act violated Tam's First Amendment right to free speech. "THE SLANTS" was trademarked, and the band got what they wanted. But interestingly, the Supreme Court's ruling had local effects as well: on the name of Washington, D.C.'s hometown football team.

Matal v. Tam may have inadvertently helped the Washington Redskins retain their controversial name. The Redskins have been defending their trademarks since a decision from the Trademark Trial and Appeal Board cancelled the Redskins' trademarks because of their offensive nature.

The Redskins cancellation was later upheld by a federal district court, and the Redskins appealed to the Fourth Circuit. *See Pro-Football, Inc. v. Blackhorse*, 709 F. App'x 182 (4th Cir. 2018). The Fourth Circuit Court of Appeals was considering the challenge in light of the Lanham Act, but the ruling in *Matal* has taken all the wind out of those sails. Because the basis for the appeal is now gone, the Fourth Circuit sent the case back to the lower court. It will be interesting watching the Redskins case unfold.

B. Bring It On! Your Copyright Infringement Suit, That Is – *Star Athletica, L.L.C. v. Varsity Brands, Inc.*

On March 22, 2017, the Supreme Court decided *Star Athletica, L.L.C. v. Varsity Brands, Inc.*, 137 S. Ct. 1002 (2017), a case involving the copyright of designs on articles of clothing. The court held that: a feature incorporated into the design of a useful article is eligible for copyright protection only if the feature: (1) can be perceived as a two- or three-dimensional work of art separate from the useful article; and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article into which it is incorporated.

The articles at issue were cheerleading uniforms, and the designs at issue were "combinations, positionings, and arrangements of elements" that include "chevrons …, lines, curves, stripes, angles, diagonals, inverted [chevrons], coloring, and shapes." *Star Athletica*, 137 S. Ct. at 1007.

The District Court for the Western District of Tennessee had entered summary judgment in favor of Star Athletica, the accused infringer, holding that the designs were not entitled to copyright protection because they could not be separated from the utilitarian function of the uniforms. The Supreme Court affirmed the Sixth Circuit's reversal, finding that the artistic features of the designs on the uniforms satisfied both prongs of its test.

Case law from the lower courts had created a pretzel of different, and sometimes irreconcilable, tests for drawing the line between the expressive (protected) and functional (unprotected) aspects of useful objects. The parties' positions in the case mirrored the courts' state of confusion. Star Athletica argued that copyright protection excludes garments unless the design feature is entirely and physically separable from the useful functions of the garment. Because the principal design features of Varsity Brands' uniforms are essential to the use of the article as a cheerleading uniform, they are not separable from the uniform and therefore cannot receive copyright protection. Varsity Brands, on the other hand, argued that a work is separable if it can exist in a tangible medium other than the uniform. Because the designs on its uniforms can exist on (for example) a piece of paper or a piece of fabric, the designs are protectable.

The Supreme Court agreed with Varsity Brands. The court relied heavily on the plain text of the Copyright Act, which provides that a "pictorial, graphic, or sculptural featur[e]" incorporated into the "design of a useful article" is eligible for copyright protection if it: (1) "can be identified separately from," and (2) is "capable of existing independently of, the utilitarian aspects of the article."

The Court made quick work of the first requirement: "The decisionmaker need only be able to look at the useful article and spot some two- or three-dimensional element that appears to have pictorial, graphic, or sculptural qualities." *Id*. at 1010. The second requirement—of independent existence—was more difficult but the Court settled on the following:

> The decisionmaker must determine that the separately identified feature has the capacity to exist apart from the utilitarian aspects of the article…. In other words, the feature must be able to exist as its own pictorial, graphic, or sculptural work as defined in §101 once it is imagined apart from the useful article.

Id. The Court's analysis of the two requirements nets out to this:

> [A] feature of the design of a useful article is eligible for copyright if, when identified and imagined apart from the useful article, it would qualify as a pictorial, graphic, or sculptural work either on its own or when fixed in some other tangible medium.

Id. at 1012.

Timing does not matter; that is, it does not matter whether the design was freestanding art that was later applied to a useful article, or whether the design was intended at the outset for use on a useful article and then later argued to be freestanding art. The Court found that applying these principles to the surface decorations on Varsity Brands' cheerleading uniforms was "straightforward," explaining:

> First, one can identify the decorations as features having pictorial, graphic, or sculptural qualities. Second, if the arrangement of colors, shapes, stripes, and chevrons on the surface of the cheerleading uniforms were separated from the uniform and applied in another medium—for example, on a painter's canvas—they would qualify as "two-dimensional … works of … art," §101 … . The decorations are therefore separable from the uniforms and eligible for copyright protection.

Id.

The Court also went out of its way to explain the limits of its holding, as not to give potential litigants hope that copyright can be used to protect the underlying article itself.

> To be clear, the only feature of the cheerleading uniform eligible for a copyright in this case is the two-dimensional work of art fixed in the tangible medium of the uniform fabric. … [Varsity Brands has] no right to prohibit any person from manufacturing a cheerleading uniform of identical shape, cut, and dimensions to the ones on which the decorations in this case appear. They may prohibit only the reproduction of the surface designs in any tangible medium of expression—a uniform or otherwise.

Id. at 1013.

In a footnote, the Court addressed the dissent's criticism that the majority's decision would lead to the copyrighting of shovels. The majority's response states categorically that a shovel cannot be copyrighted. But, "if the shovel included any artistic features that could be perceived as art apart from the shovel, and which would qualify as protectable pictorial, graphic, or sculptural works on their own or in another medium, they … could be copyrighted. But a shovel as a shovel cannot." *Id*. at 1013 n.2.

The Court also explained that what remains of the useful article after the design has been separated is irrelevant:

> The focus of the separability inquiry is on the extracted feature and not on any aspects of the useful article that remain after the imaginary extraction. The statute does not require the decisionmaker to imagine a fully functioning useful article without the artistic feature. Instead, it requires that the separated feature qualify as a nonuseful pictorial, graphic, or sculptural work on its own.

Id. at 1013.

The Court did take time to address a debate among the lower courts, some of which found that physical separability was required whereas others found that conceptual separability was enough. The Court sided with the latter view: "separability is a conceptual undertaking. Because separability does not require the underlying useful article to remain, the physical-conceptual distinction is unnecessary." *Id*. at 1014.

§ 1.6 CONTROL OVER PRODUCT AND JURISDICTION OF ENFORCEMENT

Patents and trademarks are meant to protect intellectual property. But when are those tools unavailable? When do they expire? How far is their reach? Can they be waived? The Supreme Court clarified patent exhaustion in a recent case, and a forthcoming case will address the international reach of American intellectual property law.

A. Send It to the Press! *Impression Products, Inc. v. Lexmark Intern., Inc.*

How long can one control a product after it has been sent into the marketplace? That is the question at the heart of *Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523 (2017).

A patent is, by its very nature, a way to control the patented item. The patent holder has authority over the item's use, sale, invention, and importation. *Impression Prods.*, 137 S. Ct. at 1523. For this case, plaintiff Lexmark holds patents to a number of printer accessories, including toner cartridges. Trying to form a mutually-beneficial system, Lexmark:

> [G]ives consumers two options: One option is to buy a toner cartridge at full price, with no restrictions. The other option is to buy a cartridge at a discount through Lexmark's "Return Program." In exchange for the lower price, customers who buy through the Return Program must sign a contract agreeing to use the cartridge only once and to refrain from transferring the cartridge to anyone but Lexmark.

Id. at 1525. This return policy was designed to prevent remanufacturers from purchasing Lexmark's empty toner cartridges, refilling them, and selling them on the market. Lexmark discovered that Impression Products was purchasing Lexmark's Return Program cartridges and sued for patent infringement. Lexmark claimed that Impression Products was engaging in unauthorized use and resale of its patented items, and was importing toner cartridges from overseas. Impression Products, in turn, argued that Lexmark exhausted its patent rights by selling the cartridges in the marketplace.

In an almost unanimous decision, the Supreme Court held that "Lexmark exhausted its patent rights in the Return Program cartridges that it sold in the United States. A patentee's decision to sell a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose." *Id*. at 1526. This is true even if the sale takes place outside the United States.

Which makes sense—when a product is sold, it "'is no longer within the limits of the [patent] monopoly' and instead becomes the 'private, individual property' of the purchaser." *Id.* (quoting

Bloomer v. McQuewan, 55 U.S. 539, 549 (1852)). In the end, the Court says, patent rights "yield to the common law principle against restraints on alienation." *Id.*

COMMENT

The *Lexmark* holding eliminates patent-based restrictions, but explicitly allows post-sale restrictions based on contract.

§ 1.7 LEGISLATIVE MATERIALS

Venturing from the judicial branch into the legislative, Congress is revisiting a 60-year-old law this year, looking for ways to prevent American intellectual property from being shipped overseas. The law was originally conceived as a way to build goodwill and trust with our overseas partners, but it has become (in some cases) a one-way street to export American intellectual property.

A. When a Party Is Not a Party and a Proceeding Is Not a Proceeding – 28 U.S.C. § 1782

This next section's genesis is not in the Federal Circuit or the Supreme Court. Rather, this is pure Congress: "Assistance to foreign and international tribunals and to litigants before such tribunals." 28 U.S.C. § 1782. This law, originally passed in 1948, was intended to assist foreign courts and litigants obtain discovery from a person residing in the United States, with the hope that foreign countries would enact similar laws. Congress was hoping for reciprocity from foreign countries that would take advantage of section 1782.

Under section 1782, "The district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal, including criminal investigations conducted before formal accusation." 28 U.S.C. § 1782(a). In other words, upon request by an "interested person" (and sometimes before formal accusation), a U.S. district court may force American entities to produce evidence for a foreign proceeding.

As its open-ended phrasing suggests, section 1782 is ripe for abuse. But it was not until *Intel Corp. v. Advanced Micro Devices Inc.*, 542 U.S. 241 (2004) that the statute realized its full scope. In that decision, the Supreme Court held that though proceedings were only contemplated by foreign parties, and though no foreign court was involved, only a government agency, and though the petitioner was not even a party, Intel still had to comply with the federal court order to turn over

discoverable materials. The Supreme Court said that if Congress meant to limit section 1782's scope, it should have done so by statute.

It is surprisingly onerous for American companies to comply with section 1782. In fact, one expert estimates that this law costs American businesses "more than $40 billion every year." Because of this, Congress recently revisited section 1782 at a hearing in April 2018.

So why does section 1782 belong in a chapter about intellectual property law? Because when American companies are required to send discoverable material oversees, possibly to a non-party governed by a non-court tribunal, there are almost no protections for the intellectual property contained therein. If, for example, an American tech company was required to send its blueprints to China for use in a foreign proceeding, there are almost no domestic limitations on its use once it leaves the United States. Protective orders are only as good as the entity enforcing them overseas.

COMMENT

In essence, section 1782 could become a one-way street for trade secrets to pass to foreign countries. Even when other countries have adequate enforcement mechanisms, transparency and public access laws may require foreign courts to release sensitive information. Hopefully, a fix to plug this potentially dangerous loophole is in the works.

§ 1.8 LOWER COURT DECISIONS AND UPCOMING CASES

From streaming video to online music, and from scrubbed DVDs to stolen research, 2017 and early 2018 are seeing more and more litigation over the digital space. All of the following cases have the potential to make it to the Supreme Court.

A. Just How Desperate Are We for this Appeal? *NantKwest Inc. v. Matal*

Under the Patent and Lanham Acts, patent and trademark applicants may appeal a rejection by the USPTO. Appellants are granted two choices for venue: "unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, [an applicant may] have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia…." 35 U.S.C. § 145. And for a while, these two choices—the Federal Circuit and the district court—carried a similar financial burden. But now the USPTO is interpreting section 145 differently, and the "district court" option is getting more and more expensive.

Until 2013, the Patent and Lanham Acts required appellants who chose the "district court" approach to pay "all the expenses" of the proceeding. *Id*. ("All the expenses of the proceedings shall be paid by the applicant."). This meant that appellants in the district court had to pay their own expenses as well as the expenses of their party-opponents, regardless of who wins. At that time, the USPTO defined "expenses" narrowly, excluding attorneys' fees. Now the USPTO is broadening that definition: it has started asking for more and more expenses from appellants, including the USPTO's attorneys' fees and experts' fees *even if* the appellant wins.

The *NantKwest* case was a challenge to the broad fee-shifting policy, and the Federal Circuit sided with the USPTO last June. But a couple months later, the Federal Circuit decided to give *NantKwest* another look. The court has not released its decision in *NantKwest* yet, but this radically new approach to USPTO appeals has the makings of a Supreme Court case.

B. Gone Fishing for a Signal – *Fox Television v. Aereokiller*

Internet video streaming services are growing in popularity and power, but the Ninth Circuit recently reminded them of their limits.

In March 2017, the Ninth Circuit decided *Fox Television Stations, Inc. v. Aereokiller LLC*, 851 F.3d 1002 (9th Cir. 2017). The defendant, known as FilmOnX and referred to by the court as "FilmOn", operated a series of antennae "to capture over-the-air broadcast programming, much of it copyrighted, and then [use] the Internet to retransmit such programming to paying subscribers, all without the consent or authorization of the copyright holders." *Id*. at 1006.

For a cable company, this would not be a problem. 17 U.S.C. § 111(c) authorizes a so-called compulsory license that allows cable companies to retransmit "a performance or display of a work that had originally been broadcast by someone else—even if such material is copyrighted—without having to secure the consent of the copyright holder." *Fox Television Stations*, 851 F.3d at 1006. To qualify, cable companies must pay a "de minimus" fee to the copyright office. *Id.* Naturally, FilmOn wanted to be recognized as a "cable system" so they could rebroadcast the pirated signal.

The Ninth Circuit did not decide this issue either way. After an intense textual exploration of section 111, the court held that section 111 does not *require* eligibility for compulsory licenses for "Internet-based retransmission services*." Id.* at 1010. But, the court did not close the door entirely:

> For the foregoing reasons, we cannot accept FilmOn's argument that § 111 *must* be read in such a way as to make Internet-based retransmission services eligible for compulsory licenses. All of that being said, however, we would not go so far as to conclude that it would be clearly *impermissible* to say that Film-On qualifies for a compulsory license under § 111… [W]e do not foreclose the possibility that the statute could reasonably be read to include Internet-based

retransmission services.

Id. at 1011–12 (emphasis in original). In the end, the court sided with the Copyright Office because their views are "persuasive." But for now, the door for section 111 remains open for Internet streaming services.

C. Just Because You Can, Doesn't Mean You Should – *Elsevier Inc. v. Sci-Hub*

Defendant Sci-Hub found a clever way around paying for academic articles from plaintiff Elsevier Inc.'s website: use an educational institution as a proxy. By posing as an educational group, Sci-Hub was able to reproduce and distribute Elsevier's "copyrighted works." When Elsevier discovered this, they filed suit against Sci-Hub for Sci-Hub's clever, albeit very illegal, business model. *See Elsevier Inc. v. Sci-Hub*, No. 15-cv-4282 (RWS), 2017 WL 3868800 (S.D.N.Y. June 21, 2017).

Sci-Hub, according to the U.S. district court judge, failed to respond to Elsevier's suit, failed to oppose Elsevier's injunction, and "disregarded the Preliminary Injunction in this action by continuing to infringe Elsevier's copyrights in the Copyrighted Works." *Id*. at *1. Sci-Hub's founder, Alexandra Elbakyan, explained through a letter to the court that she was unable to pay Elsevier's fees as a student and believes in open-access academic research.

In the end, Sci-Hub and its co-defendants were required to dismantle their operation and pay damages of $15 million. *Id* at *2. Sci-Hub was the subject of at least one other lawsuit.

D. A Whole New World of Copyright Infringement – *Disney v. VidAngel*

In August 2017, the Ninth Circuit affirmed a 2016 ruling against defendant VidAngel. In a case filed by Disney and Twentieth Century Fox (among others), the plaintiffs accused VidAngel of decrypting their movies and TV shows, scrubbing any material VidAngel found objectionable, and streaming the results online to customers. *See Disney Enters., Inc. v. VidAngel, Inc.*, 869 F.3d 848 (9th Cir. 2017). The plaintiffs claimed copyright infringement and violation of 17 U.S.C. § 1201(a)(1)(A) for bypassing DVDs' and Blu-ray discs' encryption, altering copyrighted material, and distributing the results.

VidAngel, to its credit, defended itself with the Family Home Movie Act and fair use doctrine. But ultimately the district court sided with the plaintiffs, issuing a preliminary injunction. VidAngel appealed, and the Ninth Circuit affirmed the ruling in August 2017. *Id*.

E. Standing on Your Own Four Feet – *Naruto v. Slater*

In April 2018, the Ninth Circuit seemingly put the famous "monkey selfie" case to rest. The court ruled that Naruto, a macaque famous for his smiling 2011 selfie, lacked standing to sue for copyright infringement of the picture he took of himself. Though the case settled out of court, the Ninth Circuit ruled that animals cannot file copyright infringement suits. *Naruto v. Slater*, 888 F.3d 418, 426 (9th Cir. 2018).

But it seems the story is not over. As of May 2018, an unnamed Ninth Circuit judge has asked the court to reconsider the ruling. The re-hearing may revisit the question of standing for animals, or it may address something more fundamental to PETA's case: frivolity of claims. *Id*. *See also* Glenn G. Lammi, *'Monkey Selfie' Copyright Decision Reflects Ninth Circuit's Need to Revisit 'Standing' Rules,* Forbes, May 15, 2018, <https://www.forbes.com/sites/wlf/2018/05/15/monkey-selfie-copyright-decision-reflects-ninth-circuits-need-to-revisit-standing-rules/2/#b08e7a275260> (an almost decade-old Ninth Circuit case seems to imply that animals can have general Article III standing for a civil case, but that animals lack specific standing to sue).

F. Now Picture This – *Leaders Institute v. Jackson*

Can one steal an object without ever moving it from its original location? The U.S. District Court for the Northern District of Texas says yes, breaking from the Ninth Circuit's opinion. *See Leader's Inst., LLC v. Jackson*, No. 3:14-CV-3572-B, 2015 WL 4508424, at *1 (N.D. Tex. July 24, 2015).

There are several ways to display a picture on a website; two methods are applicable here: in-line linking and hosting. With in-line linking, the picture remains on its original server, but a website can display the picture by linking to the original location. Thus, a picture can be displayed without ever "moving" it to a new location. With hosting, the website displays a picture by copying that image onto the local server and displaying it from there. Hosting requires a website to copy the picture and move it to another location.

In the Ninth Circuit's *Perfect 10* case, the court ruled that in-line linking did not violate a picture owner's copyright. According to the Ninth Circuit, infringement is based on a "server test" where a copyright is only infringed upon if the material at issue is located on the infringer's server. *Id*.

The Texas district court split with the Ninth Circuit, saying: "And to the extent Perfect 10 makes actual possession of a copy a necessary condition to violating a copyright owner's exclusive right to display her copyrighted works, the Court respectfully disagrees with the Ninth Circuit." *Leader's Inst., LLC v. Jackson*, No. 3:14-CV-3572-B, 2017 WL 5629514, at *11 (N.D. Tex. Nov. 22,

2017). According to the Texas district court, a copyright can be infringed upon even if the source material is on another server. *Id*. ("The text of the Copyright Act does not make actual possession of a copy of a work a prerequisite for infringement. To display a work, someone need only show a copy of the work; a person need not actually possess a copy to display a work.").

Digital sharing will further complicate intellectual property law by calling into question, for example, what words like "use" and "distribute" mean in the digital sphere. It is entirely likely this will arise in the Supreme Court soon.

G. First Across the Finish Line – *Momenta Pharmaceuticals v. Bristol-Myers Squibb*

Usually one has to wait for an injury for standing to sue. But what if by waiting, the ability to file suit is lost?

Last year, Momenta Pharmaceuticals found itself in an impossible position. It had invested millions of dollars developing a new type of drug, but the drug was still years away from patentability. Meanwhile, rival manufacturer Bristol-Myers Squibb Co. (BMS) had just filed a patent for a similar product, and BMS's patent was approved by the USPTO. Suddenly, after years of investment, Momenta's product-in-progress had become a patent liability. Momenta challenged the patentability of BMS's U.S. Patent No. 8,476,239 in an IPR proceeding before the PTAB. The PTAB, however, affirmed the validity of the '239 patent. Momenta appealed the PTAB's decision to the Federal Circuit.

At issue here is Momenta's standing to file a case. Article III of the Constitution requires an "injury in fact" for a plaintiff to sue, so Momenta needs to show that "it has suffered a concrete and particularized injury necessary for Article III standing." Momenta does not market a product that would infringe the '239 patent and is reportedly years away from being able to seek FDA approval to market such a product. Accordingly, BMS argued, Momenta cannot satisfy Article III standing requirements because it has not suffered an "injury in fact." Momenta counters that it has expended millions of dollars in research and development efforts and would incur more costs to change directions if it lacks standing to challenge the PTAB's decision.

The Federal Circuit heard oral arguments in December 2017, and has not yet issued a ruling.

§ 1.9 CONCLUSION

Looking forward, it is likely there will be continued litigation about IPR, articles of manufacture, and digital intellectual property. If trends continue, the scope and authority of the USPTO will expand and IPR will grow more and more commonplace. The courts will continue to grapple with what constitutes an "article of manufacture," and its consequences on damages. And lastly, the

digital world will continue to accelerate and grow, and intellectual property owners will need to find ways to control their property, or leverage the chaos of the new environment.

Federal Circuit Year in Review 2017–18: Post-Grant Remains Huge

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§ 2.1 INTRODUCTION

The Federal Circuit issues about 100 precedential intellectual property decisions each year. This chapter attempts to classify the most important of those decisions into discrete groups, to summarize the rules from those cases, and to comment, however briefly, on the possible meanings of the decisions and the future of IP law.

This year, as with last, post-grant appeals have dominated. Most of those decisions center on procedure (e.g., Administrative Procedure Act (APA) issues and whether the Patent Trial and Appeal Board (PTAB or Board) gave the parties a chance to be heard and adequately explained its analyses) rather than substance (rules about obviousness and anticipation). This chapter will lead with a discussion of post-grant appeals.

§ 2.2 POST-GRANT – WHAT'S HAPPENING? LOTS

In prior years, this chapter led with the doctrine of equivalents, then claim construction, then section 101. Post-grant is where it is at right now.

The Supreme Court showed the critical importance of post-grant by issuing two decisions on the topic the same day this past spring. The first, *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018), was thought to be the big one but ended up as the small one because it simply held that inter partes reexaminations (IPRs) are constitutional—business as usual then. It did explicitly leave open the question whether a patentee who received a patent *before* the America Invents Act (AIA) could make a constitutional claim (though such claim might be for a taking, and not be something that could terminate the IPR).

The quiet decision that has gotten very loud is *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018). It decided that, if the United States Patent and Trademark Office (USPTO) Director is to institute IPR at all, it must be done on all the claims the challenger raised or none of them—no "partial institution." *SAS Inst*., 138 S. Ct. at 1358. Notably, while the Supreme Court spoke only of institution on some, but not all of the challenged *claims*, it seems the Federal Circuit is set to require total institution or non-institution on requested *grounds* of unpatentability also. While the *SAS* holding is simple, its repercussions are complex. For example, the Federal Circuit had to figure out what to do with dozens of partial-institution cases that were on appeal, and so far has taken a variety of approaches. For its part, the Board reached out to parties in pending partial-institution IPRs so as to get the issues resolved (if the parties wanted that) as soon as possible. Going forward, the main issue is what the Board will do to treat parties properly while keeping its docket in line. For example, the Board could talk about only one claim at institution, and then institute on all claims. That will save it work, but it may prevent the parties from knowing how to best frame issues for trial, particularly where IPRs are compressed proceedings already. As an alternative, the Board could speak to every challenged claim, but that will take up precious time and leave the party who is on the short end at institution a quandary about whether to waste effort on the uphill challenge of changing the Board's mind. Finally, the Board could simply refuse institution whenever it has a partial-institution situation. That would be somewhat unfair to the particular petitioner, but then, perhaps petitioners need to be more careful about how they address dependent claims, and not drag weak claims into a petition.

The big post-grant decision from the Federal Circuit this year was *Aqua Products, Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017), where the en banc court ruled that the burden of persuasion for establishing patentability of a proposed amended claim should rest on the petitioner. The court was split, so that no position picked up a majority. Five of 11 judges were on the main opinion, which reasoned that 35 U.S.C. § 316(e) "unambiguously requires the petitioner to prove all propositions of unpatentability." *Aqua Prods*., 872 F.3d at 1296. Six found the statute ambiguous on that point. Two of those six concurred with the five main judges because they felt the USPTO had failed to make a

substantive rule on the point—but they felt the USPTO could craft such a rule. The other four of the six dissented, after finding that the director had already properly assigned the burden via notice-and-comment rulemaking. There are other opinions and statements scattered over 100 pages, but there is not enough room here for all of them. Suffice it to say that the USPTO could likely flip the result here for future cases if it wanted to, by being clear and capturing the six it has and perhaps one more of the 12 active judges.

The Federal Circuit's other en banc opinion on post-grant this year, *Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364 (Fed. Cir. 2018), reversed its prior holding in *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652 (Fed. Cir. 2015). Under the new rule, the court does have jurisdiction to consider the one-year time bar that the Board might apply at institution of an IPR. The Federal Circuit reasoned that the Supreme Court loosened up its jurisdiction post-*Achates* in *Cuozzo*, so that the court certainly should not consider institution decisions that relied on 35 U.S.C. §§ 102 or 103 bases or on the director's complete discretion (under 35 U.S.C. § 314), but issues that are not closely tied to prior art considerations would potentially be fair game for review.

Another hot procedural issue in IPR relates to joinder under 35 U.S.C. § 315(c) when a party tries to join an IPR it filed after its one-year deadline to an IPR it filed before. A couple Federal Circuit judges spoke their minds on this issue in *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, 868 F.3d 1013 (Fed. Cir. 2017), even though it did not matter to the result in that appeal. In *Nidec*, a first Board panel denied the petitioner's joinder motion, but an expanded panel then granted it. The Federal Circuit affirmed the subsequent rejection of the claims, but two judges wrote separately. Judge Dyk (joined by Judge Wallach) considered the USPTO's actions (particularly in regard to board-packing) to raise "serious questions," and felt that the statute was intended to allow a second party to add itself to an IPR filed by a first party, but not to allow one party to get around time limits by joining itself. *Nidec Motor*, 868 F.3d at 1019. On the panel packing issue, the judges "question[ed] whether the practice of expanding panels where the USPTO is dissatisfied with a panel's earlier decision is the appropriate mechanism of achieving the desired uniformity." *Id*. at 1020. So expect some fireworks in the future if this keeps up.

The most common post-grant procedural issues include due process complaints and complaints that the Board gave inadequate explanation of its reasoning. The intersection of those two issues was presented in *Ultratec, Inc. v. CaptionCall, LLC*, 872 F.3d 1267 (Fed. Cir. 2017), where the Board refused to consider timely-filed testimony of a party's expert in trial, yet it found the expert to be credible. The Federal Circuit noted:

> The Board offers no reasoned basis why it would not be in the interest of justice to consider sworn inconsistent testimony on the identical issue. Ultratec sought to offer recent sworn testimony of the same expert addressing the same patents, references, and limitations at issue in the IPRs. A reasonable adjudicator would have

> wanted to review this evidence…. The agency does not have unfettered discretion in these matters, and we cannot affirm agency decision-making where the agency fails to provide a reasoned basis for its decision.

Ultratec, 872 F.3d at 1272–73.

Another procedural issue arose in *CRFD Research, Inc. v. Matal*, 876 F.3d 1330 (Fed. Cir. 2017), where the Board instituted on only one proposed ground and found another ground to be redundant. The Board then refused to consider an argument the petitioner had made for the redundant ground but had incorporated by reference into the instituted ground. The Federal Circuit vacated because the Board's actions "unfairly prejudice[d]" the petitioner. *CRFD Research*, 876 F.3d at 1346. The lesson from this case is that a party can cross-reference arguments in its petition, but needs to be careful because this ruling will not stretch too far, given the discretion afforded the Board in this area. For example, in *Sirona Dental Systems GmbH v. Institut Straumann AG*, Nos. 2017-1341, 2017-1403, 2018 WL 3028693 (Fed. Cir. June 19, 2018), the court held that the Board is not required to consider obviousness positions that were not in the petition, but that surfaced when the patent owner made a contingent motion to amend its claims (a motion the Board denied, and a decision the court vacated because of *Aqua Products*). But in *Anacor Pharmaceuticals, Inc. v. Iancu*, 889 F.3d 1372 (Fed. Cir. 2018), the court affirmed a decision of unpatentability, and found no APA violation where the Board's opinion cited two new references in support of its position on the state of the art, but otherwise used the same two references from the petition and the general reasoning of the petition. According to the Federal Circuit, new evidence can enter an IPR as long as the opposing party "is given notice of the evidence and an opportunity to respond to it." *Anacor Pharm*., 889 F.3d at 1380. These cases show that one can sometimes get the Board overturned on a due process type of issue, but it is extremely hard unless the Board simply takes leave of its senses.

The court also continued to slap the PTAB where it has failed to explain itself adequately. In *DSS Technology Management, Inc. v. Apple Inc.*, 885 F.3d 1367, 1369 (Fed. Cir. 2018), the court reversed because the Board only noted that the combination would take "ordinary creativity," but "did not provide a sufficient explanation for its conclusions, and because we cannot glean any such explanation from the record." This was similar to times in which the Board had simply applied "common sense" with no further explanation, and such an approach by the Board requires a "searching inquiry" from the Federal Circuit to find a reasoned analysis from the Board. *DSS Tech. Mgmt*., 885 F.3d at 1374. Judge Newman dissented because she thought there was adequate explanation, but she said, at most, the court can remand to get the required explanation, but cannot reverse and order the allowance of claims.

In *Knowles Electronics LLC v. Iancu*, 886 F.3d 1369 (Fed. Cir. 2018), a split panel held that the USPTO can defend an appeal from an IPR even if the petitioner has settled out. The majority noted that the USPTO has an explicit right to intervene under 35 U.S.C. § 143, while Judge Newman ar-

gued that "the intervenor of right does not have independent standing to continue in the litigation." *Knowles Elecs*., 886 F.3d at 1379. This had been a big issue for Judge Newman at oral argument for months, so perhaps this case will resolve it.

§ 2.3 SECTION 101 – NOT A PARTICULARLY EXCITING YEAR

35 U.S.C. § 101 is really quieting down, though it is not because there really are not any questions. Rather, the initial rush of lousy patents has already been wiped out, the court tends to get harder cases now, and it avoids writing opinions in many cases by using its Rule 36 summary affirmance approach. *See* Fed. Cir. R. Prac. 36.

The most important cases this year dealt with the role of fact issues in section 101, and particularly fact questions about whether the inventive features are "routine and conventional" under *Mayo* step 2. In the lead case, *Berkheimer v. HP Inc.*, 881 F.3d 1360 (Fed. Cir. 2018), the court noted that compliance with section 101 is a question of law that can have underlying facts, and although summary judgment of invalidity was appropriate on the patentee's independent claim, statements in the specification about purported improvements created disputed facts for the dependent claims. So the Federal Circuit remanded on those claims. Importantly, on the way to this holding, the court also noted that there is a difference between a disclosure merely being present in a prior art reference, and it being "well-understood, routine, and conventional." *Berkheimer*, 881 F.3d at 1368. The court also found fact disputes to be present a week later in *Aatrix Software, Inc. v. Green Shades Software, Inc.*, 882 F.3d 1121 (Fed. Cir. 2018). The court subsequently denied petitions for rehearing, with five judges concurring in that decision and writing that the "routine and conventional" determination can involve the same sort of disputed facts present in many other areas of the law, and with Judges Lourie and Newman concurring but opining that the law needs a fix from a higher authority—either the Supreme Court or Congress—because the Federal Circuit has done all it can with the hand it has been dealt. *Aatrix Software, Inc. v. Green Shades Software, Inc.*, 890 F.3d 1354 (Fed. Cir. 2018). These cases open up a jumble of questions, including whether these fact issues must be decided by a jury (if a party demands that) or can be decided by a judge, what sorts of evidence can raise a fact question, and when experts must be listened to and when they can be ignored, among others.

Each of the remaining section 101 decisions is listed individually, and grouped according to whether they favored the patentee or favored the defendant.

A. Pro-Patentee

In *Visual Memory LLC v. NVIDIA Corp.*, 867 F.3d 1253 (Fed. Cir. 2017), a divided panel reversed a district court's invalidation of claims to a computer memory system that used a three-tier hierarchy and self-configured for whatever processor it happened to be connected to (whereas prior art systems were processor-specific). The majority (Judges Stoll and O'Malley) found that the

invention was like those in *Thales Visionix Inc. v. United States*, 850 F.3d 1343 (Fed. Cir. 2017) and *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327 (Fed. Cir. 2016), because it was not directed just to the abstract idea of "categorical data storage" (as the district court had held), but to an improved computer memory system. *Visual Memory*, 867 F.3d at 1259. Judge Hughes, in dissent, agreed with the district court—in large part because the claims were much more general (essentially a "black box") than those in *Enfish*.

In *Finjan, Inc. v. Blue Coat Systems, Inc.*, 879 F.3d 1299, 1304 (Fed. Cir. 2018), the court affirmed a finding of patent eligibility for claims directed to an improvement in scanning for computer viruses, that involved detecting "potentially hostile operations" using a "behavior-based" scan—whereas prior art systems could recognize only previously-identified viruses. While virus screening generally might be abstract, the system here used a cool new trick, and the claims recited more detail than a mere result of the operations.

In *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.*, 880 F.3d 1356 (Fed. Cir. 2018), the court affirmed a denial of summary judgment of invalidity. The invention was a computer user interface that allowed users to get to their data faster: "The asserted claims in this case are directed to an improved user interface for computing devices, not to the abstract idea of an index." *Core Wireless Licensing*, 880 F.3d at 1362. The specification also explained how the user interface (UI) was functionally better than prior art UIs, so that the "claims [were] directed to an improvement in the functioning of computers." *Id*. at 1363. This decision might be hard to square with *Apple, Inc. v. Ameranth, Inc*., 842 F.3d 1229 (Fed. Cir. 2016), which held that an improvement in a menu-ing UI was not patent-eligible. It may also be hard to square with *Move, Inc. v. Real Estate Alliance*, 721 F. App'x 950 (Fed. Cir. 2018), discussed *infra* in section 2.3.B.

The Federal Circuit sees fewer life sciences cases than software cases under section 101, so they are important when they come out. In *Vanda Pharmaceuticals Inc. v. West-Ward Pharmaceuticals International Ltd.*, 887 F.3d 1117 (Fed. Cir. 2018), a split panel affirmed a finding of eligibility for claims directed to treating schizophrenia by determining that the patient is a poor metabolizer of a certain compound, and using that determination to make out a dosage of a particular prior art drug for the patient. The claims were different from those in *Mayo*, which did not recite anything about changing a dosage. In dissent, Chief Judge Prost felt that the claims did effectively nothing more than the claims in *Mayo*.

B. Anti-Patentee

In *Smart Systems Innovations, LLC v. Chicago Transit Authority*, 873 F.3d 1364 (Fed. Cir. 2017), a divided panel affirmed invalidation of claims to an open-payment fare system that improved over the art by letting riders use debit and credit cards. The majority reasoned under step 1 that the claims were directed to data collection in the formation of financial transactions, and they were not

saved under step 2 simply because they were applied in a particular field. They also used computers generically. Senior Judge Linn in partial dissent noted that the current test for eligibility is "almost impossible to apply consistently and coherently," "often leads to arbitrary results," and should be used to kill only truly preemptive claims. *Smart Sys. Innovations*, 873 F.3d at 1377.

The court affirmed invalidation also in *Two-Way Media Ltd. v. Comcast Cable Communications, LLC*, 874 F.3d 1329 (Fed. Cir. 2017). The patentee framed its invention as a scalable architecture for delivering real-time information, but the court said the claims were directed to "a method for routing information using result-based functional language," and under step 2, although the patent spoke of a scalable architecture, the claims did not recite "the rules forming the communication protocol" or the "parameters for the user signals." *Two-Way Media*, 874 F.3d at 1337, 1339.

In *Voter Verified, Inc. v. Election Systems & Software LLC*, 887 F.3d 1376 (Fed. Cir. 2018), the court again affirmed a finding of invalidity, this time for claims directed to auto-verification of voter ballots. The step 1 abstract concept was "voting, verifying the vote, and submitting the vote for tabulation," which humans have performed manually for years, and the step 2 extra was mere "use of general purpose computers that carry out the abstract idea." *Voter Verified*, 887 F.3d at 1385–86.

In *SAP America, Inc. v. InvestPic, LLC*, 890 F.3d 1016 (Fed. Cir. 2018), the court affirmed a finding of invalidity for claims that analyze financial market information by "resampling" statistical methods so as to avoid improperly assuming that the data follows a normal distribution. In step 1, the court reasoned that the claims were directed to "selecting certain information, analyzing it using mathematical techniques, and reporting or displaying the results of the analysis," and they were distinguishable over claims from other cases like *McRO, Inc. v. Bandai Namco Games America Inc.*, 837 F.3d 1299 (Fed. Cir. 2016) because they did not recite a "physical-realm improvement." *SAP Am.*, 890 F.3d at 1021–22. They also recited computers generically.

In *Move, Inc. v. Real Estate Alliance*, 721 F. App'x 950 (Fed. Cir. 2018), the invention related to a graphical user interface for displaying mapped data such as homes in an area that are for sale. The invention was a "zoom feature" that shows more or less meta-data detail depending on how close a user zooms into a particular area. The panel found the claims ineligible because they merely involved collecting and organizing information (step 1) and the claims contained no detail about how to carry out the zoom feature (step 2).

Much of the battle in post-grant is a "race to the finish" with parallel litigation, where whatever case ends first, its result can be used to limit activity in the other case. In *XY, LLC v. Trans Ova Genetics L.C.*, 890 F.3d 1282 (Fed. Cir. 2018), the court held that a patentee is estopped to argue that its claims are valid upon receiving an affirmance of an IPR that found the claims invalid, even when the petitioner in IPR is different than the defendant in the litigation.

§ 2.4 PATENT DISCLOSURE: WHAT IS IN THE FUTURE?

As this chapter moves through different next-big-things, the author has to believe that issues of patent disclosure and patentee over-reaching will take center stage at some point. The issues arise in many areas, but are central to the written description and definiteness requirements under 35 U.S.C. § 112. When patentees get too aggressive, they draft over-broad claims that are not definite and they try to grab content that does not have a strong written description support (typically using hindsight and continuations). When patentees get too aggressive, the Federal Circuit pushes back.

In *BASF Corp. v. Johnson Matthey Inc.*, 875 F.3d 1360 (Fed. Cir. 2017), the district court pushed back but the Federal Circuit said the patent was fine. The claims recited a composition "effective to catalyze" reduction of nitrogen oxides, and the court noted that nothing particular prevents a skilled artisan from identifying a composition based on a recited function and the question requires instead a "context-specific inquiry into whether particular functional language actually provides the required reasonable certainty" in claim scope. *BASF*, 875 F.3d at 1363, 1366. The Federal Circuit faulted the district court inter alia for not noting that the claims and specification both gave exemplary examples, and for crediting testimony about the large number of compounds that would qualify, since that testimony conflated claim breadth with indefiniteness.

In *MasterMine Software, Inc. v. Microsoft Corp.*, 874 F.3d 1307 (Fed. Cir. 2017), the Federal Circuit again reversed a lower court finding of indefiniteness. The panel reasoned that the claims were "simply apparatus claims with proper functional language" rather than improper mixed claims under *IPXL Holdings v. Amazon.com, Inc.*, 430 F.3d 1377 (Fed. Cir. 2005). *MasterMine Software*, 874 F.3d at 1313. The claims recited the apparatus as actively performing certain steps (which at first blush seems problematic under *IPXL*), but the panel reasoned that they simply recited capabilities of the apparatus rather than requirements that the recited actions actually occur.

In *Knowles Electronics LLC v. Cirrus Logic, Inc.*, 883 F.3d 1358 (Fed. Cir. 2018), the court affirmed a PTAB finding that new claims in IPR lacked written description. The specification described connecting solder pads to a printed circuit board, and did not discuss the claimed solder reflow process. Importantly, even though a skilled artisan might have known to use that process, there were other processes available, so that the generic description was not a description of the solder reflow species.

In *Amgen Inc. v. Sanofi*, 872 F.3d 1367 (Fed. Cir. 2017), the claims recited antibodies that reduce bad cholesterol and covered an entire genus, and the issue had been whether the patent disclosed a sufficient number of species. The Federal Circuit held that species developed after the priority date could be centrally relevant and admissible on such an issue. It also faulted the district court for an instruction that told the jury it could look to species whose development was conventional or routine,

reasoning that such a standard harked of enablement and would give the patentee credit for species it did not actually develop and describe.

Written description violations often arise because a patentee messed up a priority claim, and thus cannot reach back to an early filing date. In *Droplets, Inc. v. E*TRADE Bank*, 887 F.3d 1309 (Fed. Cir. 2018), the court held that a failure to properly recite a priority claim could not be back-filled via an incorporation-by-reference in the specification. The court reasoned that 35 U.S.C. § 120 requires a "specific reference" to an earlier filed application and 37 C.F.R. § 1.78 requires that the reference include both the application number and familial relationship, so that an incorporation that did not include that information was defective for making out a priority claim.

§ 2.5 LOCATION, LOCATION, LOCATION

Last year in *TC Heartland*, the Supreme Court shut down patentees' freedom to roam, holding that patent venue was not available anywhere an infringing sale occurred, but only in the corporate defendant's state of incorporation (the one and only place where the company "resides") or where "the defendant has committed acts of infringement and has a regular and established place of business." *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514, 1519 (2017). State of incorporation is easy. Regular and established business is hard. The lead case was *In re Cray, Inc.*, 871 F.3d 1355, 1360 (Fed. Cir. 2017), where the court faulted the Eastern District of Texas for applying an improper four-factor test for venue, and adopted its own three-factor test: "(1) there must be a physical place in the district; (2) it must be a regular and established place of business [not sporadic]; and (3) it must be the place of the defendant." The plaintiff failed on the third factor because the sites to which it pointed were mere personal residences of Cray employees who telecommuted.

In *In re Micron Technology, Inc.*, 875 F.3d 1091 (Fed. Cir. 2017), the court held that a party did not waive its venue defense by failing to make a timely Federal Rule of Civil Procedure 12 motion because *TC Heartland* plainly made a relevant change in the law. The district court could exercise its inherent powers to consider a post-*TC Heartland* venue motion even if Rule 12 did not contemplate such activity.

In *In re HTC Corp.*, 889 F.3d 1349 (Fed. Cir. 2018), the court denied a writ of mandamus on venue, noting that writs are rarely available for venue problems because those problems can be raised in the merits appeal. Also, HTC was an alien defendant that could be sued in any venue under 28 U.S.C. § 1391 (and the district court erred in applying 28 U.S.C. § 1400(b) instead).

In *In re ZTE (USA) Inc.*, 890 F.3d 1008 (Fed. Cir. 2018), the court went back on its statement that writs would be rare in venue appeals by granting ZTE's writ to get out of Texas. The court reasoned that the petition presented the two fundamental issues of which party has the burden on a venue is-

sue, and whether Federal Circuit or regional circuit law applies for determining that issue. On those issues, the Federal Circuit reasoned that its law applies, and that the plaintiff bears the burden.

In *In re BigCommerce*, 890 F.3d 978 (Fed. Cir. 2018), the court again granted mandamus in the same week it said that would be nigh-impossible—again from Texas. Here, the court considered the issue of statewide venue versus per-district venue, and ruled that a domestic corporation resides, not in every district of a state in which it resides, but "only in the single judicial district within that state where it maintains a principal place of business, or, failing that, the judicial district in which its registered office is located." *BigCommerce*, 890 F.3d at 986.

§ 2.6 OBVIOUSNESS – MORE IMPORTANT THAN EVER

With IPRs taking up such a large portion of the court's docket, the central substantive issue in those IPRs—obviousness—is also playing an outsized role. There are no great trends in this area; instead, each decision provides a point that helps fill in the whole painting on obviousness.

The court faced a number of inherency-related issues this year in the context of obviousness. In *Honeywell International Inc. v. Mexichem Amanco Holding S.A.*, 865 F.3d 1348 (Fed. Cir. 2017), the court vacated a ruling of obviousness in an IPR mainly because the PTAB had considered a particular feature inherent, when that feature was unknown. That fact may not be relevant for anticipation by inherency, but it is relevant when inherency is used with obviousness—where the central question is "whether [the supposedly inherent properties] are unexpected." *Honeywell Int'l*, 865 F.3d at 1355. In *Southwire Co. v. Cerro Wire LLC*, 870 F.3d 1306 (Fed. Cir. 2017), the court affirmed an obviousness finding from an IPR. The court faulted the PTAB for finding that a certain property was inherent, but found that error harmless because the PTAB had properly found that the claims and the prior art "appl[y] the same process for the same purpose," and the prior art probably did achieve the allegedly inherent feature. *Southwire*, 870 F.3d at 1311. And in *Monsanto Technology LLC v. E.I. DuPont de Nemours & Co.*, 878 F.3d 1336, 1345 (Fed. Cir. 2018), the court affirmed invalidation from an IPR, holding that the challenger could use non-prior art data to establish the inherency of the relevant feature: "Monsanto confuses prior art with extrinsic evidence used to support what is 'necessarily present' in a prior art's teaching."

Issues surrounding motivations to combine are also evergreen. In *Intercontinental Great Brands LLC v. Kellogg North America Co.*, 869 F.3d 1336 (Fed. Cir. 2017), the court affirmed a finding of obviousness, holding that the court did not need to consider evidence of commercial success *before* it found that there was a motivation to combine two prior art references. The court had to give such evidence "fair weight," but not necessarily as part of the motivation to combine analysis. *Intercontinental Great Brands*, 869 F.3d at 1346. It is not clear whether the procedural ordering for which the patentee advocated would make a difference in many cases, but it does reflect a general preference

by the court to maintain obviousness as a flexible doctrine that meets the facts of each case rather than one that depends on bright-line rules.

The Federal Circuit re-emphasized that fact findings can play an important role in an obviousness case in *Arctic Cat Inc. v. Bombardier Recreational Products Inc.*, 876 F.3d 1350 (Fed. Cir. 2017). There, the defendant had argued that the patentee simply combined a traditional personal watercraft with a steering system from similar small jet-powered boats. But the jury had found the claims valid, and the Federal Circuit identified substantial evidence to support that finding, including prior statements of skepticism by the defendant's expert and evidence that the number of available solutions to the relevant problem were many, and not just the four categories that the defendant had accumulated. To that end, the decision is similar to the court's en banc decision last year in *Apple Inc. v. Samsung*, which affirmed a jury finding of non-obviousness.

In *Praxair Distribution, Inc. v. Mallinckrodt Hospital Products IP Ltd.*, 890 F.3d 1024 (Fed. Cir. 2018), the court noted that mental steps in a claim do not get any patentable weight just as in the printed matter doctrine, so the court affirmed obviousness rejections.

§ 2.7 CLAIM CONSTRUCTION – STILL A FREQUENT ISSUE

Because the court reviews claim construction issues de novo, every appellant tries to fit some claim construction dispute into its case. So claim construction makes up a large portion of the court's docket.

Some such issues relate to the procedure of claim construction and when a court or the Board needs to provide a construction. In *Sumitomo Dainippon Pharma Co. v. Emcure Pharmaceuticals Ltd.*, 887 F.3d 1153 (Fed. Cir. 2018), the court held that it did not have to resolve claim construction disputes beyond a level needed to determine that the accused structure would infringe. In *Homeland Housewares, LLC v. Whirlpool Corp.*, 865 F.3d 1372 (Fed. Cir. 2017), the Board refused to construe a particular term, and the court ruled that it needed to because the parties disputed the construction in a meaningful way. The Federal Circuit then construed the term, rejecting positions from both parties, and then, because of that construction, reversed the Board's holding that the prior art did not anticipate. This case is important because it shows that the same requirements for claim construction imposed on district courts in this area will also apply to the Board—but parties should not get too excited because they are still going to have to show that their preferred construction is correct and that it makes a difference.

The court has long been wary about giving patentable weight to terms that occur only in a claim's preamble. In *Georgetown Rail Equipment Co. v. Holland L.P.*, 867 F.3d 1229, 1235 (Fed. Cir. 2017), the court agreed with a district court that a term in the preamble was not limiting, because it did not recite the invention's "essential structure" (the invention related to a digital device for

inspecting railroad plates, and the preamble said it was to be mounted to a vehicle), did not recite anything that the specification indicated to be important to the invention, was not referenced in the claim body, and was not relied upon by the patentee during prosecution. It was, "[i]n the context of the entire patent, … meant to describe the principal intended use of the invention." *Georgetown Rail Equip.*, 867 F.3d at 1236–37.

The court also continues to struggle in educating district courts regarding the identification and treatment of so-called means-plus-function elements. In *Skky, Inc. v. MindGeek, s.a.r.l.*, 859 F.3d 1014, 1018 (Fed. Cir. 2017), the court found that "wireless device means" was not in means-plus-function format because it recited sufficient structure, and the court then rejected the patentee's effort to limit the term to a device that has multiple processors. In *Zeroclick, LLC v. Apple Inc.*, 891 F.3d 1003 (Fed. Cir. 2018), the court vacated a judgment of indefiniteness, holding that two terms that lacked the term "means" were not in means-plus-function form. Terms like "program" and "user interface code" were not mere nonce words: "The mere fact that the disputed limitations incorporate functional language does not automatically convert the words into means for performing such functions." *Zeroclick*, 891 F.3d at 1013. In *IPCom GmbH & Co. v. HTC Corp.*, 861 F.3d 1362 (Fed. Cir. 2017), the court had previously found a particular limitation to be in means-plus-function format, and in this appeal, it faulted the Board for questioning the parties' respective identifications of corresponding algorithm structure in the specification, but failing to identify what algorithm was part of the corresponding structure.

In *Praxair Distribution, Inc. v. Mallinckrodt Hospital Products IP Ltd.*, 890 F.3d 1024 (Fed. Cir. 2018), the court noted that mental steps in a claim do not get any patentable weight just as in the printed matter doctrine.

In *In re Nordt Development Co., LLC*, 881 F.3d 1371 (Fed. Cir. 2018), the court disagreed with the Board that "injection molded" was a mere process limitation that did not carry patentable weight. The court reiterated what it has said many times—i.e., that the limitation is a limitation if it is a limitation, or in the context of a product claim, process terminology is limiting "[i]f the process limitation connotes specific structure and may be considered a structural limitation." *Nordt Dev.*, 881 F.3d at 1374. In the particular case, there were structural differences between knee braces made via injection molding and via other processes.

§ 2.8 LITIGATION – ANOTHER GRAB BAG

The Federal Circuit did not disappoint litigators this year, deciding a number of cases about the general procedure of litigation and other related topics.

The Supreme Court got into the issue of litigation defenses in *Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523 (2017), where it held that even a patentee's sale of a prod-

uct outside the United States exhausts the patentee's rights in the product. In this particular case, the products were ink jet cartridges sold overseas, and then subsequently refilled by third parties and imported into the United States to be sold in competition with the patentee's new and more expensive cartridges. The patentee might have a contract claim, but not a patent claim. This decision will be of most concern to companies facing their own remanufactured products, or companies that sell the same product in the United States for much more than they sell it overseas.

The Federal Circuit cleared up some lingering confusion on required proofs for split infringement post-*Akamai*. In the key case *Travel Sentry, Inc. v. Tropp*, 877 F.3d 1370 (Fed. Cir. 2017), the court held that one party could control another at a distance so as to satisfy the requirements for infringement. The invention was a TSA-compliant travel lock, and the question was whether the defendant exerted sufficient control over the TSA, which practiced some of the steps of the asserted method claims. First, the defendant had an agreement with the TSA by which the latter agreed to pass out special keys and instructions for using them—which brought an implication that the TSA would benefit and the defendant had "condition[ed]" those benefits. Second, a reasonable jury could find the defendant conditioned the manner and timing of the TSA's performance even though it did not supervise that performance. By this case, even though the court did not announce an expansion of the law under *Akamai*, its holding indicates that it will be open to finding infringement even when a patentee's efforts are not directly tied to the infringing steps.

The Federal Circuit also affirmed the unenforceability of patents in two cases this year—one for inequitable conduct and one for unclean hands. In the first, *Regeneron Pharmaceuticals, Inc. v. Merus N.V.*, 864 F.3d 1343 (Fed. Cir. 2017), the district court drew an "adverse inference" on the inequitable conduct issue due to violations of discovery orders by the defendant in litigation. This appears to be the first time the court has allowed conduct outside of prosecution to have such a strong effect on a finding of inequitable conduct, and prosecutors are understandably concerned because they do not want to be bundled up with bad litigators (especially since an inequitable conduct finding can lead to ethics problems in the USPTO). In the unclean hands case, *Gilead Sciences, Inc. v. Merck & Co., Inc.*, 888 F.3d 1231 (Fed. Cir. 2018), a patent prosecutor had listened in on a telephone conference when his employer, the patentee, was considering buying the defendant. He subsequently amended the patentee's then-pending claims, which the patentee then asserted against the defendant. The patentee argued no-harm-no-foul because the information the attorney learned ultimately became public, but the court rejected that argument. The court also noted that litigation counsel helped the prosecuting attorney cover up his role, and it thus affirmed the district court's finding of litigation misconduct. The lesson: these defenses have been cut back by the holding and tenor of the court's en banc *Therasense* decision, but if the facts are really bad, the defenses can still win.

The court also decided a couple privilege issues this year. In *In re OptumInsight, Inc.*, 2017 U.S. App. LEXIS 13483 (Fed. Cir. July 20, 2017), the court applied a privilege waiver by a

company that occurred before it merged with another company, so that the waiver applied to post-merger communications. Add this to the list of things to watch out for when conducting IP due diligence in corporate transactions.

The court considered basic patent law pleading requirements in *Lifetime Industries, Inc. v. Trim-Lok, Inc.*, 869 F.3d 1372 (Fed. Cir. 2017). The patentee there argued that it needed to plead only according to Form 18 from the Federal Rules of Civil Procedure, but the court explained that the form was wiped out in 2015. Although the patentee had filed its complaint when Form 18 was still valid, the abrogation of the rule applied to all future and pending cases. All that discussion was pointless, though, because the Federal Circuit found that the complaint met the *Iqbal*/*Twombly* standard. Similarly, the court held in *Disc Disease Solutions Inc. v. VGH Solutions, Inc.*, 888 F.3d 1256, 1260 (Fed. Cir. 2018) that *Iqbal*/*Twombly* was met by a complaint that attached the patent, specifically identified (by name and with photos) the accused products, and clearly alleged that the accused products meet "each and every element of at least one claim … either literally or equivalently."

Finally, the court clarified its "practicing the prior art" case law in *01 Communique Laboratory, Inc. v. Citrix Systems, Inc.*, 889 F.3d 735 (Fed. Cir. 2018). There, the panel noted that its prior law only blocked efforts to undercut a literal infringement claim by pointing to similarities between the accused product and the prior art, but it did not prevent a defendant from emphasizing that a patent must be construed consistently for infringement as for validity: "[W]e have never suggested that any comparison between an accused product and the prior art mandates a new trial." *01 Communique Lab*., 889 F.3d at 743.

§ 2.9 REMEDIES

Litigation is fun only if there is some meaningful remedy at the end, and the Federal Circuit has spent another year polishing its law on remedies, including damages, injunctions, and fees.

Apportionment of damages in the reasonable royalty context came up in two cases this past January. In *Finjan, Inc. v. Blue Coat Systems, Inc.*, 879 F.3d 1299 (Fed. Cir. 2018), the court reversed a reasonable royalty award under the rationale that patentee had failed to apportion its damages to the inventive feature under a reasonable royalty damages theory. This decision opens up various areas of the apportionment law the court has applied in the lost profits area to reasonable royalty cases. In *Exmark Manufacturing Co. v. Briggs & Stratton Power Products Group, LLC*, 879 F.3d 1332 (Fed. Cir. 2018), the court pulled apart another reasonable royalty award, this time for failing to apportion even where the claim recited the larger, and more expensive product. While the court was open to an expert apportioning in either the royalty base or the royalty rate, it required that the advance of the invention over the prior art somehow be accounted for by the expert, even if the claim did not recite only that invention. This decision is very important because it prevents clever claim drafters from

changing what the royalty base or rate will be—since the court is going to look behind the particular approach to claiming and instead is going to consider the real invention that underlies the claims.

In the area of marking, the court held in *Arctic Cat Inc. v. Bombardier Recreational Products Inc.*, 876 F.3d 1350 (Fed. Cir. 2017) that the initial burden of production to show that a patentee's licensee had a product that practiced the claims but did not mark it rested on a defendant, but that the burden was very low. In this case, it was enough that the defendant's expert said in a conclusory manner that he had looked at the relevant products and he believed they practiced the claims. The patentee then has a chance to respond and carry its ultimate burden of persuasion.

The court also continues to make injunction law. In *Amgen Inc. v. Sanofi*, 872 F.3d 1367 (Fed. Cir. 2017), the Federal Circuit faulted the district court for: (1) issuing a permanent injunction even though it found that such an injunction would not serve the public interest; and (2) reasoning that removal of a drug from the market is an ipso facto harm to the public since this rationale would essentially always lead to an injunction in a drug case. The court went the opposite way in *Genband US LLC v. Metaswitch Networks Corp.*, 861 F.3d 1378 (Fed. Cir. 2017), vacating a denial of permanent injunction. The Federal Circuit could not tell whether the district court had improperly required a showing that the infringing feature was *the* driver of consumer decisions, or properly just *a* driver of a substantial number of consumer decisions. The court was also concerned that the district court may have applied a per se rule that the patentee could not get an injunction simply because it delayed a couple years in filing suit.

The Supreme Court made an important holding about damages where infringing activity occurs outside the United States, in *WesternGeco L.L.C. v. ION Geophysical Corp.*, No. 16-1011, 2018 U.S. LEXIS 3842 (U.S. June 22, 2018). The Court there held that damages could be recovered for infringement under 35 U.S.C. § 271(f)(2) that occurred via foreign action because the question is more one of proximate cause under general legal rules such as those from *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090 (2016). Although the Court explicitly limited its holding to the fairly uncommon provision of section 271(f)(2), one can certainly expect parties to use this decision in the much more common context of 35 U.S.C. § 271(a).

The Federal Circuit has also been all over the place in its treating of attorney fee awards. In *AdjustaCam, LLC v. Newegg, Inc.*, 861 F.3d 1353 (Fed. Cir. 2017), the court reversed a denial of fees because the district court judge had relied too heavily on a pre-*Octane Fitness* analysis a prior judge had conducted, and because the district court had failed to appreciate the extreme weakness of the patentee's litigating position and the fact that the patentee kept litigating well after it should have known how weak its position was. In *Inventor Holdings, LLC v. Bed Bath & Beyond, Inc.*, 876 F.3d 1372, 1379 (Fed. Cir. 2017), the court affirmed an award of attorney fees in a section 101 case where the district court had found that the patentee should have dropped its case as soon as *Alice* issued, even though the claims had survived a section 101 challenge before *Alice*—there was "no

uncertainty or difficulty" in finding that *Alice* killed these claims even though it might be unclear in other cases. In *Stone Basket Innovations, LLC v. Cook Medical LLC*, 892 F.3d 1175 (Fed. Cir. 2018), the court affirmed a refusal to award fees against a patentee, noting that fees need not be awarded simply because a case was weak on the substance, and that although the patentee had filed a number of suits, the district court had evidence to find that the suits were not improperly aimed only at getting a settlement. In *Raniere v. Microsoft Corp.*, 887 F.3d 1298 (Fed. Cir. 2018), the court confirmed that a dismissal with prejudice for lack of standing sufficed to make the defendants "prevailing parties" for purposes of a fee and cost award. And in *Energy Heating, LLC v. Heat On-The-Fly, LLC*, 889 F.3d 1291, 1307 (Fed. Cir. 2018), the court held that where the district court had found inequitable conduct, it needed to explain its subsequent refusal to award fees: "Just as it is incumbent on a trial court to articulate a basis for finding a case exceptional, it is equally necessary to explain why a case is not exceptional in the face of an express finding of inequitable conduct."

In *AIA America, Inc. v. Avid Radiopharmaceuticals*, 866 F.3d 1369 (Fed. Cir. 2017), the court held there was no jury trial right in an attorney fees determination—i.e., it is a typical equitable consideration for a court, not a jury.

§ 2.10 LOOKING FORWARD

The patent world is pretty quiet right now with the Supreme Court having recently cleared its docket and the Federal Circuit not getting many really large cases. The Supreme Court does have a single patent case on its docket—*Helsinn Healthcare S.A. v. Teva Pharmaceutical USA, Inc.*, No. 17-1299, 2018 U.S. LEXIS 3884 (U.S. June 25, 2018) (granting certiorari). There, the question is whether a secret sale triggers the on-sale bar for post-AIA patents just as it did for pre-AIA patents. The Federal Circuit held that the bar is triggered if the sale is public, even if the details of the sale are private. Here, there was a bar because the transactions were made publicly available through SEC filings.

The Court is sitting on a certiorari petition in *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275 (Fed. Cir. 2017), after having asked the administration (in April 2018) for its views. The petition centers on the issue of assignor estoppel and whether it should be wiped out partially or totally.

Everyone should be aware by now of the sovereign immunity challenges being made to the USPTO's institution of IPR proceedings. Some of the cases involve state actors in the form of state universities, but the lead case, *Mylan Pharmaceuticals Inc. v. Saint Regis Mohawk Tribe*, Docket No. 18-1638, involves a Native American tribe. The tribe received rights in patents previously owned by Allergan, where the transfer took place after all briefing had occurred in the IPR, and the hearing was soon to occur. The IPR has been stayed while the Federal Circuit considers the tribe's argument that it (and its patents) cannot be dragged into an administrative proceeding of this type.

The case will likely be decided by the Federal Circuit determining either that IPRs are similar to district court litigation where immunity is available, or are similar to administrative enforcement proceedings where it generally is not. The petitioners and the government center their case on the USPTO Director's decision to institute, and how that (according to them) makes this more like an enforcement proceeding, where the agency shows that it has skin in the game. There is a separate issue whether Allergan and the tribe transferred enough rights to the tribe so that Allergan (which has no immunity) should no longer be in the IPR.

It should be a great coming year in patent law. Practitioners can expect to see further sharpening of the traditional doctrines, and hopefully a new movement in some areas of the law that have been quieter than necessary lately.

The Top 10 Federal District Court Patent Cases of 2017–18

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§ 3.1 INTRODUCTION

The number of patent cases filed in 2017 and into 2018 was certainly down, but that had no effect on the number of important and interesting district court patent cases tried to a jury or decided by the trial court judges. Apple alone was probably involved in 10 district court cases worthy of analysis and commentary, although for variety, only two will be discussed here.

A top 10 list such as this is inherently subjective. Cases were not necessarily chosen because of the large monetary awards, but several such cases, of course, made the list. Pharmaceutical drug cases continue to involve enormous jury awards and corporate high stakes, and several are discussed in this chapter. The list also cannot help but include several 35 U.S.C. § 101 invalidity cases, as the federal trial courts continue to grapple with changes in section 101 jurisprudence and the surge of accused infringers asserting the defense.

§ 3.2 THE TOP 10 FEDERAL DISTRICT COURT PATENT CASES

A. *Apple Inc. v. Samsung Electronics Co. Ltd.*, No. 11-CV-01846-LHK, 2017 WL 4776443 (N.D. Cal. Oct. 22, 2017)

The case making the most headlines in patent circles in 2017 to 2018 is, of course, *Apple v. Samsung* and the parties' design patent battles involving smartphones. The value that several Northern District of California juries, including one in May 2018, have now attributed to infringement of Apple's *design patents* covering aspects of the shape and look of Apple's iPhones is startling. *Apple v. Samsung* may significantly change how many practitioners view the value of design patents going forward.

In April 2011, Apple accused various Samsung smartphones of, among other things, design patent infringement. Apple's asserted design patents are: (1) D618,677 which covers a black rectangular front face of a phone with rounded corners; (2) D593,087 which covers a rectangular front face of a phone with rounded corners and a raised rim; and (3) D604,305 which covers a grid of 16 colorful icons on a black screen. *Apple Inc. v. Samsung Elecs. Co. Ltd.*, No. 11-CV-01846-LHK, 2017 WL 4776443, at *2 (N.D. Cal. Oct. 22, 2017). After a 13-day trial in July and August 2012, a Northern California jury found Samsung infringed all three Apple design patents, some utility patents, as well as violated Apple's trade dress. *Id.* at *4. The jury awarded over $1 billion in damages. *Id.* On Samsung's post-trial motion for judgment as a matter of law (JMOL), the district court (Judge Koh) struck approximately $410 million from the jury award because Apple's damages theory relied on improper dates of notice of infringement to Samsung. *Id.* The court ordered a new trial on damages as to the affected products only. In the subsequent November 2013 trial, the jury awarded Apple $290 million (down from the $410 award), bringing the total award from the two trials to approximately $930 million for Samsung's infringement of Apple's design patents, utility patents, and violation of Apple's trade dress. *Apple*, 2017 WL 4776443, at *5. The court entered final judgment in favor of Apple. *Id.*

Appeals by Samsung eventually brought the case to the U.S. Supreme Court, which granted certiorari to analyze certain issues with the design patent damages provision, 35 U.S.C. § 289, which reads:

> Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.

Specifically, the U.S. Supreme Court granted certiorari on the question: "Where a design patent is applied to only a component of a product, should an award of an infringer's profits be limited to those profits attributable to the component?" *Samsung Elecs. Co. v. Apple Inc.*, 136 S. Ct. 1453 (2016). The Court held that determining profits under section 289 involves two steps: "First, identify the 'article of manufacture' to which the infringed design has been applied. Second, calculate the infringer's total profit made on that article of manufacture." *Samsung Elecs. Co., Ltd. v. Apple Inc.*, 137 S. Ct. 429, 434 (2016). On the first step, the Court held that the "article of manufacture" for which total profits are awarded under section 289 was not necessarily limited to the product that is sold to consumers, but may be either "a product sold to a consumer [or] a component of that product." *Id.* However, the Court "decline[d] to lay out a test for the first step of the § 289 damages inquiry in the absence of adequate briefing by the parties." *Id.* at 436.

The case was remanded to the Federal Circuit which, in turn, remanded the case back to the district court holding that:

> [T]he trial court should consider the parties' arguments in light of the trial record and determine what additional proceedings, if any, are needed. If the court determines that a new damages trial is necessary, it will have the opportunity to set forth a test for identifying the relevant article of manufacture for purpose of § 289, and to apply that test to this case.

Apple Inc. v. Samsung Elecs. Co. Ltd., 678 F. App'x 1012, 1014 (Fed. Cir. 2017).

Thus, in 2017, Northern District of California Judge Koh was in the interesting, and presumably relatively rare, situation where a district court is actively encouraged by the appellate court to create new law, and to design a test for an important statutory damages issue that would have significant effect, *and* then to determine whether a new damages trial was necessary on a jury verdict approaching $1 billion. On October 22, 2017, the district court issued an order on whether a new trial was required and determined the legal test for identifying the relevant "article of manufacture" for purposes of section 289. *See Apple*, 2017 WL 4776443, at *1.

With respect to the legal test for identifying the "article of manufacture," the district court reviewed the competing proposals of the parties and also a proposal by the United States, which had earlier submitted an amicus brief before the U.S. Supreme Court on the issue. *Id*. at *7–8. The district court determined that the four-factor test proposed by the United States (and mostly agreed to by the parties) most accurately embodied the relevant inquiry as to the "article of manufacture" for purposes of design patent damages under section 289. The district court's four-factor test, which may become bedrock patent law one day, is:

1. The scope of the design claimed in the plaintiff's patent, including the drawing and written description.

2. The relative prominence of the design within the product as a whole.

3. Whether the design is conceptually distinct from the product as a whole.

4. The physical relationship between the patented design and the rest of the product, including whether the design pertains to a component that a user or seller can physically separate from the product as a whole, and whether the design is embodied in a component that is manufactured separately from the rest of the product, or if the component can be sold separately.

Id. at *8, *11.

The district court then determined the respective burdens of persuasion and production for its new four-factor test. *Id.* at *12–15. The court held that:

> [T]he plaintiff bears the burden of persuasion on identifying the relevant article of manufacture and proving the total profit on that article. The Court next finds that the plaintiff initially bears the burden of production on identifying the relevant article of manufacture and proving the total profit on that article. If the plaintiff satisfies this burden of production, the burden of production then shifts to the defendant to come forward with evidence of an alternative article of manufacture and evidence of a different profit calculation, including any deductible costs.

Id. at *12.

With respect to Samsung's request for a new trial, the district court readily found that the jury instruction regarding design patent damages had been erroneous and prejudicial, and Samsung was entitled to a new trial. *Apple*, 2017 WL 4776443, at *16–19. The jury instruction provided at trial, obviously without the benefit of the Supreme Court's guidance or the new test devised by Judge Koh, did not instruct the jury that an "article of manufacture" can be "a product sold to a consumer or a component of a product sold to a consumer." *Id.* at *16. According to the district court, without such an instruction, the jury was directed to find that the "article of manufacture" and accused product are the same. *Id*. The district court easily found the legally erroneous instruction to be prejudicial. "[T]he Court finds that a properly instructed jury may have found that the relevant article of manufacture for each of the design patents was something less than the entire phone." *Id*. at *19. The district court then ordered a new trial on damages for the Apple design patents. *Id*.

The new trial on damages was held in May 2018. In light of court rulings, Samsung was now free to argue that the damages base should not be the total profits for the entire phone, but rather profits from some components thereof. The jury was instructed as to the four-factor test for determin-

ing the "article of manufacture" for purposes of design patent damages. The jury was also instructed of the parties' respective positions on what the "article of manufacture" at issue was:

> In this case, Apple contends that the articles of manufacture to which Samsung applied Apple's patented designs are the whole phones. Samsung contends that the articles of manufacture are a component or collection of components of each phone. Specifically, for the D'677 patent, Samsung contends the article of manufacture is a phone's round-cornered, black glass front face. For the D'087 patent, Samsung contends the article of manufacture is a phone's round-cornered, glass front face and surrounding rim or bezel. For the D'305 patent, Samsung contends that the article of manufacture is a phone's display screen.

Id.

The jury returned a damages award on May 24, 2018. All of Samsung's apparent legal victories regarding design patent damages have not done much for Samsung so far. The jury awarded Apple approximately $539 million in damages, with approximately $533 million of that being attributed to infringement of Apple's design patents. *Id.*

B. *Idenix Pharmaceutical LLC v. Gilead Sciences, Inc.*, No. 14-846-LPS, 2018 WL 922125 (D. Del. Feb. 16, 2018)

Patent infringement cases related to pharmaceutical drugs can bring eye-popping damages awards, but as the *Idenix v. Gilead* case in the District of Delaware shows, such large awards can disappear quickly on issues that were never that prominent during the case. Successful patentees should never count their damages until the money is in hand.

Idenix and Gilead are both involved in ground-breaking work in the field of treatment for the Hepatitis C Virus (HCV) infection, which claims thousands of lives every year. *Idenix Pharm. LLC v. Gilead Scis., Inc.*, No. 14-846-LPS, 2018 WL 922125, at *1–2 (D. Del. Feb. 16, 2018). Idenix accused Gilead's Harvoni and Sovalid drugs of infringing of its U.S. Patent No. 7,608,597 entitled "Methods and Compositions for Treating Hepatitis C Virus." *Id*. Idenix's '597 patent relates to modifying nucleosides with placement of a certain methyl group CH3 in the nucleosides 2' ("two prime") position. *Id*. at *2. The modified nucleoside was found to act as an antiviral agent with respect to HCV that prevented HCV from replicating. *Id.*

Prior to trial, Gilead moved for summary judgment on several issues, including that the Idenix patent claims were invalid under 35 U.S.C. § 112 for failure to meet the written description requirement. *Idenix*, 2018 WL 922125, at *2. In fact, Gilead twice moved for summary judgment of invalidity based on written description, the second time via a renewed summary judgment motion.

Id. at *8. The court denied Gilead's motion both times. *Id*. at *8 ("[T]he Court twice declined to grant Gilead summary judgment on lack of written description.").

As trial approached, Gilead stipulated that, under the district court's claim construction, Gilead's Harvoni and Sovalid drugs infringed Idenix's patent. *Id.* at *1. A two-week jury trial was then held in December 2016. The Delaware jury found that Gilead had not met its burden in showing the Idenix patent claims were invalid, and awarded Idenix a massive $2.54 *billion* in damages for Gilead's admitted infringement of the '597 patent. *Id*.

In its post-trial motion for JMOL, Gilead once again moved for a finding that Idenix's patent was invalid for failure to meet the written description of section 112. *Idenix*, 2018 WL 922125, at *3. Gilead also moved, for the first time in the case, for a finding that Idenix's patent was invalid for failure to meet the related enablement requirement of section 112. *Id*. In a February 16, 2018 opinion, the court again denied Gilead's motion for invalidity for failure to meet the written description requirement, noting that it had on two prior occasions considered the identical dispute and decided against Gilead. *Id*. at *9.

The court then took up Gilead's arguments regarding enablement. The court started its analysis with its earlier claim construction. Claim 1 of Idenix's '597 patent recites (key terms highlighted):

> 1. *A method for the treatment of a hepatitis C virus infection*, comprising administering *an effective amount* of a purine or *pyrimidine B-D-2'-methyl-ribofuranosyl nucleoside* or a phosphate thereof, or a pharmaceutically acceptable salt or ester thereof.

Id. at *10. The court had construed portions of that claim as requiring what the court termed "Structural Limitations" and "Functional Limitations." *Id*. at 11. Structural limitations were the "or pyrimidine B-D-2'-methyl-ribofuranosyl nucleoside." *Id.* Functional limitations were the claim preamble "A method for the treatment of a hepatitis C virus infection" (which the court found to be limiting) and its "effective amount." *Id.*

Enablement is a question of law based on underlying factual findings. *MagSil Corp. v. Hitachi Glob. Storage Techs., Inc.,* 687 F.3d 1377, 1380 (Fed. Cir. 2012). To be enabling, the specification of a patent must teach those skilled in the art how to make and use the full scope of the claimed invention without undue experimentation. *Id.*

The Delaware district court considered the Federal Circuit's *Wands* factors in determining whether Idenix's patent claims required "undue experimentation" to make and use them. *Idenix*, 2018 WL 922125, at *10, *21. The *Wands* factors are: (1) the quantity of experimentation necessary; (2) the amount of direction or guidance presented; (3) the presence or absence of working examples;

(4) the nature of the invention; (5) the state of the prior art; (6) the relative skill of those in the art; (7) the predictability or unpredictability of the art; and (8) the breadth of the claims. *Id.* (citing *In re Wands*, 858 F.2d 731, 737 (Fed. Cir. 1988)).

The Delaware court considered the following undisputed facts, or what the court believed were not reasonably disputed facts, important in analyzing whether the asserted Idenix patent claims would require undue experimentation to make and use the invention. *Id*. at *12–20. Each fact supported the Delaware district court's conclusion that the claims required undue experimentation:

1. The structural limitations of the claims covered billions of compounds. According to the court, "[s]ince the compounds of the claims include multiple locations for binding … the sum is an indeterminate number measured in the billions." *Id.* at *12.

2. As an example, one of the 18 "principal embodiments" disclosed in the patent specification by itself disclosed at least a minimum of approximately 7,000 unique configurations of compounds. *Id.*

3. Idenix argued that a person of skill in the art (POSA) would know not to fill the structural limitations with just any element (the example given by Idenix of an element no one would use was "radioactive plutonium") and thus the number of compounds within the structural limitations was "significantly smaller." The court, however, found that even in Idenix's POSA's view, the number of compounds would still be in the "many thousands." The court referred to those compounds as "Refined Structural Limitations." *Id.* at *13.

4. The functional limitations—that the claims required effective treatment of HCV—would result in far fewer compounds satisfying the patent claims as construed. "Hence, the Functional Limitations greatly reduce the scope of the claims." *Id*. at *14.

5. The "two prime" methyl group position (discussed above) described in Idenix's patent was "key" to curing HCV, "but not nearly sufficient to result in the invention." *Id.*

6. To synthesize every compound that met the refined structural limitations would require a great deal of time and effort. The vast majority of the compounds were not available "off the shelf" and had to be synthesized or made. The court cited undisputed testimony that an average chemist could only make two to three of the compounds a month (again, thousands were covered by the refined structural limitations of the claims). *Id.* at *15–16.

7. Synthesis of the compound in Gilead's accused (and admittedly infringing) products was neither simple nor routine, as evidenced by Idenix's *own* failures to synthesize that compound. The court cited to evidence that Idenix had reported many failures over a period of years in trying to synthesize the very compound at issue in the case. *Id*. at *16–17.

8. At the time of the invention, synthesizing and modifying nucleosides for treatment of HCV was in its infancy as a technology. *Id.* at *18.

9. Even for compounds that satisfied the refined structural limitations (most of which, again, would need to be synthesized), it would have been necessary to screen those compounds to determine if they met the functional limitations of the claims. *Id.* at *19. Such screening would take additional time and effort. The court cited testimony from Idenix witnesses that one cannot know whether a compound will be effective against HCV until it is made and tested. *Id*. The court found that "a reasonable jury could only have found that screening would have been a significant rate-limiting factor, as screening would have been necessary, takes time, yields unpredictable results, and would need to be undertaken repeatedly." *Id.*

Thus, according to the court, "the number of effective compounds is far smaller than (a) the number of compounds meeting just the Structural Limitations, (b) the number of compounds meeting just the Refined Structural Limitations, and (c) the range of compounds disclosed as potential embodiments in the patent's specification." *Id.* at *21. Further, according to the court, "[t]his fact, however, would leave a POSA asking herself the crucial question: which of the compounds meeting the Refined Structural Limitations also satisfy the Functional Limitations? A reasonable factfinder could only conclude that the patent fails to provide this necessary information." *Id.* As a summary conclusion, the court provided the following: "Because the Structural Limitations are satisfied by such a large number of compounds, and because of the other *Wands* factors as applied here, the amount of experimentation to refine this broad set of compounds to those that also satisfy the Functional Limitations, given the limited teachings on this point in the patent and the state of the prior art, is an 'undue' amount." *Id.* at *23.

The district court seemed to express surprise that Gilead had not raised the issue of enablement with the court prior to the post-verdict JMOL proceedings. *See id.* at *8 ("[t]his being the Court's first occasion to evaluate whether any genuine disputes of material fact preclude resolution of the enablement issue as a matter of law …"). With the court's finding of invalidity for lack of enablement, Idenix's $2.54 billion damages award may ultimately disappear if appeals go Gilead's way. The comprehensive district court opinion on enablement may provide guidance to practitioners

in the complicated, challenging, and high stakes world of prosecuting pharmaceutical patent applications that meet all the statutory requirements of patentability.

C. *VirnetX, Inc. v. Apple Inc.*, No. 6:12-CV-00855-RWS, 2017 WL 9565675 (E.D. Tex. Sept. 29, 2017)

"You win some, you lose some" as the saying goes. It is a possibility that, when all is said and done with federal appeals and U.S. Patent and Trademark Office (USPTO) proceedings, Apple may take a jury award from the *Apple v. Samsung* litigation and use it to pay some or all of the jury awards in 2017 and 2018 in patent infringement cases brought against Apple by VirnetX in the Eastern District of Texas.

Procedurally, the *VirnetX v. Apple* cases are complex—has there ever been another instance where two patent cases were consolidated for trial, a consolidated trial was held resulting in a verdict for the plaintiff, but then *two* new trials were ordered because the very order consolidating the two cases into one trial directly resulted in the defendant being unfairly prejudiced at the consolidated trial? The ongoing legal saga started in August 2010 when VirnetX, a well-known non-practicing entity, accused Apple's "VPN on Demand" feature (on various Apple devices) and Apple's FaceTime feature of infringing four VirnetX patents related to creating virtual private networks (VPNs) between a client and target computer and to secure domain name services (the case will be referred to here as "*Apple I*"). *VirnetX, Inc. v. Apple Inc.*, No. 6:12-CV-00855-RWS, 2017 WL 9565675, at *1 (E.D. Tex. Sept. 29, 2017). On November 6, 2012, an Eastern District of Texas jury found Apple's accused VPN on Demand and Facetime infringed the asserted VirnetX patents and that the asserted patents were not invalid. *Id*. The jury awarded VirnetX $368 million in damages. Apple appealed to the Federal Circuit, which affirmed the jury finding that Apple's VPN on Demand infringed VirnetX's patents, but reversed the infringement finding with respect to FaceTime. *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1313–14 (Fed. Cir. 2014). The Federal Circuit found that the district court erroneously construed the claim term "secure communication link," and that claim term required "anonymity" in addition to security. *Id*. at 1319. Accordingly, the Federal Circuit remanded to determine whether Apple's FaceTime feature provides the required anonymity. The Federal Circuit also vacated the damages award to VirnetX finding, among other things, that the district court had provided an erroneous instruction to the jury regarding the "entire market value" rule, specifically that the entire market value of a product could be used as a base for damages so long as the product was the "smallest saleable unit" containing the patent feature. *Id*. at 1327.

In the meantime, VirnetX had filed another patent infringement suit against Apple ("*Apple II*") on the same patents, but accusing new "redesigned" versions of VPN on Demand and FaceTime of infringement. *VirnetX Inc. v. Apple Inc.*, No. 6:10-cv-00417-RWS, 2016 WL 4063802 (E.D. Tex. July 29, 2016). VirnetX also accused Apple's iMessage feature of infringement. *Id*. When *Apple I*

was remanded by the Federal Circuit, the district court consolidated *Apple I* and *Apple II* for trial. *Id*. On February 3, 2016, the jury awarded VirnetX nearly $335 million in damages for the uncontested infringement of the "original version" of VPN on Demand (infringement had been found and previously affirmed by the Federal Circuit). *VirnetX*, 2017 WL 9565675, at *19. The jury also found that Apple's redesigned version of VPN on Demand, original and redesigned versions of FaceTime, and its iMessage product infringed VirnetX's patents and awarded $290 million in *additional* damages for that infringement. In total, the damages award to VirnetX was $625 million.

But the substantial work by all involved in the consolidated trial was largely for naught. On Apple's post-trial motion for a new trial, the district court found that the consolidation of the cases coupled with repeated references to the previous jury verdict in *Apple I*, created a potential for jury confusion and unfairly prejudiced Apple's right to a fair trial. *VirnetX*, 2016 WL 4063802, at *1. The district court vacated its earlier consolidation order and set the *Apple I* and *Apple II* cases for two new (and separate) trials. *Apple I* went to trial, for the third time, with respect to whether FaceTime infringed, and the amount of damages for already adjudicated infringement by VPN on Demand and, if proved, Apple's FaceTime. On September 30, 2016, the jury found Apple's FaceTime infringed and this time awarded $302 million to VirnetX as damages (an amount somewhat reduced from the previous $368 million jury award in 2012). *VirnetX*, 2017 WL9565675, at *2. Apple filed post-trial motions on many grounds attacking both the infringement finding and the amount of damages. *Id*. at *1. VirnetX, on the other hand, requested a post-trial finding by the court that Apple's infringement was willful, and also requested that damages be enhanced by 50 percent during any period of willful infringement, that the case be declared exceptional under 35 U.S.C. § 285, and that VirnetX be awarded attorney's fees and costs. *Id*. at *19, *25.

On September 29, 2017, almost a year to the date of the *Apple I* trial verdict, the district court issued a comprehensive memorandum opinion and order on Apple's post-trial motions, as well as VirnetX's post request for a finding that Apple had willfully infringed, enhanced damages, and attorney's fees. *Id*.

In its post-trial motions, Apple had argued that FaceTime did not provide any "anonymity" required by the Federal Circuit's construction of "secure communications link," and accordingly there was insufficient evidence of infringement. According to Apple, while FaceTime was capable of being used with Network Address Translators (NATs) that did provide some degree of anonymity, the NATs were not part of FaceTime and were also prior art. The district court found, however, that "[t]he presence of NATs in the prior art is unrelated to non-infringement, and the fact that NATs are not part of FaceTime is irrelevant because the claims only require the system to 'support establishing' a direct communication link that provide anonymity." *Id.* at *5. Somewhat similarly, Apple had requested that the jury be instructed that "the hiding of IP addresses [i.e., the "anonymity" requirement] as show in the Tunneled Agile Routing Protocol embodiment (TARP) [of the patent specifica-

tion] is a key part of the novel solution to the specific problem identified in the prior art." *Id*. at *9. To this requested "TARP instruction," the district court held that the Federal Circuit did not include any limitation related to a TARP embodiment in its claim construction, and that instructing the jury as requested by Apple "could have potentially misled the jury into believing TARP was a requirement of the claims." *Id.* at *10.

Apple also argued in its post-trial motion on damages that VirnetX's damages model at trial violated the entire market value rule, and that the court's failure to even instruct the jury on the entire market value rule entitled Apple to a new trial on damages. *Id.* at *7. Apple noted that previously on appeal, the Federal Circuit had remanded the damages determination finding that there had been a violation of the entire market value rule in the first place. *Id*.

The entire market value rule holds that: "[a] patentee may assess damages based on the entire market value of the accused product only where the patented feature creates the basis for customer demand or substantially creates the value of the component parts." *VirnetX, Inc.*, 767 F.3d at 1326 (citing *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1268 (Fed. Cir. 2013)). According to the district court, there had been no violation of this rule by VirnetX because "the jury was not told the total revenue or total price of the accused products, and the Court instructed the jury not to consider any outside knowledge they may have had about these figures." *VirnetX*, 2017 WL9565675, at *8. Furthermore, the district court decided not to instruct the jury as to the entire market value rule because the jury was instructed "out of an abundance of caution" not to rely on the full price of any Apple product. *Id*. at *13 ("[T]he Court specifically instructed the jury not to consider the full price of Apple's devices."). According to the district court, "[f]urther instructions on the precise contours of the entire market value rule may have led the jury to mistakenly believe that it could apply the rule despite the fact that the record did not support the rule's applicability." *Id*.

Of particular interest, given the current popularity of inter partes reviews (IPRs), is the district court's rulings regarding its exclusion at trial of all Patent Trial and Appeal Board's (PTAB) final written decisions in IPR and reexamination proceedings regarding the VirnetX patents. *Id.* at *13. Apple and other third parties had filed numerous inter partes challenges to VirnetX's patents in the USPTO, all of which found VirnetX's asserted patent claims to be invalid in light of prior art. The district court excluded all such evidence at trial. Apple argued that it was entitled to a new trial because VirnetX witnesses had repeatedly testified to the advantages of the VirnetX patented inventions over the prior art, and Apple should have been permitted to rebut that evidence with the PTAB's final written decisions finding the VirnetX patents invalid in light of prior art. *Id*. at *11. The district court, however, held that the PTAB evidence was properly excluded from trial because VirnetX's appeals of the PTAB proceedings were ongoing, and the issue of willfulness (discussed further below) was tried to the bench, and had little relevance to any issues presented to the jury. *Id*.

at *13. The district court noted that VirnetX's patents were still presumed valid until finally adjudicated otherwise. *Id*.

Next, the district court considered VirnetX's request for a finding of willful infringement, enhanced damages, and attorneys' fees. The parties agreed that the period of infringement in question as to willfulness was November 6, 2012, the date of the first jury verdict in *Apple I*, through September 17, 2013 for VPN on Demand and April 5, 2013 for FaceTime, the respective dates of introduction of redesign of the Apple features and products. (The redesigns are the accused products in *Apple II*.) Initially, and citing abundant authority, the district court found that Apple's continued sale after the adverse jury verdict was "unreasonably risky and reckless." *Id.* at *17, *18. The district court further found this to be true, "despite any interim decisions in proceedings before the [USPTO]." *Id*. at *18. (The "interim decisions" referred to were preliminary decisions by the USPTO finding cause to initiate post-grant proceedings.) As to Apple's arguments that the PTAB's final written decisions on the invalidity of VirnetX's patent "confirmed" Apple's belief in the invalidity of the patents, the court noted that the PTAB final written decisions "were issued long after Apple's decision to continue infringing despite an adverse jury verdict." *Id*. And the district court again emphasized that appeals of the USPTO final written decisions of invalidity were ongoing by VirnetX. *Id*.

Apple also made the argument that the Supreme Court decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), which changed the previous *Seagate* test for willful infringement, required a totality of the circumstances evaluation for willfulness. This, according to Apple, made the proposition that post-verdict infringement generally constitutes willful infringement improper. The district court was not persuaded and commented: "It is unclear how *Halo*, which functionally eliminated the objective prong of *Seagate* and lessened the requirements for a finding of willfulness, would have the effect of narrowing the range of cases where a finding of willfulness may be appropriate." *Id*. at *18. Applying *Halo*, the district court found Apple's post-verdict infringement up to the introduction of the redesigned products (involved in *Apple II*) to be willful infringement. *Id*. at *19.

VirnetX requested that damages be enhanced 50 percent during the "willfulness period." Courts, of course, have discretion to enhance patent damages up to three times for egregious behavior, such as willful infringement. Courts apply the nonexclusive factors in *Read Corp. v. Portec Inc.*, 970 F.2d 816 (Fed. Cir. 1992) to evaluate whether to enhance damages. The nonexclusive *Read* factors used to evaluate whether to enhance damages—and the amount of any enhancement—include the following: (1) whether the infringer deliberately copied the ideas of another; (2) whether the infringer investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior as a party to the litigation; (4) the defendant's size and financial condition; (5) the closeness of the case; (6) the duration of the defendant's misconduct;

(7) remedial action by the defendant; (8) the defendant's motivation for harm; and (9) whether the defendant attempted to conceal its misconduct. *Read*, 970 F.2d at 827.

The district court considered each of the *Read* factors before concluding that "Apple's continued infringement after the 2012 verdict cannot be credibly justified" and enhancing damages 50 percent during the willful infringement period. *VirnetX*, 2017 WL9565675, at *23. The district court found that the following factors all favored enhancement: Apple's reliance on PTAB final written decisions of invalidity was unreasonable (*Read* factor 2); the case was not close after the jury finding of infringement (*Read* factor 5); and Apple's size and financial condition (*Read* factor 4). The district court also found Apple's litigation conduct (*Read* factor 3)—which included repeatedly asking to stay the case pending USPTO post-grant proceedings and repeatedly trying to introduce evidence of the post-grant proceedings despite a ruling excluding such evidence—weighed slightly in favor of enhancement. *Id*. at *23–24. In totality, the district court agreed with VirnetX's request for a 50 percent enhancement of damages to $41 million during the willfulness period, bringing the total damages to $343 million. *Id*. at *25.

The court then turned to VirnetX's request for a declaration that the case be declared exceptional under 35 U.S.C. § 285 and that it be awarded attorneys' fees for the 2016 trial. The court found that the finding of willful infringement did not require a finding that the case was exceptional, but that there was a sufficient basis to find so. The district court found that Apple's litigation conduct also supported a finding that the case was exceptional and warranted an award of attorneys' fees. *Id.* at *26. The court again noted Apple's repeated attempts to stay the case and to introduce excluded evidence of USPTO post-grant proceedings. *Id*.

With the September 29, 2017 post-trial order from *Apple I* in its pocket, VirnetX went to trial against Apple in *Apple II* in April 2018. At issue in *Apple II* was whether the redesigned versions of VPN on Demand and FaceTime infringed VirnetX's patents, whether the infringement was willful (this time, the jury would decide willfulness), and damages.

On April 12, 2018, the jury found both the redesigned versions of VPN on Demand and Facetime infringed VirnetX's patents, and awarded a whopping $502 million in damages. The jury also found the infringement was willful. In its post-trial brief, VirnetX is requesting that the court enhance damages, this time by 100 percent. If the court is inclined to do so, the damages award to VirnetX will be over $1 billion in *Apple II* alone.

This high stakes litigation will undoubtedly continue. Perhaps the most interesting fact going forward in the *VirnetX v. Apple* patent battles (both *Apple I* and *Apple II*) is that, as things stand as of this writing, VirnetX has two patent jury awards (from four jury verdicts in its favor) totaling over $840 million (a large portion of which may be subject to enhancement) on patents that the USPTO said were not valid patents, *prior to the trials*.

D. *Mallinckrodt Hospital Products IP Ltd. v. Praxair Distribution, Inc.*, No. 15-170-GMS, 2017 WL 3867649 (D. Del. Sept. 5, 2017)

If legendary football coach Paul "Bear" Bryant was correct when he famously remarked that "defenses win championships," then Praxair's legal team enjoyed a championship-type of year in 2017. Praxair's resounding defense victory in its 11-patent pharmaceutical tilt against Mallinckrodt makes this top 10 list—not only for its gaudy one-sidedness, but also for its significance in the application of patent-eligibility law to pharmaceutical and medical technologies.

At the heart of this pharma throwdown was UK-based Mallinckrodt's top-selling drug INOmax®, a respiratory treatment system involving the use of inhaled nitric oxide gas to treat respiratory failure in newborns. The patent-infringement suit was filed in February 2015 after Connecticut-based Praxair submitted an abbreviated new drug application (ANDA) to the U.S. Food & Drug Administration, seeking to market a generic version of the INOmax® respiratory treatment in competition with Mallinckrodt. Per typical ANDA practice, Praxair's application included a certification that Mallinckrodt's INOmax® patents were invalid, unenforceable, and/or not infringed by Praxair's proposed generic entrant.

Seeking to protect its patents and market largesse, Mallinckrodt alleged in the District of Delaware that Praxair's generic product would infringe 11 patents relating to the INOmax® respiratory treatment. Praxair's response? Naturally, to call for an order with extra *Mayo*. Praxair alleged that five of Mallinckrodt's patents were invalid as directed to patent-ineligible subject matter under 35 U.S.C. § 101 and the U.S. Supreme Court's 2012 and 2014 decisions in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012) and *Alice Corporation Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014). Praxair also alleged that it did not infringe the six remaining patents, which were directed largely to gas-delivery methods and did not face the same eligibility questions.

In March 2017, Judge Sleet of the District of Delaware presided over a seven-day bench trial on the validity and infringement issues. On September 5, 2017, the court awarded Praxair one of the most thorough and impressive defense wins of 2017, finding the five Mallinckrodt patents invalid under section 101 and finding the remaining six patents not infringed. *See Mallinckrodt Hosp. Prods. IP Ltd. v. Praxair Distrib., Inc.*, No. 15-170-GMS, 2017 WL 3867649 (D. Del. Sept. 5, 2017).

The court found Mallinckrodt's patents invalid under the 35 U.S.C. § 101 patentability standard set by the U.S. Supreme Court in the 2012 *Mayo* decision and the 2014 *Alice* decision. *See Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014). Section 101 defines patentable subject matter as including "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." *See* 35 U.S.C. § 101. But, as the Supreme

Court established in *Mayo* and reaffirmed in *Alice*, "laws of nature, natural phenomena, and abstract ideas" are not patentable.

Going through the *Alice* two-step eligibility test, the court first determined whether the claims in the Mallinckrodt patents were directed to one of the three patent-ineligible concepts. Then the court analyzed whether there were any other "inventive concept" elements in the claims that might transform them into something patent-eligible. *See Mallinckrodt,* 2017 WL 3867649, at *15. Analyzing the first step, the court concluded that the claims at issue were directed to a natural phenomenon. The court found that the "core" of the alleged invention reflected in the claims was a patient's natural response to an inhaled nitric oxide treatment, and that the discovery of an adverse patient response to receiving inhaled nitric oxide "does not amount to innovation." *Id*. at *17. Applying the second step, the court found that the claims lacked any inventive concept that would transform them into something patent-eligible, remarking that "[t]he court finds it abundantly clear that the claim limitations of the … patents recite routine, conventional activity that does nothing to transform the law of nature at the core of the 'invention.'" *Id.* at *20.

As a result, the court found five patents invalid under section 101 as directed to patent-ineligible subject matter. The court found the remaining six asserted patents, focused largely on gas-delivery methods, not infringed due to missing elements in the Praxair nitric oxide cylinders and delivery devices.

The decision, to Mallinckrodt, was a body blow. Sales of INOmax® were estimated at up to 15 percent of the company's revenues, and the company's stock fell nearly 15 percent the day that the ruling came out. There was nothing *generic* about this pharma case. The decision makes this top 10 list as one of the most impressive defense results of 2017, as well as for its significance in the evolving *Mayo*/*Alice* tapestry on patent-eligibility issues.

E. *Sprint Communications Co. L.P. v. Time Warner Cable, Inc.*, 255 F. Supp. 3d 1134 (D. Kan. 2017) and *Sprint Communications Co. L.P. v. Time Warner Cable, Inc.*, No. 11-2686-JWL, 2017 WL 978107 (D. Kan. Mar. 14, 2017)

Sprint is a provider of wireless, voice, messaging, and broadband services. It is the owner of a portfolio of patents that many recognize as pioneering, or at least "blocking" patents, related to "Voice over Packet" (VoP) technologies. Sprint has successfully asserted those patents against other communication network operators.

Sprint and Time Warner Cable (TWC) were long-time business partners, and had entered into contracts where Sprint would provide network services to TWC, including telephony services between TWC and its customers. *Sprint Commc'ns Co. L.P. v. Time Warner Cable, Inc.*,

No. 11-2686-JWL, 2017 WL 978107, at *3–4 (D. Kan. Mar. 14, 2017). Nearing the expiration of the parties' service contract in 2010, TWC informed Sprint that it would "go it alone" going forward with respect to providing network services to TWC's customers. *Id*. at *4. Under the parties' existing contract, Sprint was obligated to reasonably assist TWC in transitioning all aspects of Sprint's services to TWC for a period of 18 months. *Id.*

In 2011, Sprint accused TWC's Voice over Internet Protocol (VoIP) network of infringing several of Sprint's VoP patents. The case was tried to a jury in the District of Kansas in February and March 2017. *Id*. at *1. The jury returned a verdict that TWC had infringed each asserted claim of five Sprint patents, that none of the asserted claims were invalid, and that Sprint had proved reasonable royalty damages of nearly $140 million. *Id*. The jury also found that TWC's infringement had been willful. *Id*.

TWC asserted a handful of equitable defenses, most prominent among them was that Sprint was equitably estopped from asserting the patents. *Id*. TWC's equitable defenses were tried to the bench immediately after the jury trial. *Id*. The district court issued an order on March 14, 2017 finding that TWC had failed to sustain its burden of proof on its equitable defenses, and awarded judgment to Sprint on them. *Id*.

A patent infringement suit may be barred for equitable estoppel, if the following three elements are established by the defendant: (1) the patentee, through misleading conduct (or silence), leads the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer; (2) the alleged infringer relies on that conduct; and (3) the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its claim. *High Point SARL v. Sprint Nextel Corp.*, 817 F.3d 1325, 1330 (Fed. Cir. 2016). As to the first element, TWC was unable to point to any misleading conduct by Sprint. *Id.* at *3–4. Instead, TWC had to focus on Sprint's silence—its failure to state that it planned to enforce its patents against TWC. According to TWC, Sprint had a "duty to speak" about its intentions to enforce its patents because of the parties' prior business relationship, in particular the contract provision requiring Sprint to assist TWC if TWC ever decided to "go it alone" without Sprint's network services. *Id.* That, according to TWC, made Sprint aware that TWC may not use Sprint's services, and required Sprint to inform TWC that it may be sued if it did "go it alone." *Id.* at *4.

The district court found otherwise with respect to Sprint's conduct. The court found the contractual provision requiring Sprint to assist TWC if TWC decided to go it alone did nothing to "indicate that Time Warner Cable may practice Sprint's patents." *Id.* In fact, other provisions of the parties' contract "expressly provided that no intellectual property rights were being given to Time Warner Cable." *Id.* The court also found that towards the expiration of the contract, Sprint raised patent issues with TWC, and TWC understood there were "open" intellectual property issues. *Id.* Accordingly, the court found "that Sprint did not engage in any conduct that would give rise to a rea-

sonable belief at Time Warner Cable that Sprint would not enforce its patents if Time Warner Cable chose to Go-It-Alone without Sprint." *Id.* at *5. The court found similarly with respect to the reliance and material prejudice prongs of the equitable estoppel test. *Id.* at *5–6.

In its March 14, 2017 order, the court also took up Sprint's request that, in light of the jury's finding that TWC had willfully infringed Sprint's patents, the court should enhance damages pursuant to 35 U.S.C. § 284. The court declined to do so. *Id.* at *12–14. The court noted that in *Halo*, the Supreme Court had said that "[a]wards of enhanced damages ... are not to be meted out in a typical infringement case, but are instead designed as a "punitive" or "vindictive" sanction for egregious infringement behavior." *Id.* at *12 (citing *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016)).

The district court considered the nine factors discussed in *Read Corp. v. Portec Inc.*, 970 F.2d 816 (Fed. Cir. 1992) (*see supra* section 3.2.C), and was "not persuaded that this case represents an especially egregious case of infringement for which a punitive sanction is warranted." *Id.* at *13. Applying the factors, the court found that TWC was large and wealthy, infringed for four years, and took no remedial action to avoid infringement, which would favor enhanced damages. *Id.* The court found that the jury's finding of willful infringement would push for enhanced damages as well. But ultimately, the court was persuaded by the fact that there was no copying of Sprint's design, TWC had not engaged in litigation misconduct, the case was relatively close, all of TWC's defenses were reasonable, and TWC made no attempt to conceal its infringement. The court concluded that despite the jury finding of willfulness, "this case is not egregious, but is closer to the typical infringement case." *Id.* at *14.

In another post-trial order just two months later, the court ruled on TWC's motion for JMOL. *Sprint Commc'ns Co. L.P. v. Time Warner Cable, Inc.*, 255 F. Supp. 3d 1134 (D. Kan. 2017). TWC moved for judgment as a matter of law on, among other issues, damages awarded to Sprint, and that Sprint's patents were invalid for failure to meet the written description requirement of 35 U.S.C. § 112. *Id*. at 1138.

With respect to the jury's reasonable royalty damages award (a lump sum of over $139 million), the court characterized TWC's argument as a "Catch-22." *Id*. According to TWC, since Sprint's damages expert did not apportion damages among Sprint's patents on the assumption that they were "blocking" patents, meaning that any VoIP to telephony connection would infringe at least one of them. *Id*. It was Sprint's burden to prove its patents were blocking patents, and if it failed to do so, there was no basis for Sprint's expert's royalty opinion. *Id*. at 1139. If, on the other hand, Sprint's patents were blocking patents, then TWC must have infringed going back to 2003 when it first contracted for services with Sprint. *Id*. In that case, 2010 would not be an appropriate date for the hypothetical negotiation used by Sprint's damages expert, and thus his opinion was erroneous. *Id*. Either way, according to TWC, Sprint's damages expert had no support for his royalty opinion. *Id*.

The court, however, found "there is no Catch-22 here as argued by Time Warner Cable." *Id.* at 1139. The court found that Sprint's expert's use of the 2010 date does not mean that the patents are not blocking patents, because TWC's product launch in 2010 (the "go it alone" product) was a different product than TWC had offered previously (with Sprint's services). *Id.* The court noted that "if the prior infringement was by a different product, the date of the hypothetical negotiation date would be at the start of the present infringement and not at the start of the prior infringement." *Id*. The court then found that this "date does not mean that the patents could not be blocking patents, which in turn means that Sprint's positions are not irreconcilable and there is no Catch-22." *Id*. Moreover, according to the court, there was sufficient evidence presented at trial to conclude Sprint's patents were, indeed, blocking patents. *Id*.

TWC presented some interesting invalidity arguments regarding the written description requirement. First, TWC argued that certain patents were invalid because the specification disclosed an asynchronous transfer mode (ATM) switch that did not exist at the time of the patent application. *Id.* at 1144. Second, TWC argued that the patent claims were "broad enough to cover an IP network without fixed end-to-end paths or separate signaling networks, [and] the specification does not describe such an IP network." *Id.* at 1145. The court dismissed both arguments as lacking authority. "Time Warner Cable is essentially arguing that the specification had to disclose and describe all possibilities covered by the patent claims, but it has not cited any authority suggesting that the written description requirement must be applied in that way." *Id*.

F. *Ericsson Inc. v. TCL Communication Technology Holdings Ltd.*, No. 2:15-cv-00011-RSP, 2018 WL 2149736 (E.D. Tex. May 10, 2018)

Ericsson v. TCL is a patent dispute between two large global networking and telecommunications equipment and services companies. Ericsson accused TCL of patent infringement for selling smartphones using the Google Android operating system. Specifically, a security feature that required permission for third-party applications to access native functions on the phone was accused of infringing an Ericsson patent. The case went to trial in December 2017, and the jury returned a verdict in favor of Ericsson and awarded $75 million in damages.

Orders on post-trial motions just a few months later undoubtedly caused widely fluctuating emotions in the litigants and their attorneys. Within two months in early 2018, Ericsson went from a $75 million award, back down to $0.00 and the prospect of facing a new trial on damages, and then back to $75 million *plus* $25 million in enhanced damages. What the post-trial orders really illustrate is the challenges that patent litigants face in presenting patent damages theories to judges, much less jurors.

TCL moved for a new trial on damages after the jury award. In a March 7, 2018 order, the court found two reasons why a new trial on damages was necessary. *Ericsson Inc. v. TCL Commc'n Tech. Holding, Ltd.*, No. 2:15-cv-00011-RSP, 2018 WL 3089701 (E.D. Tex. Mar. 7, 2018).

First, the court found the analysis of Ericsson's damages expert to be unreliable. Ericsson's damages expert had relied on a survey that showed 28 percent of respondents would not have purchased a TCL phone that did not have the accused feature. Ericsson's damages expert multiplied 28 percent by the average profit per TCL device, yielding a $3.42 "at-risk" profit per phone. The expert then determined how the parties would have split that "at-risk" profit in a hypothetical negotiation, and determined nearly all of it would have been captured by Ericsson. The problem with this approach, according to the court's order, was shown by the same survey results as to patents no longer asserted by Ericsson, where various percentages (e.g., 24%, 12%) of respondents indicated they would not have purchased TCL phones without features corresponding to those now un-asserted patents. The court was troubled by the fact that there were thousands of patents that may cover a TCL phone, but a mere handful soon added up to cut TCL's profits by more than half. "To conclude that any one of these features—simply because it is considered essential to a consumer—could account for as much as a quarter of TCL's total profit is unreliable and does not consider the facts of the case, particularly the nature of smartphones and the number of patents that cover smartphone features." *Id*. *See also Ericsson Inc. v. TCL Commc'n Tech. Holdings Ltd.*, No. 2:15-cv-00011-RSP, 2018 WL 2149736 (E.D. Tex. May 10, 2018) (summarizing the March 7, 2018 order: "Extrapolating Ericsson's theory, in other words, would quickly result in the erosion of all of TCL's profit.").

Second, the court found that Ericsson presented extensive evidence at trial regarding products that were not accused in the case. In particular, Ericsson's damages expert projected over 100 million allegedly infringing devices would be sold in the future including products currently not sold or even identified. The court found this violated the rule for compensatory damages, which prevents recovery for future hypothetical harms. The court found that Ericsson's damages theory "was phrased in terms of a lump sum royalty, but in reality it was nothing more than a running royalty theory with a pay-it-all upfront proviso based on future projections."

A mere two months later, and on Ericsson's request to reconsider the March 7, 2018 order to vacate the damages award and hold a new trial, the court *reinstated* the damages award of $75 million in full. The court noted that "[i]t is often difficult to draw the line between a credibility issue and a *Daubert* issue in patent cases, but the flaw in Ericsson's damages theory should have gone to the weight of the evidence, not its admissibility." *See Ericsson*, 2018 WL 2149736, at *4. The court found that this flaw in Ericsson's damages theory—that such a large percentage of profits were attributable to one patent—could have been handled by effective cross-examination and the presentation of contrary evidence. *Id.* ("TCL made this point to the jury, but much less effectively than the court expected, and the point was clouded by other unpersuasive arguments."). The court

also faulted TCL for failing to introduce the evidence that Ericsson's damages expert had provided similar opinions regarding other patents in suit (now dropped), and that there were thousands of other patents that covered TCL's phones. *Id*. at *5–6.

The court then turned its attention to the other grounds for originally ordering a new trial on damages—that Ericsson's damages expert had included unaccused products in his opinions. The court noted that the jury was instructed that lump sum damages were only available for accused products. *Id.* at *7. The court was also once again critical of TCL's strategy and the evidence it presented. The court noted that TCL agreed to damages in the form of a lump sum. TCL also did not counter Ericsson's theories of future sales with "evidence or argument that it would have been unusual for a sophisticated company like TCL to have graciously agreed to fully pay a lump sum royalty based on forecasts and projections, when it could have chosen to pay running royalties after accounting for actual sales." *Id.*

With Ericsson's $75 million award reinstated, the court turned to whether the jury's finding that TCL had willfully infringed warranted enhanced damages. *Id*. at 8. According to the court, its "robust" instruction to the jury on willfulness and the jury's finding of willful infringement meant that the infringement was not only intentional, but egregious. *Id*. at *8.

The court examined the factors from *Read Corp. v. Portec Inc.*, 970 F.2d 816 (Fed. Cir. 1992) in determining whether to enhance damages and by how much. *Id*. at *9. The court found that five of the nine *Read* factors (*see supra* section 3.2.C) favored enhancement: (1) the jury finding means the jury did not credit TCL's good faith belief about the Ericsson patent (factor 2) and TCL put on no evidence of the subjective beliefs of TCL's decision makers; (2) TCL is a large and profitable company (factor 4); (3) TCL did not put on an invalidity defense and its non-infringement defense was inconsistent with infringement (factor 5); and (4) there was no indication that TCL did anything different after learning of the infringement allegation (factors 6 and 7). The court determined that a one-third enhancement of $25 million was a sufficient deterrent.

G. *Cioffi v. Google LLC*, No. 2:13-CV-00103-JRG, 2018 WL 1536872 (E.D. Tex. Mar. 29, 2018) and *Cioffi v. Google, LLC*, No. 2:13-cv-103, 2017 WL 4011143 (E.D. Tex. Sept. 12, 2017)

Alfonso Cioffi and the Estate of Allen Rozman (specifically, his daughters Melanie, Megan, and Morgan) (collectively "Cioffi") filed suit against Google in 2013, accusing its Chrome web browser of patent infringement. The Cioffi patents are all reissue patents entitled "System and Method for Protecting a Computer System from Malicious Software" and stem from the same original U.S. patent. *Cioffi v. Google, LLC*, No. 2:13-CV-00103-JRG, 2018 WL 1536872, at *1 (E.D. Tex. Mar. 29, 2018).

A jury trial was commenced in February 2017. The Eastern District of Texas jury returned a verdict in favor of Cioffi that all asserted claims of the three Cioffi reissue patents were infringed by Google's Chrome web browser, and all asserted claims were not invalid. Specifically, as to invalidity, the jury found that Google did not prove by clear and convincing evidence the invalidity of the reissued claims as anticipated or obvious. The jury also found Google had not proved that the reissue claims were invalid for violating the rule against recapture for reissue patent claims, or for violating the original patent requirement for reissue patent claims. *Id.* The jury awarded Cioffi $20 million as a running royalty. *Cioffi v. Google, LLC*, No. 2:13-cv-103, 2017 WL 4011143, at *1 (E.D. Tex. Sept. 12, 2017).

After trial, Cioffi filed a motion requesting that the court impose an ongoing royalty for Google's continued infringement over the nine years remaining in the patent term. *Id.* Cioffi conceded that a permanent injunction was not appropriate in the case. *Id.* Cioffi requested that the court impose an ongoing royalty rate of two to three times the jury's implied royalty rate.

The Federal Circuit has stated that "absent egregious circumstances, when injunctive relief is inappropriate, the patentee remains entitled to an ongoing royalty." *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 807 F.3d 1311, 1332–33 (Fed. Cir. 2015). The award of an ongoing royalty is equitable in nature and within the district court's discretion. *Fresenius USA, Inc. v. Baxter Int'l Inc*., 733 F.3d 1369, 1379 (Fed. Cir. 2013).

The district court first determined whether an ongoing royalty was appropriate. The jury had been given a choice on the verdict form of a "lump sum" or "reasonable royalty" award and had chosen $20 million as a "reasonable royalty"—i.e., it had awarded damages for the period up to trial, not as compensation for future infringement as well (which would have been "lump sum"). *Cioffi,* 2017 WL 4011143, at *2–3. Since there was to be no permanent injunction here (Cioffi had conceded that), an ongoing royalty was appropriate. *Id.*

The district court's starting point for determining the amount of the ongoing royalty was the jury's implied royalty rate. *Id.* at *3 (citing *Erfindergemeinschaft UroPep GbR v. Eli Lilly & Co.*, No. 2:15-CV-1202-WCB, 2017 WL 3034655 (E.D. Tex. July 18, 2017)). The court determined that implied jury royalty rate to have been $0.002601 per Google Chrome user per month ($20 million divided by approximately 7.7 billion users per month). Cioffi requested a royalty rate of two to three times that, arguing that: (1) now, in a hypothetical negotiation post-trial, Cioffi had higher bargaining power because the reissue patents were determined infringed and not invalid; (2) the technology was important in protecting Chrome against malware; and (3) Google's post-trial infringement was now willful. *Id.* at *5–6. Google, on the other hand, requested that the court adopt the jury's implied rate and that no enhancement was necessary.

The court agreed with Google. With respect to Cioffi's argument that the bargaining position of Cioffi was now greater during a hypothetical license negotiation, the court noted the jury was instructed to assume that patents infringed and were valid when analyzing the hypothetical negotiation. *Id.* at *6. "Thus, the jury's implied royalty rate already encompasses the result that has now formally been reached." *Id.* The court found similarly with respect to Cioffi's argument regarding the importance of the technology—the jury had been instructed that the relative importance of the technology was a factor in the hypothetical negotiation that set the jury's implied rate. *Id.*

As to Cioffi's argument that post-verdict infringement was willful and required a higher royalty, the district court questioned whether enhancing the royalty for willfulness was even appropriate, since an ongoing royalty is an equitable form of relief. *Id*. at *7. In any case, the court found that future infringement was not cause to increase the jury's implied rate. According to the court, Cioffi was not requesting an injunction and therefore "future infringement will be authorized, even though Google will be required to pay a royalty." *Id.* at *8 ("[A]ny future infringement is authorized indefinitely."). Authorized, in the court's view, means it cannot be willful.

Thus, for the remaining nine years on the Cioffi reissue patents, Cioffi will be compensated at $0.002601 per user per month (roughly one quarter of $0.01) which, with a popular browser like Google Chrome, adds up to millions of dollars per year. *See id.* at *9 ("The Court hereby sets the ongoing royalty rate for the accused technology at $0.002601 per Chrome user per month.").

That assumes, of course, Cioffi ultimately prevails. Cioffi is a long way from the finish line. Almost as soon as the court imposed its ongoing royalty, significant legal hurdles presented themselves for Cioffi.

Google filed a post-trial motion regarding the jury finding of invalidity under 35 U.S.C. §§ 102, 103, and 251. On March 2, 2018, the court issued an order directed entirely to the section 251 validity issues. *See Cioffi v. Google, LLC*, No. 2:13-CV-00103-JRG, 2018 WL 1536872 (E.D. Tex. Mar. 29, 2018). With respect to section 251 (the reissue patent section), Google argued that it was entitled to a new trial because the district court had erroneously sent the question on invalidity pursuant to section 251 to the jury, when it was a question of law to be decided by the court alone. *Id*. at *2. The court agreed with Google, although not with respect to the entire relief it requested.

The "recapture rule" with respect to reissue patents bars a patentee from recapturing subject matter, through reissue, that the patentee intentionally surrendered during the original prosecution in order to overcome prior art and obtain a valid patent. *In re Youman*, 679 F.3d 1335, 1343 (Fed. Cir. 2012). Recapture is assessed using a three-step inquiry:

> (1) whether and in what respect the reissue claims are broader in scope than the original patent claims;

> (2) whether the broader aspects of the reissue claims relate to subject-matter surrendered in an original application; and
>
> (3) whether the reissue claims were materially narrowed in other respects, so that the claims may not have been enlarged.

Id. at 1345. The "original patent" rule is similar. Per the original patent rule, "[a] patentee is precluded from obtaining a reissue patent to cover any invention other than 'the invention disclosed in the original patent.'" *In re Depomed Patent Litig.*, No. 13-4507 (CCC-MF), 2016 WL 7163647, at *28 (D. N.J. Sept. 30, 2016).

The court found that the weight of authority holds that whether the recapture and original patent rules for reissue patents have been violated are questions of law, despite underlying factual inquiries. *Cioffi*, 2018 WL 1536872, at *3–4. The court likened the recapture rule to prosecution history, which also prevents a patentee from regaining subject matter surrendered during prosecution in support of patentability, and noted that prosecution history estoppel is also a matter to be determined by the court, not the jury. *Id*. at *5. The court found that to be "particularly persuasive" on the issue of whether recapture was to be decided by the jury. *Id.* The court found the same to be true of the original patent rule. *Id.*

Patent litigators are not the only ones making quick, high pressure, impactful decisions during patent trials. The judges are as well. The court admitted its error stating: "outside of the real-time pressures of an ongoing jury trial, the Court concludes that sending a question [to the jury] as to the recapture rule justifies a grant of appropriate post-trial relief to Google." *Id*. The court did not, however, agree with Google as to the amount of prejudice it alleged it suffered or to the relief requested. The court noted that "[i]n some instances, the improper submission of issues to the jury may cause jury confusion and can take material time away from the parties to present their cases. This is not such a case." *Id.* at *6. The court noted that Google did not even use its allotted time at trial. *Id.* With respect to confusion of the issues, the court noted that the patent's claim, specification, and opinion testimony regarding the same, was necessary to resolve other issues, not just the section 251 issues. Accordingly, the court set a bench trial to determine section 251 issues only, so as not to sacrifice "an otherwise proper and supportable unanimous verdict." *Id.*

H. *GlaxoSmithKline LLC v. Teva Pharmaceuticals USA, Inc.*, No. 14-878-LPS-CJB, 2018 WL 1517687 (D. Del. Mar. 28, 2018)

Another prominent ANDA patent case, and one with extensive use of the terminology patent litigants in the ANDA patent space use—skinny labels, the Orange Book, etc.—was *GlaxoSmithKline v. Teva* in the District of Delaware. *See GlaxoSmithKline LLC v. Teva Pharm. USA, Inc.*, No. 14-878-LPS-CJB, 2018 WL 1517687 (D. Del. Mar. 28, 2018). The *GlaxoSmithKline* case

also involved a significant post-trial reversal of fortune, but unlike others discussed here, this seemed quite predictable in light of the facts of the case.

The case related to treatment of congestive heart failure (CHF). *Id*. at *2. GlaxoSmithKline (GSK) discovered that the drug carvedilol was unexpectedly effective in treatment of CHF, in combination with other treatments. *Id*. GSK sought and gained approval from the FDA to market and sell carvedilol, which it marketed as Coreg®. *Id.* The FDA approved GSK's Coreg® for three uses indications: treatment of (1) hypertension, (2) mild to severe CHF, and (3) left ventricular dysfunction (LVD) following myocardial infarction ("Post-MI LVD"). *Id.* GSK, however, only marketed Coreg® for CHF. *Id*.

GSK also filed a patent application on its carvedilol discovery, which later issued as a reissue patent (GSK's '000 patent). *Id.* at *2–3. Claim 1 of the '000 patent recites, in part:

> A method of decreasing mortality caused by congestive heart failure [CHF] in a patient in need thereof which comprises administering a therapeutically acceptable amount of carvedilol … [and] administering to said patient daily maintenance dosages ….

Id. at *3. Claim 1 is drafted such that it can only be directly infringed by someone administering carvedilol to a patient—i.e., a physician. The claim also does not cover GSK's other approved uses of carvedilol; treatment of hypertension and Post-MI-LVD.

The FDA put GSK's '000 patent in the Orange Book (an FDA publication listing approved drugs and the patents that cover them), and noted that the drug was for treatment of CHF. *Id*. at *2. Teva filed an ANDA soon afterwards to market a generic version of carvedilol. *Id.* at *3. Teva sought a "carve out" so that it could label its generic carvedilol for uses not covered by GSK's '000 patent; that is, for hypertension and post-MI LVD, but *not* for CHF. *Id.* Teva was approved for this "skinny label" that would not "run afoul" of GSK's patent, because it was not approved, or labeled as being approved, for the infringing use of treatment of CHF. *Id.*

In 2011, Teva, at the instruction of the FDA, amended its label for generic carvedilol to include treatment of CHF, making it essentially the same as GSK's label for Coreg®. With this, Teva entered the "full label" period for sale of its generic carvedilol.

GSK accused Teva of inducing physicians to directly infringe its '000 patent. The case was tried to a jury in June 2017. *Id.* at *1. The jury found Teva had willfully induced infringement during both the skinny label and full label periods of sale of Teva's generic carvedilol. The jury also found the '000 patent was not invalid, and awarded $234 million in lost profits damages to GSK. *Id.*

Teva filed a motion for judgment as a matter of law, or alternatively a new trial. Teva argued that there was no evidence to find inducement of infringement. *Id.* at *5. To prove inducement, GSK was required to prove by a preponderance of the evidence that, among other things, "Teva's alleged inducement, *as opposed to other factors*, actually caused the physicians to directly infringe." *Id.* at *5 (reciting jury instruction). Furthermore, "Teva cannot be liable for induced infringement where GSK does not show that Teva successfully communicated with and induced a third-party direct infringer and that *the communication was the cause of the direct infringement by the third-party infringer*." *Id.* Importantly, "[w]ithout proof of causation, which is an essential element of GSK's action, a finding of inducement cannot stand." *Id.* at *6.

The Delaware district court (Judge Stark) agreed with Teva that there was not substantial evidence supporting the jury's finding on inducement in either the skinny period or the full period. *Id.* at *5. The court looked at that skinny period first, where there had been no labeling by Teva that its generic carvedilol was approved for treatment of CHF. *Id*. at *7. Teva's label, unlike GSK's label for Coreg®, simply did not mention CHF. *Id.* The court also noted that GSK's own expert said he would not prescribe generic carvedilol for CHF if it was not an approved use on the label. *Id.*

The court considered also GSK's argument that Teva had obtained an "AB rating," and its marketing material touted that AB rating. The marketing material did not mention that CHF had been carved out as an indication for carvedilol. *Id*. at *8. The court was not persuaded by this evidence. The court found that an AB rating merely "signifies that a generic drug is therapeutically equivalent to a branded drug." *Id.* Furthermore, GSK's expert witness acknowledged that the therapeutic equivalence of an AB rating only related to use of the generic drug "in accordance with its label." *Id.* Since Teva's generic carvedilol was not labeled for treatment of CHF, the court found this was not evidence of inducement.

The court was also persuaded by the fact that when Teva's generic carvedilol entered the market, physicians continued prescribing carvedilol, whether generic or GSK's branded drug, in the same manner they had previously. *Id.* at *9. Indeed, GSK's experts conceded that prior to Teva's generic carvedilol entering the market, physicians knew how to use carvedilol for treating CHF, and all agreed that generic labeling such as Teva's did not impact prescribing behavior. *Id*.

The court strongly worded its decision to grant Teva's JMOL. According to the court, "there was no reasonable basis for the jury to have found that anything Teva did—including selling generic carvedilol, giving it a 'skinny label,' and all aspects of how Teva marketed its carvedilol—*caused even a single doctor to prescribe carvedilol* for the treatment of CHF." *Id*. at *9 (emphasis added). The court further stated:

> The Court's determination, however, is that—given the dearth of evidence that doctors read and understand and are affected by labels, and given the vast

> amount of evidence that doctors' decisions to prescribe carvedilol during the relevant periods were influenced by multiple non-Teva factors—such an inference was an unreasonable one for the jury to have drawn.

Id. at *10.

The court found similarly for the "full label" period where Teva's label now included an indication for treatment of CHF. The court was by now convinced that there were many reasons that physicians prescribed generic carvedilol, and none could be directly linked to communications by Teva for even one physician. Accordingly, there could be no inducement of infringement by Teva. The result here, given the standard for a finding of induced infringement, seems easily compelled by the relatively simple facts of the case.

I. *Quantum Stream, Inc. v. Charter Communications, Inc.*, No. 17 Civ. 1696 (PAE), 2018 WL 1157979 (S.D.N.Y. Mar. 1, 2018)

As the tagline went for the 1995 western "The Quick and the Dead:" "You are either one or the other." In this patent showdown in the Southern District of New York, Charter Communications shot quickly, and it shot true. When the smoke cleared, the result was three dead patents—a defense win that makes the top ten list not only for the significance of the victory, but the rare speed with which it was secured.

On March 7, 2017, New York City-based Quantum Stream Inc. sued Charter Communications, Inc. and Spectrum Management Holding Company, LLC (collectively "Charter")—together, the provider of well-known digital-entertainment services under the names Spectrum, Charter, and Time Warner Cable—for infringement of three patents relating to providing digital advertising tailored to the specific type of digital content being accessed by users. Charter brought a motion to dismiss the action, alleging that Quantum's three patents were invalid as directed to patent-ineligible subject matter under 35 U.S.C. § 101. Charter argued that the patents claimed no more than the abstract idea of using customized advertising and lacked any other elements that would transform the claims into patent-eligible subject matter.

Judge Engelmayer, presiding over the case for the Southern District of New York, agreed with Charter. On March 1, 2018, the district court entered an order granting Charter's motion to dismiss and finding all three patents invalid under 35 U.S.C. § 101. *See Quantum Stream Inc. v. Charter Commc'ns, Inc.*, No. 17 Civ. 1696 (PAE), 2018 WL 1157979 (S.D.N.Y. Mar. 1, 2018).

Examining the claims from the three patents, the court found that the claims at issue did not differ meaningfully in terms of the eligibility questions under section 101. "All—albeit through seemingly differing arrangements of types of generic devices—implement the same idea of customizing advertising based upon other criteria, such as a user's selection of primary content." *Id*. at *6.

The court employed the two-step section 101 inquiry that the United States Supreme Court set forth in its 2012 and 2014 *Mayo* and *Alice* decisions (discussed *supra* in section 3.2.D). For the first step—determining whether the patent claims were directed to a patent ineligible concept such as a law of nature, natural phenomena, or abstract idea—the court rejected Quantum's argument that the patent claims were directed to a patent-eligible improvement in computer systems concerning the way that advertising systems behaved. The court concluded that the claims were directed to "an ineligible abstract idea: specifically, custom advertising based upon consumer qualities or other data" and did not describe any improvements in computing systems. *Id*. at *10.

Applying the second *Mayo/Alice* step to determine whether the claims contained any other "inventive concept" that would transform them into something patent-eligible, the court found no such inventive concept. The court noted the Federal Circuit's previous guidance that "the straightforward implementation of the benefits of an abstract idea does not itself give rise to an inventive concept, including when it is to be accomplished through generic computer equipment that performs the implementation of the abstract idea." *Id*. at *13 (citation omitted). "Here," the court found, "the claims described in Quantum's three patents are straightforward, conventional applications of the concept of custom advertising and the selection of advertising content as a function of the selection of primary content or other data." *Id*.

The court also rejected Quantum's argument that the section 101 decision was premature because the court had not yet engaged in claim construction, finding that there was no reasonable construction that would transform the claims into patent-eligible subject matter. The end result of the court's analysis was an order finding the three patents invalid as directed to patent-ineligible subject matter under 35 U.S.C. § 101.

While it is typically the "top 100" verdicts or multi-year patent campaigns that earn the lion's share of the legal press, there are few defense outcomes more meaningful than an invalidity dismissal right out of the gate. Furthermore, *Quantum Stream v. Charter Communications* is significant as an illustration of the increasing use of section 101 challenges at the motion-to-dismiss stage, with courts increasingly taking up such motions early in cases, often before initiation of formal claim construction proceedings. As such, Charter's quick-draw defense victory earns a spot on this list. There are the quick and there are the dead—and sometimes in law you are either one or the other.

J. ***Shipping and Transit, LLC v. Hall Enterprises, Inc.*, No. CV 16-06535-AG-AFM, 2017 WL 3485782 (C.D. Cal. July 5, 2017)**

It may seem strange to include a case that the plaintiff voluntarily dismissed with prejudice 10 weeks after it was filed, in a list of top 10 patent cases for the year. But the plaintiff in *Shipping and Transit, LLC v. Hall Enterprises, Inc.*, No. CV 16-06535-AG-AFM, 2017 WL 3485782 (C.D.

Cal. July 5, 2017) is no ordinary patent plaintiff, and the aftermath of the voluntary dismissal was quite eventful.

Many patent litigators practicing in the last decade have likely encountered plaintiff Shipping and Transit (S&T), or as it was formerly (and better) known, ArrivalStar. *Shipping & Transit*, 2017 WL 3485782, at *1. S&T/ArrivalStar is a non-practicing entity (NPE) that owns a portfolio of patents related to tracking systems for vehicles, products, and other devices. S&T, and ArrivalStar before it, have filed hundreds of patent infringement lawsuits over the last dozen or so years, most or all of which have later been voluntarily dismissed or have settled before any significant ruling on the merits of the infringement allegations or patent validity. *Id*. at *1, *7. S&T has called its litigation tactics a patent licensing campaign, while critics have argued that it is nothing more than a "shakedown" and that S&T/ArrivalStar is forcing multiple defendants to take cheap licenses by leveraging the high cost of patent litigation. Either way, nothing has stopped S&T/ArrivalStar over the years; S&T filed over 100 patent infringement actions in 2016 alone. *Id*. at *1.

But S&T's campaign may have finally come to an end with the July 5, 2017 order by Judge Guilford of the Central District of California. On August 30, 2016, S&T filed suit against Hall Enterprises for alleged infringement of three patents. *Id*. at *1. In late September 2016, defendant Hall Enterprises requested that S&T dismiss its lawsuit by October 15, 2016. S&T did not do so, and Hall Enterprises filed a motion for judgment on the pleadings on November 2, 2016 arguing that S&T's asserted patent claims were all invalid under 35 U.S.C. § 101 for claiming patent ineligible subject matter. *Id*. On November 11, 2016, S&T moved to dismiss its own case under Federal Rule of Civil Procedure 41(a)(2). *Id*. Hall Enterprises did not oppose the motion to dismiss after S&T provided Hall Enterprises with a covenant not to sue. *Id*. On November 17, 2016, the district court granted S&T's motion to dismiss, and the case appeared to be over. *Id*.

Hall Enterprises, however, moved to have this short-lived case declared exceptional under 35 U.S.C. § 285 and be awarded its attorneys' fees. Hall Enterprises' bases for its motion were: (1) S&T's objectively unreasonable position on the 35 U.S.C. § 101 patent eligibility of its patents; and (2) S&T's litigation conduct in trying to exploit the high cost of patent litigation to extract an unwarranted settlement, but then voluntarily dismissing its own case after Hall Enterprises filed a motion for judgment on the pleadings. *Id*. at *2. Thus, in the context of an attorneys' fees motion, the district court took up the issue of whether S&T's patents in suit—asserted in over 400 previous cases, and likely the subject of hundreds of lump sum patent licenses—even claimed patent eligible subject matter to begin with.

The district court applied the Supreme Court's patent-eligible subject matter test set forth in *Alice Corp. Pty. Ltd. V. CLS Bank Int'l*, 134 S. Ct. 2347, 2355 (2014), which is to examine: (1) whether the patent claims are directed to laws of nature, natural phenomena, or abstract ideas; and (2) if so, whether the claims include an "inventive concept" such that "the additional elements

'transform the nature of the claim' into a patent-eligible application." A representative claim asserted by S&T recites:

> 14. A method, comprising the steps of:
>
> [a] maintaining delivery information identifying a plurality of stop locations;
>
> [b] monitoring travel data associated with a vehicle in relation to the delivery information;
>
> [c] when the vehicle approaches, is at, or leaves a stop location:
>
> [c1] determining a subsequent stop location in the delivery information;
>
> [c2] determining user defined preferences data associated with the stop location, the user defined preferences data including a time period for the vehicle to reach the subsequent stop that corresponds to when the party wishes to receive the communication; and
>
> [c3] sending a communication to a party associated with the subsequent stop location in accordance with the user defined preferences data to notify the party of impending arrival at the subsequent stop location.

Shipping & Transit, 2017 WL 3485782, at *3.

The district court found this and the rest of S&T's claims to be "directed to the abstract idea of monitoring and reporting the location of a vehicle." *Id.* The district court also analyzed whether the claims "would preempt the use of the abstract idea." *Id.* at *4. The court noted that the claim was written so broadly that it "could cover the activities of everyone from taxi dispatchers to warehouse delivery coordinators to bike messengers to hotel bellboys." *Id.* Borrowing an example used by defendant Hall Enterprises, the court noted that the following activity would be covered by the claim and does not entail more than what hotel employees have done for decades (annotations track with annotations in the claim above):

> "a hotel bellboy could: [a] write down the list of rooms he needs to deliver luggage to; [b] travel on his route, crossing off the rooms as he reaches them; [c1] as he leaves a room, look at the next room on the list and [c2] see if and when the next room wants a warning call before he arrives ...; and [c3] give the next room a call to say he's almost arrived."

Id. at *4.

Turning to the second step of the *Alice* test—“whether the claims contain an inventive concept sufficient to transfer the abstract idea into a patent-eligible invention”—the court found “[a]t best, all of the asserted claims of the Patents-in-Suit are directed to implementing an abstract idea using generic computer components. The asserted claims do not improve or change the way a computer functions.” *Id*. at *6. *See also id*. at *7 (“Aside from using generic computers as a tool, no technical advance or improvement is introduced.”). The court, in turn, found S&T’s “§ 101 position was objectively unreasonable in light of the Supreme Court’s *Alice* decision and the cases that applied that decision to invalidate comparable claims. The weakness of the plaintiff’s section 101 position is a significant factor that weighs in favor of a finding that this case is ‘exceptional’ under 35 U.S.C. § 285.” *Id.* (This was a motion for attorneys’ fees, so procedurally the district court did not adjudicate the claims invalid.)

The district court then declared the case exceptional, finding what many of S&T’s licensees may have thought over the years—that S&T engaged in “a clear pattern of serial filings with the goal of obtaining quick settlements at a price lower than the cost of litigation.” *Id.* at *8. “These tactics present a compelling need for deterrence and to discourage exploitative litigation by patentees who have no intention of testing the merits of their claims.” *Id.* The court awarded Hall Enterprises its attorneys’ fees.

The deterrent ordered by the Central District of California court appears to have worked. Neither S&T nor ArrivalStar has filed any patent infringement suits anywhere in the United States in 2017 or 2018, after filing hundreds of suits in 2016.

Decisions of Interest for PTAB Practitioners from 2017–18

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§ 4.1 INTRODUCTION

Every year brings some surprises to Patent Trial and Appeal Board (PTAB or Board) practice, and last year was no exception. For example, the decision in *Aqua Products v. Matal* clarified that in cases where a patent owner submits a motion to amend claims, the burden of proof of unpatentability lies on the petitioner. Many in the patent community viewed this decision as a shift towards a more patent-owner friendly practice. The patent bar also eagerly awaited the U.S. Supreme Court's decision on the constitutionality of inter partes reviews (IPRs) in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*. Many predicted that IPRs would be deemed constitutional by the Court, as was ultimately decided; however, no one could predict the impact of the decision in *SAS Institute Inc. v. Iancu*, where the Supreme Court held that all challenged claims must be reviewed by the Board if it decided to institute IPR. The Board has since interpreted *SAS Institute* to mean that if

institution is ordered, then not only must all claims be reviewed, but also all grounds must be instituted for trial as well. These decisions will alter post-grant review strategies for some time to come.

The following case notes are not intended as a comprehensive summary of decisions of interest in post-grant proceedings, but rather a survey of some of the more interesting decisions from the Board, the Federal Circuit, and Supreme Court of the past year for anyone interested in the interplay of post-grant review and patent enforcement.

§ 4.2 DECISIONS OF INTEREST FOR PTAB PRACTITIONERS

A. PTAB's Discretion in Instituting IPR Under 35 U.S.C. § 325(d) – *Becton, Dickinson & Co. v. B. Braun Melsungen AG*, IPR2017-01586, Paper No. 8 (P.T.A.B. Dec. 15, 2017)

Becton filed a petition requesting IPR of claims 18, 22, and 25 of U.S. Patent No. 8,328,762 ('762 patent). In response, Braun argued that two of the references Becton cited as support for rejecting all three of the claims as obvious were already considered in conjunction with an earlier patent from which the '762 patent claims priority. Braun acknowledged that the two references were never considered together, but argued that this was because the U.S. Patent and Trademark Office (USPTO) had already considered another combination that was substantially the same and that this new combination "adds nothing beyond what was already considered by the Office."

The PTAB began its analysis by noting that institution of an IPR is discretionary. The PTAB then listed six non-exclusive factors it uses in evaluating whether to exercise its discretion when the same or substantially the same prior art or arguments had been previously presented to the USPTO under 35 U.S.C. § 325(d). Those factors include:

1. the similarities and material differences between the asserted art and the prior art involved during examination;
2. the cumulative nature of the asserted art and the prior art evaluated during examination;
3. the extent to which the asserted art was evaluated during examination, including whether the prior art was the basis of rejection;
4. the extent of the overlap between the arguments made during examination and the manner in which the petitioner relies on the prior art or the patent owner distinguishes the prior art;

5. whether the petitioner has pointed out sufficiently how the examiner erred in their evaluation of the asserted prior art; and

6. the extent to which additional evidence and facts presented in the petition warranted reconsidered of the prior art or arguments.

In weighing these factors, the PTAB determined that the two references cited by Becton were applied in the same manner by the examiner as Becton presented in its IPR petition. Nevertheless, the PTAB exercised its discretion and instituted an IPR of the claims, but on bases other than the two references Becton cited as support for rejecting all three of the claims.

The USPTO has designated this case as "informative" on the PTAB's discretion to institute an IPR.

B. Multiple Petitions – *General Plastic Industrial Co., LTD. v. Canon Kabushiki Kaisha*, IPR2016-01357 to IPR2016-01361, Paper No. 19 (P.T.A.B. Sept. 6, 2017) (Decision Denying Petitioner's Requests for Rehearing)

The petitioner (General Plastic Industrial Co., Ltd.) filed a first set of petitions seeking IPR of U.S. Patent No. 9,046,820 B1 ("the '820 patent") and U.S. Patent No. 8,909,094 B2 ("the '094 patent"). Institution of trial was denied based upon the merits for each of the petitions. Nine months after the filing of the first set of petitions, the petitioner filed follow-on petitions against the same patents. The Board denied institution for each of those follow-on petitions pursuant to 35 U.S.C. § 314(a) and 37 C.F.R. § 42.108(a). The petitioner filed rehearing requests and the Board denied rehearing.

The petitioner contended that the institution decisions were wrong because: (1) the factor of the limited one-year time period for issuing a final written decision should be afforded additional weight in light of the legislative history; (2) the Board abused its discretion by requiring that the prior art "should have been known" at the time the initial petitions were filed; and (3) the Board erred in considering potential prejudice to the patent owner because *NVIDIA Corp. v. Samsung Electronics Co.*, IPR2016-00134, Paper No. 9 (P.T.A.B. May 4, 2016) does not list such a factor. The petitioner also requested that an expanded panel be designated.

The Board clarified that its governing statutes and regulations do not permit parties to request, or panels to authorize, an expanded panel, citing 35 U.S.C. § 6; 37 C.F.R. §§ 41.1 through 42.412, and *AOL Inc. v. Coho Licensing LLC*, IPR2014-00771, Paper No. 12, at 2 (P.T.A.B. Mar. 24, 2015) ("[P]arties are not permitted to request, and panels do not authorize, panel expansion."). However, the chief judge has the discretion to expand the patent and decided to do so in this case "due to the exceptional nature of the issues presented." *Gen. Plastic Indus. Co., LTD. v. Canon Kabushiki*

Kaisha, IPR2016-01357 to IPR2016-01361, Paper No. 19, at 4–5 (P.T.A.B. Sept. 6, 2017). Citing *NVIDIA*, the Board articulated seven factors it may consider in deciding multiple petitions for IPR:

1. whether the same petitioner previously filed a petition directed to the same claims of the same patent;
2. whether at the time of filing of the first petition the petitioner knew of the prior art asserted in the second petition or should have known of it;
3. whether at the time of filing of the second petition the petitioner already received the patent owner's preliminary response to the first petition or received the Board's decision on whether to institute review in the first petition;
4. the length of time that elapsed between the time the petitioner learned of the prior art asserted in the second petition and the filing of the second petition;
5. whether the petitioner provides adequate explanation for the time elapsed between the filings of multiple petitions directed to the same claims of the same patent;
6. the finite resources of the Board; and
7. the requirement under 35 U.S.C. § 316(a)(11) to issue a final determination not later than one year after the date on which the director notices institution of review.

Id. at 9–10.

Applying these factors to the follow-on petitions, the Board concluded that the circumstances did not warrant institution of IPRs. For example, with the first factor, the challenged claims were the same in the first-filed and follow-on petitions. As for the second and third factors, the petitioner had already filed preliminary responses and the Board had already denied institution before the follow-on petitions were filed. The petitioner provided no meaningful explanation for the delay in filing the follow-on petitions, and prior art searching had not commenced until denial of institution in the first-filed petitions. With respect to factor 6, the Board found that its resources would be more fairly expended on initial petitions, rather than follow-on petitions. With respect to factors 4 and 5, the petitioner provided no explanation in its petition or in its reply to the patent owner's preliminary response of any unexpected circumstances prompting new prior art searches, nor did it explain why it could not have found the prior art earlier through the exercise of reasonable diligence. Moreover, the Board found that the petitioner had modified its challenges in the follow-on petitions in an at-

tempt to cure the deficiencies that the Board identified in its first-filed petitions, and was not the result of a surprising position that the patent owner advanced or the Board adopted.

On October 18, 2017, the USPTO designated section II.B.4.i of this decision as "precedential."

C. Burden of Proof for Claim Amendments in Inter Partes Reviews – *Aqua Products v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017)

On October 4, 2017, the Federal Circuit issued a lengthy decision in *Aqua Products v. Matal*, spanning five opinions and 148 pages, which addressed the proper allocation of the burden of proof when amended claims are offered during IPR proceedings.

The case concerns U.S. Patent No. 8,273,183, relating to a self-propelled cleaning apparatus for cleaning a submerged surface of a pool or tank, assigned to Aqua Products, Inc. In the underlying IPR proceeding (IPR2013-00159), the Board denied Aqua's motion to amend various claims of the '183 patent. The Board had followed its prior practice for deciding motions to amend, which placed a substantive burden of proving patentability on the patent owner. *MasterImage 3D, Inc. v. RealD Inc.*, No. IPR2015–00040, Paper No. 42, at 2–4 (P.T.A.B. July 15, 2015) (clarifying *Idle Free Sys., Inc. v. Bergstrom, Inc.*, No. IPR2012–00027, Paper No. 26, at *4 (P.T.A.B. June 11, 2013)). Aqua appealed the final written decision of the Board, and a panel of the Federal Circuit concluded that the Board did not abuse its discretion in denying Aqua's amendments. Aqua requested en banc rehearing, which was granted and the court vacated the panel decision.

Upon en banc rehearing the case, the court interpreted 35 U.S.C. § 316(e) as placing the burden to prove *all propositions of claim unpatentability on the petitioner, including amended claims*. To the extent they are inconsistent with its decision in *Aqua Products*, the court overruled its prior decisions in *Microsoft Corp. v. Proxyconn, Inc.*, 789 F.3d 1292 (Fed. Cir. 2015); *Prolitec, Inc. v. ScentAir Technologies, Inc.*, 807 F.3d 1353 (Fed. Cir. 2015) (petition for rehearing pending); *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016); and *Nike, Inc. v. adidas AG*, 812 F.3d 1326 (Fed. Cir. 2016). The court vacated the final written decision of the Board insofar as it denied the patent owner's motion to amend the patent, and remanded it for the Board to issue a final decision under 35 U.S.C. § 318(a) assessing the patentability of the proposed substitute claims without placing the burden of persuasion on the patent owner.

The majority opinion distinguished the entry of *a motion to amend into the IPR* (motions to amend are the vehicle for proposing amended claims in IPR proceedings) from the substantive burden of proof that must be satisfied for entry of *an amended claim into the patent*: "… any propositions of substantive unpatentability for amended claims are assessed *following* entry of the amended claims into the IPR proceeding, under the standards that apply to all claims in the proceeding." *Aqua*

Prods. v. Matal, 872 F.3d 1290, 1305 (Fed. Cir. 2017) (emphasis in original). The court summarized the amendment process:

> [W]e believe that the only reasonable reading of the burden imposed on the movant in § 316(d) is that the patent owner must satisfy the Board that the statutory criteria in § 316(d)(1)(a)–(b) and § 316(d)(3) are met and that any reasonable procedural obligations imposed by the Director are satisfied before the amendment is entered into the IPR. Only once the proposed amended claims are entered into the IPR does the question of burdens of proof or persuasion on propositions of unpatentability come into play. It is at that point, accordingly, that § 316(e) governs, placing that burden onto the petitioner.

Id. at 1305–06.

The majority opinion suggested how the Board could consider a motion to amend in case there is settlement between the parties:

> If a settlement occurs and the IPR is terminated, no certificate incorporating the amendment into the patent ever issues. Section 318(b) makes clear that no certificate either reaffirming a challenged claim or substituting an amended claim for a challenged one issues unless and until the Board chooses to issue a final judgment under § 318(a) in which it assesses the patentability of both categories of claims… .

Id. at 1311. The court's inquiry about whether the Board may sua sponte raise patentability challenges to the amended claims was "reserved for another day," but the court did reiterate the panel decision that the Board may base its patentability determinations of amended claims on the entire record before it, and not limit itself solely on the face of the motion to amend. The court noted the Board's decision to reject Aqua's proposed amended claims without consideration of the entirety of the IPR record as an independent basis for vacating and remanding the matter to the Board.

COMMENT

Patent owners and petitioners routinely argued issues of patentability of proposed claim amendments prior to *Aqua Products*. However, *Aqua Products* shifted the analysis from whether the patent owner proved patentability, to whether the petitioner demonstrated by a preponderance of the evidence that an amended claim is unpatentable. Post *Aqua Products*, petitioners must assume that a motion to amend claims will get more of the Board's attention, and the petitioner will bear more responsibility to make a full and convincing record of unpatentability of amended claims. If it turns out that the Board grants more motions to amend post *Aqua Products*, petitioners will have to more carefully consider the availability of narrowing amendments that the patent owner could assert before recommending an IPR petition strategy. Similarly, patent owners will have to decide if the guidance provided by *Aqua Products* will merit more frequent filing of motions to amend or if it is preferable to procure amended claims via reissue or continuation practice.

D. One-Year Bar Under 35 U.S.C. § 315(b) – *Amneal Pharmaceuticals, LLC v. Endo Pharmaceuticals, Inc.*, IPR2014-00360, Paper No. 15 (P.T.A.B. June 27, 2014), *designated "informative"* (U.S.P.T.O. Jan. 10, 2018)

On November 7, 2012, Endo Pharmaceuticals filed a complaint against Amneal Pharmaceuticals in the United States District Court for the Southern District of New York, alleging infringement of certain patents. A week later, Endo filed an amended complaint.

On December 11, 2012, U.S. Patent No. 8,329,216 (the '216 patent) issued to Endo. A month later, on January 9, 2013, Endo filed and served an unopposed motion to amend its complaint to add allegations of infringement of the '216 patent. The motion included a copy of the proposed second amended complaint as an exhibit. On January 14, 2013, the court granted the motion, stating that Endo "shall file the second amended complaint promptly." On January 17, 2013, Endo filed its second amended complaint.

On January 16, 2014, Amneal filed a petition for IPR of the '216 patent. Endo opposed the petition, claiming that it was time-barred by 35 U.S.C. § 315(b). Endo argued that it "served" the second amended complaint, for purposes of section 315(b), on January 9, 2013, when it filed and served its motion to amend the complaint and included a copy of the proposed second amended complaint as an exhibit.

The PTAB rejected Endo's argument, recognizing that when Endo filed its motion to amend its complaint, it had "requested, but had not obtained yet, permission to file" its second amended complaint. At that point, the second amended complaint "was merely a proposed complaint, and [Amneal] was not yet a defendant in a lawsuit with respect to the '216 patent."

The PTAB also recognized that the court's order granting the motion to amend the complaint did not constitute service of the second amended complaint. "[Endo] was 'brought under a court's authority, by formal process,' and became 'obliged to engage in litigation' in relation to the '216 patent, on January 17, 2013, when [Endo] actually filed its Second Amended Complaint, and not beforehand."

On January 10, 2018, the USPTO designated this decision as "informative."

E. Standard for Indefiniteness Used with Broadest Reasonable Interpretation – *Ex parte McAward*, Appeal 2015-006416 (P.T.A.B. Aug. 25, 2017)

James McAward appealed the examiner's decision rejecting claims 1 through 20 of his application under 35 U.S.C. § 112, second paragraph. (McAward filed his application before September 16, 2012, so the pre-America Invents Act (AIA) version of section 112 applied to this appeal.) Section 112, second paragraph, requires the specification to "conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention."

Under this provision, the USPTO must test claims for definiteness prior to issuing a patent. The USPTO applies the "broadest reasonable interpretation of a claim" and will establish a prima facie case of indefiniteness by "explaining how the metes and bounds of a pending claim are not clear because the claim contains words or phrases whose meaning is unclear." An indefiniteness rejection "begins what is intended to be an interactive process in which the applicant has the opportunity to respond to the examiner by amending the claims or by providing evidence or explanation that shows why the claims are not indefinite." This approach for assessing indefiniteness at the USPTO was approved by the Federal Circuit in *In re Packard*, 751 F.3d 1307 (Fed. Cir. 2014).

The "broadest reasonable interpretation" standard applied by the USPTO requires a "lower threshold of ambiguity" than the standard applied by the federal courts in patent litigation. This "makes good sense" because the patent record at the examination stage is still in development and not yet fixed, and applicants may freely amend claims. But once a patent is issued, it is presumed valid. Thus, when the patent is under review by a court, "simple amendments are impossible, the full prosecution record is available, and courts endeavor to adopt saving constructions."

In *Nautilus, Inc. v. Biosig Instruments, Inc*., 134 S. Ct. 2120 (2014), the Supreme Court articulated a lower threshold of indefiniteness than that approved in *Packard*. The Court explained that the "definiteness command" of section 112, ¶ 2 "require[s] that a patent's claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty." *Nautilus*, 134 S. Ct. at 2129. The Court stated, "[t]he definiteness requirement, so understood, mandates clarity, while recognizing that absolute precision is unattainable." *Id*.

In the section of the *Ex parte McAward* decision deemed to be "precedential," the PTAB determined that *Nautilus* did not mandate a change in the USPTO's approach to indefiniteness. But the PTAB also cautioned that the "broadest reasonable interpretation" standard "'is not a demand for unreasonable precision,' and 'does not contemplate in every case a verbal precision of the kind found in mathematics'" *Ex parte McAward*, Appeal 2015-006416, at 12 (P.T.A.B. Aug. 25, 2017) (quoting *Packard*, 751 F.3d at 1313). In a footnote, the PTAB stated that, in this decision, it was not addressing "the approach to indefiniteness that the Office follows in post-grant trial proceedings under the [AIA]."

F. Assignor Estoppel in America Invents Act Reviews – *Athena Automation Ltd. v. Husky Injection Molding Systems Ltd.*, IPR2013-00290, Paper No. 18 (P.T.A.B. Oct. 25, 2013), *designated "precedential"* (U.S.P.T.O. July 10, 2018)

Athena Automation filed a petition for IPR of U.S. Patent No. 7,670,536 owned by Husky. In response, Husky argued that Athena was barred from challenging the validity of the patent by assignor estoppel.

Assignor estoppel is an equitable doctrine that prohibits an assignor of a patent or patent application, or one in privity with the assignor, from attacking the validity of that patent when the assignor is sued for infringement by the assignee. Assignor estoppel is thus a defense to certain claims of patent infringement.

Under the AIA, "a person *who is not the owner of a patent* may file with the Office a petition to institute an IPR of the patent." 35 U.S.C. § 311(a) (emphasis added). In the section of the *Athena* decision designated as "precedential," the PTAB interpreted this statute as presenting "a clear expression of Congress's broad grant of the ability to challenge the patentability of patents through *inter partes* review."

The PTAB contrasted this statute with International Trade Commission investigations involving patent disputes brought under 19 U.S.C. § 1337(c), which provides that "all legal and equitable defenses may be presented in all cases." Because the AIA does not include a similar statutory

requirement to consider "all … equitable defenses," the PTAB held that the equitable defense of assignor estoppel is not available in AIA post-grant reviews.

On July 10, 2018, the USPTO designated this decision as "precedential."

G. Joinder Request Following Court Invalidity Challenge – *Colas Solutions Inc. v. Blacklidge Emulsions, Inc.*, IPR2018-00242, Paper No. 9 (P.T.A.B. Feb. 27, 2018) (Decision Denying Institution of IPR and Denying Joinder), *designated "informative"* (U.S.P.T.O. July 10, 2018)

On May 12, 2016, petitioner Colas Solutions Inc. filed a petition for IPR of U.S. Patent No. 7,918,624 in IPR2016-01032. The next day, the petitioner filed a complaint for declaratory judgment of invalidity and unenforceability in district court challenging validity of the '624 patent ("the DJ Action"). The DJ Action was automatically stayed under 35 U.S.C. § 315(a)(2). The IPR was instituted but petitioner Colas failed to show that any claim of the '642 patent was unpatentable.

While the -01032 IPR was running its course, the Board received a new challenge of the '642 patent in IPR2017-01242, filed by Asphalt Products Unlimited (APU). The Board instituted trial in the -01242 IPR on October 24, 2017. On November 24, 2017, Colas filed its petition and motion for joinder requesting that the Board join Colas as a party to the -01242 IPR.

By filing the civil action prior to its -01242 IPR petition and motion for joinder, Colas was subject to the bar under 35 U.S.C. § 315(a)(1) and was now requesting joinder under 35 U.S.C. § 315(c).

The Board dismissed the petition and motion for joinder pursuant to section 315(a)(1) holding that Cola's filing of a declaratory judgment action challenging validity prior to filing its petition and motion for joinder barred institution of the petition.

On July 10, 2018, the USPTO designated this decision as "informative."

H. Covered Business Method Eligibility Determined at Time of Institution Decision – *Facebook, Inc. v. Skky, LLC*, CBM2016-0091, Paper No. 12 (P.T.A.B. Sept. 28, 2017)

Skky owns U.S. Patent No. 9,037,502, a covered business method (CBM) patent for a "media delivery platform." Facebook filed a petition for CBM review of all 11 claims under section 18 of the AIA. One day before filing its preliminary response to the petition, Skky statutorily disclaimed claims 6 and 8 through 11. Skky then argued that the disclaimer rendered those claims "irrelevant" to the CBM patent review eligibility determination.

Facebook asked the PTAB panel for leave to file a reply addressing the impact of the disclaimer, which was denied. The panel then denied institution on the sole ground that the patent was not eligible for CBM patent review, treating the disclaimed claims "as if they never existed."

Facebook requested rehearing of the decision denying institute. Facebook also requested that its arguments be heard by an expanded panel, and the Chief Judge agreed, determining that an expanded panel was warranted "to provide guidance regarding the effect of such disclaimers on CBM patent review eligibility."

Facebook urged the PTAB to adopt a "time-of-filing" rule in assessing the impact of post-filing statutory disclaimers, similar to the rule used by the federal courts to determine jurisdiction. Under this rule, the PTAB would decide whether to institute CBM review based on the claims as they existed at the time the petition was filed.

In the portion of the decision designated as "precedential," the PTAB rejected Facebook's proposal. The PTAB pointed out that it is not a federal court, but an administrative agency whose authority to act is granted by Congress. The PTAB then quoted the AIA's definition of a CBM patent: "a patent that *claims* a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service" (emphasis by the PTAB).

The decision whether to institute a CBM patent review is based on whether a patent "is" a CBM patent, which in turn is based on what the patent "claims" at the time of the institution decision, not as the claims may have existed at some previous time. *See* AIA § 18(a)(1)(E) (using the present tense "is"), (d)(1) (using the present tense "claims"); 35 U.S.C. § 324(a); 37 C.F.R. § 42.207(e) (when a patent owner files a statutory disclaimer, "[n]o post-grant review will be instituted based on disclaimed claims").

The PTAB also recognized that the Federal Circuit "has held consistently that claims disclaimed under 35 U.S.C. § 253(a) should be treated as though they never existed." Facebook's proposal, however, would treat disclaimed claims as if they never existed, *except* for purposes of the CBM patent review program, and could also result in the PTAB conducting a CBM patent review of a patent that is no longer a "covered business method patent," as defined in the AIA. Accordingly, the PTAB denied Facebook's request for a rehearing and the order denying institution was unchanged.

I. Depositions in Foreign Languages – *Ariosa Diagnostics v. Isis Innovation Ltd.*, IPR2012-00022, Paper No. 55 (P.T.A.B. Aug. 7, 2013), *designated "informative"* (U.S.P.T.O. July 10, 2018)

In this case, a witness of the petitioner, Ariosa Diagnostics, was unable to be deposed in the United States. The petitioner requested that the deposition be held in a foreign jurisdiction and that

the deposition be taken in a language other than English. The Board granted both requests. For guidance on conducting a deposition in a foreign language the Board referred to 37 C.F.R. § 42.53 (Rule 42.53) which requires the following:

1. The party proffering the witness is responsible for providing a "first interpreter" who can interpret using a consecutive mode of interpretation.

2. At least five business days before the cross-examination deposition, the party shall provide to the opponent the name, business address, business telephone number, email address, and resumé of the first interpreter.

3. The opponent may engage the services at the counsel table of a "second interpreter."

4. At least five business days before the cross-examination deposition, the opponent shall provide to the party the name, business address, business telephone number, email address, and resumé of the second interpreter.

5. The consecutive mode of interpretation shall be used.

6. If the second interpreter has a disagreement with the first interpreter regarding the interpretation of the question and/or the answer, the second interpreter should inform counsel by note. If counsel desires to raise the disagreement on the record, the second interpreter, using the consecutive mode, will be allowed to interpret the question for the witness, as well as the witness's answer to the second interpreter's interpretation of the question.

7. If there is a disagreement as to interpretation, and the first and second interpreter cannot work out a mutually agreeable interpretation, an objection should be made on the record, and the first and second interpreter should specify on the record what they believe to be the correct interpretation.

8. In such an event, the Board will determine which interpretation, if any, is to be accorded more weight.

9. Collateral attacks with respect to the qualifications of any interpreter, or the manner in which any question or answer was interpreted, shall not be allowed after the conclusion of the deposition.

10. Copies of any documents which an interpreter will be required to "sight translate" at the deposition shall be provided to the interpreter no later than three days before the deposition is to take place. Failure to timely provide the documents

may result in their exclusion from evidence. Unless agreed to by both parties, the interpreter shall not reveal to opposing counsel the nature of any document so provided.

11. If, at any time during the deposition, the interpreter is unable to interpret or translate a word, expression, or special term, the interpreter shall, on the record, advise the parties of the issue.

12. An individual may not serve simultaneously as both an attorney for a party and as an interpreter.

The Board acknowledged that, beyond Rule 42.53 and the above guidelines, the parties are in the best position to determine the procedure by which the deposition is to be conducted. The Board advised that if there are additional situations that the parties foresee may occur during the deposition, such as requiring additional time to cross-examine the witness because of the need for an interpreter, and the need for the interpreter to take breaks during the proceeding, the parties should agree to how those situations should be handled before the deposition. The Board also advised that if problems arise and the parties cannot come to an agreement, the parties should contact the Board for additional guidance.

On July 10, 2018, the USPTO designated this decision as "informative."

J. "Good Cause" Standard with Respect to Motions to Seal – *Argentum Pharm. LLC v. Alcon Research, Ltd.*, IPR2017-01053, Paper No. 27 (P.T.A.B. Jan. 19, 2018) (Decision Denying Without Prejudice Patent Owner's Motion to Seal and for Entry of Proposed Order), *designated as "informative"* (P.T.A.B. July 10, 2018)

Patent owner Alcon filed an unopposed motion to seal certain documents such as laboratory notebooks. The Board articulated its "good cause" standard for a motion to seal:

> Consequently, a movant to seal must demonstrate adequately that (1) the information sought to be sealed is truly confidential, (2) a concrete harm would result upon public disclosure, (3) there exists a genuine need to rely in the trial on the specific information sought to be sealed, and (4), on balance, an interest in maintaining confidentiality outweighs the strong public interest in having an open record. 37 C.F.R. § 42.54(a); IPR440, Paper 47, 2–3; IPR440, Paper 49, 2.

The Board denied the motion to seal, but provided the patent owner another opportunity to request the documents be sealed under the four articulated factors.

On July 10, 2018, the USPTO designated this decision as "informative."

K. Failure to Submit All Required Petition Parts – *Luv'N Care [sic], Ltd. v. McGinley*, IPR2017-01216, Paper No. 13 (P.T.A.B. Sept. 18, 2017)

On March 30, 2016, Michael McGinley and his company, S.C. Products, Inc., filed a complaint against Luv N' Care in the United States District Court for the Western District of Missouri, alleging infringement of U.S. Patent No. 8,636,178 (the '178 patent). McGinley served Luv N' Care with process the next day.

One year later, on March 30, 2017, Luv N' Care successfully uploaded a petition for IPR of the '178 patent using the PTAB E2E filing system. Luv N' Care's account at the USPTO, however, held insufficient funds to cover the filing fee. Sufficient funds were added to the account the next day, but Luv N' Care made no attempt at that time to pay the filing fee.

Twelve days after its initial IPR filing attempt, on April 11, 2017, Luv N' Care successfully filed its petition for IPR of the '178 patent and was accorded that filing date. That same day, Luv N' Care filed a motion to have its IPR petition accorded a March 30, 2017 filing date.

The PTAB denied Luv N' Care's motion. In its decision, designated as "informative," the PTAB recognized that, under 35 U.S.C. § 312(a)(1), it would consider an IPR petition "only if the petition is accompanied by payment of the fee established by the Director under section 311." This means the filing fee must be actually received by the USPTO, not merely tendered.

Although the statute is not jurisdictional, the PTAB will not waive the fee requirement absent a showing of good cause, which Luv N' Care failed to establish. As a result, Luv N' Care's filing date remained as April 11, 2017. And because that date was more than a year after McGinley filed his patent infringement complaint against Luv N' Care, the IPR petition was barred as untimely under 35 U.S.C. § 315(b):

> PATENT OWNER'S ACTION.—An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.

L. Partial Institution of Decisions – *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348 (2018)

SAS sought an IPR of ComplementSoft's software patent. In its petition, SAS alleged that all 16 of the patent's claims were unpatentable for various reasons. The Board concluded that SAS was likely to succeed with respect to at least one of the claims and instituted review on only some

claims (claims 1 and 3 through 10) and denied review on the rest, based on a USPTO regulation that purported to recognize a power of "partial institution," claiming that "[w]hen instituting inter partes review, the [Director] may authorize the review to proceed on all or some of the challenged claims and on all or some of the grounds of unpatentability asserted for each claim." 37 C.F.R. § 42.108(a).

At the end of litigation, the Board issued a final written decision finding claims 1, 3, and 5 through 10 to be unpatentable and confirmed claim 4. The Board's decision did not address the remaining claims which were not reviewed. SAS appealed to the Federal Circuit, arguing that 35 U.S.C. § 318(a) required the Board to decide the patentability of every claim SAS challenged in its petition, not just some. The Federal Circuit rejected SAS's argument over a dissent by Judge Newman. *SAS Inst., Inc. v. ComplementSoft, LLC*, 825 F.3d 1341 (Fed. Cir. 2016). The Supreme Court granted certiorari to decide the question.

The Supreme Court held that when the USPTO institutes an IPR, it must decide the patentability of *all* of the claims the petitioner has challenged. The majority stated that the plain text of section 318(a) resolves this case:

> "If an inter partes review is instituted and not dismissed under this chapter, the [Board] shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner … ." §318(a) … . This directive is both mandatory and comprehensive. The word "shall" generally imposes a nondiscretionary duty.

SAS Institute, Inc. v. Iancu, 138 S. Ct. 1348, 1354 (2018).

The majority decided that the director's "partial institution" power appears nowhere in the statutory text and that both text and context "strongly counsel against inferring such a power."

M. Constitutionality of Post Grant Review Under the America Invents Act – *Oil States Energy Services LLC v. Greene's Energy Group*, LLC, 138 S. Ct. 1365 (2018)

Petitioner Oil States Energy Services, LLC, obtained a patent relating to technology for protecting wellhead equipment used in hydraulic fracturing. It sued Greene's Energy Group, LLC (respondent) in federal district court for infringement. Greene's Energy challenged the patent's validity in the district court and petitioned the USPTO for IPR. Both proceedings progressed in parallel. The district court issued a claim-construction order favoring Oil States, while the Board issued a decision concluding that Oil States' claims were unpatentable. Oil States appealed to the Federal Circuit appealing the patentability decision and challenging the constitutionality of IPR, arguing that actions to revoke a patent must be tried in an Article III court before a jury.

Numerous amici briefs were filed with the Court and the case became the subject of much discussion and debate within the patent bar. Ultimately, the Supreme Court affirmed the Board's decision on patentability and upheld the constitutionality of IPRs under the AIA.

The Court held that IPR falls within the public rights doctrine and that IPR does not violate Article III because Congress has significant authority to assign adjudication of public rights to entities other than Article III courts. The Court decided that IPR involves substantially the same basic matter and relates to the same basic interests as grant of the patent.

The Court further found that any similarity of IPR to litigation in the courts does not lead to a conclusion that Article III is violated by IPR, because the Court never adopted a "looks like" test to determine if an adjudication should be within an Article III court.

Some commentators were surprised to see that the Court also advised that the ruling was narrow and tailored to the precise constitutional challenges raised in the instant case. It did not, for example, foreclose other future challenges based on the Due Process Clause or the Takings Clause.

Finally, the Court determined that IPR does not violate the Seventh Amendment right to a jury trial.

For patent attorneys, the holding in *Oil States* means that post-grant reviews are not unconstitutional for at least the time being, but that the Court did not rule out future challenges to constitutionality on different facts or different legal theories.

N. Sovereign Immunity to Inter Partes Review – *Mylan Pharmaceuticals Inc. v. Saint Regis Mohawk Tribe*, IPR2016-01127, Paper No. 129 (P.T.A.B. Feb. 23, 2018) and *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*, Nos. 2018-1638, 2018-1639, 2018-1640, 2018-1641, 2018-1642, 2018-1643, 2018 U.S. App. LEXIS 20276 (Fed. Cir. July 20, 2018)

On December 8, 2016, the PTAB instituted petitions for IPR of six patents owned by Allergan related to Restasis® brand eye drops. At the time of the institution, the undisputed owner of the patents was Allergan. But less than one week before the scheduled hearing on the IPR proceedings, counsel for the Saint Regis Mohawk Tribe ("the Tribe") informed the PTAB that the Tribe had acquired the challenged patents and sought permission to file a motion to dismiss the IPR proceedings based on the Tribe's sovereign immunity. Since Allergan owned the patents at the time the PTAB instituted IPR, the PTAB authorized the Tribe to file a motion to terminate the proceedings, not a motion to dismiss.

Because of the public interest and the fact that this was an issue of first impression, the PTAB authorized third parties to file briefs as amicus curiae. There were 15 amicus briefs, plus supplemental briefing by the parties.

The PTAB acknowledged that American Indian tribes are "domestic dependent nations" that exercise "inherent sovereign authority." Their sovereignty, however, "is of a unique and limited character" subject to the "superior and plenary control of Congress." Congress enacted the Patent Act, which provides that "*any* patent (regardless of ownership) is 'subject to the conditions and requirements'" of the Act (quoting 35 U.S.C. § 101; emphasis added by PTAB). Congress also determined that those requirements include being subject to IPR. Moreover, IPR proceedings do not abrogate any rights guaranteed by American Indian treaties or interfere with the Tribe's exclusive rights of self-governance. The PTAB also recognized that "an *inter partes* review proceeding is not the type of 'suit' to which an Indian tribe would traditionally enjoy immunity under the common law." The PTAB thus determined that the Tribe failed to establish that it is entitled to assert its tribal immunity in the IPR proceedings and that the Tribe's assertion of its tribal immunity did not serve as a basis to terminate the proceedings.

The PTAB also analyzed the terms of the license agreement between Allergan and the Tribe and determined that the license transferred "all substantial rights" in the challenged patents back to Allergan, leaving the Tribe with mothing more than "an illusory or superficial right to sue for infringement of the challenged patents." Thus, even if the Tribe was entitled to assert immunity, the PTAB held that the IPR proceedings could continue with Allergan as the patent owner and that the Tribe was not an indispensable party to the proceedings.

Allergan and the Tribe appealed the PTAB's decision to the Federal Circuit. On July 20, 2018, the Federal Circuit affirmed the PTAB's decision, concluding that "tribal sovereign immunity cannot be asserted in IPR." *St. Regis Mohawk Tribe v. Mylan Pharms. Inc.*, Nos. 2018-1638, 2018-1639, 2018-1640, 2018-1641, 2018-1642, 2018-1643, 2018 U.S. App. LEXIS 20276, at *15 (Fed. Cir. July 20, 2018).

Key Copyright Developments and Cases of 2017–18

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§ 5.1 COPYRIGHTABILITY

A. *Davidson v. United States*, No. 13-942, 2018 U.S. Claims LEXIS 801 (Fed. Cl. June 29, 2018)

The plaintiff in this case, Robert Davidson, created a replica Statue of Liberty for the New York-New York Hotel & Casino in Las Vegas, Nevada. The defendant, the United States Postal Service, used a picture of Davidson's statue on a popular set of stamps. The Postal Service apparently had no idea that the picture was of Davidson's replica, rather than of the Statue of Liberty itself. When Davidson found out, he sued for copyright infringement.

The Postal Service argued that they did not infringe a valid copyright because Davidson did not author any original, copyrightable subject matter—his work was simply a replica of a preexisting sculpture. The court disagreed. It found that Davidson "both intended and achieved

a more contemporary and feminine face" in his version of the Statue of Liberty, and consequently, that he authored original and copyrightable expression. *Davidson v. United States*, No. 13-942, 2018 U.S. Claims LEXIS 801, at *29 (Fed. Cl. June 29, 2018). The court also rejected the Postal Service's fair use defense, noting that virtually the entirety of Davidson's original authorship—the face—was captured by the photograph on the stamp.

The court went on to award Davidson over $3.5 million in damages. As it turns out, an extraordinary number of these stamps were sold—nearly 5 billion by early 2014. Most of the stamps were used to send mail, and for those, the court awarded Davidson a flat fee: $5,000, representing the "nominal and historically accurate sum paid by the Postal Service" to license artwork. *Id.* at *60. There were, however, many stamps that were not used to send mail—representing almost pure profit for the Postal Service. The court determined that Davidson should be entitled to royalty of five percent on these unused stamps, resulting in the $3.5+ million award.

B. *Silvertop Associates v. Kangaroo Manufacturing, Inc.*, No. 1:17-cv-7919, 2018 U.S. Dist. LEXIS 89532 (D. N.J. May 29, 2018)

This case is about banana costumes. The plaintiff, Silvertop Associates, designed a banana costume and had been supplying it to the defendant Kangaroo Manufacturing. When Kangaroo switched to a new supplier, Silvertop sued. In this opinion, the court granted Silvertop's motion for a preliminary injunction, finding it likely to succeed on its copyright infringement claim.

In opposing the motion, Kangaroo argued that Silvertop's banana costume was a useful article, with no original features separable from its utilitarian function, and was therefore not protectable by copyright. The court agreed that the costume was a useful article overall, but nevertheless found it to be copyrightable. It reasoned that the shape, size, and design of the costume and its various features, along with its overall visual appearance, combined to creative an original and separable copyrightable work—even though these elements might not be protectable standing alone.

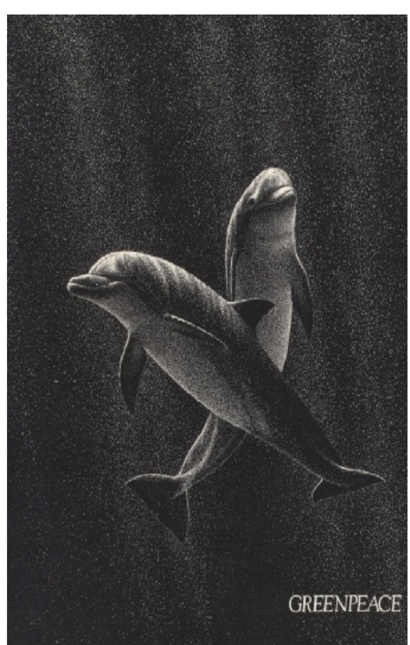
Turning to infringement, the court held that the two designs were "nearly identical." *Silvertop Assocs. v. Kangaroo Mfg., Inc.*, No. 1:17-cv-7919, 2018 U.S. Dist. LEXIS 89532, at *22 (D. N.J. May 29, 2018). For instance, it found that "the two deluxe costumes are both yellow in color … both have black tips at both ends … a near identical curvature… [and] material and texture [that] appear substantially similar." *Id*. The court therefore ruled that Silvertop was likely to prevail on its copyright infringement claim, and granted a preliminary injunction against Kangaroo.

C. *Folkens v. Wyland Worldwide LLC*, 882 F.3d 768 (9th Cir. 2018)

The plaintiff and defendant in this case were both artists who had depicted dolphins crossing underwater. The district court granted summary judgment to the defendant, and the Ninth Circuit

affirmed, holding that two dolphins crossing underwater is an idea found in nature that is not protectable by copyright.

The plaintiff, Folkens, is a wildlife artist, illustrator, photographer, and researcher. In 1979, he created a pen and ink drawing known as "Two Dolphins," which is "a black and white depiction of two dolphins crossing each other, one swimming vertically and the other swimming horizontally." *Folkens v. Wyland Worldwide LLC*, 882 F.3d 768, 770 (9th Cir. 2018). The defendant, Wyland, created a painting in 2011 which "is a color depiction of an underwater scene consisting of three dolphins, two of which are crossing, various fish, and aquatic plants." *Id.* at 771.



The plaintiff's "Two Dolphins" is shown on the left. The defendant's painting, originally in color, is shown on the right.

The defendant argued that this kind of similarity did not amount to copyright infringement, and the court agreed. It found that Folkens' copyright was "thin" or "narrow," only covering his particularized expression of "two dolphins in dark water, with ripples of light on one dolphin, in black and white." *Id.* at 776. Consequently, as Wyland's dolphins "are in color, do not show light ripples off the body of a dolphin, and the dolphins cross at different angles," they did not infringe. *Id.*

More broadly, the Ninth Circuit reaffirmed the principle that ideas first expressed in nature—such as animal poses—cannot be monopolized by copyright law. *Id.* at 775. While authors can obtain some narrow copyright protection in their particularized depictions of these kinds of poses,

such protection must be limited to aspects such as "background, lighting, perspective, animal pose, animal attitude, and animal coat and texture." *Id*. As those aspects differed here, summary judgment to the defendant was affirmed.

§ 5.2 SUBSTANTIAL SIMILARITY

A. *Rentmeester v. Nike, Inc.*, 883 F.3d 1111 (9th Cir. 2018)

Jacobus Rentmeester is a renowned photographer who took a famous photograph of Michael Jordan in 1984. The photograph, which first appeared in *Life* magazine, depicted Jordan leaping toward a basketball hoop on a grassy knoll, assuming a pose inspired by ballet's "grand jeté"—a leap with legs extended, one forward and the other back. *Rentmeester v. Nike, Inc.*, 883 F.3d 1111, 1115 (9th Cir. 2018). Rentmeester conceived of this pose, along with the setting and other aspects of the photograph, and staged and took the photograph accordingly. *Id.* at 1116–17.

After the photograph appeared in *Life* magazine, Nike published an advertisement also with Jordan. In the Nike version, several elements were modified: Jordan appears in front of the Chicago skyline rather than on a grassy knoll, and his apparel and location relative to the hoop differed. However, Jordan strikes the same grand jeté pose, and the overall composition was very much the same. *See id.*

Over the years, Rentmeester and Nike had entered into various agreements to stave off litigation. In 2015, unhappy with these arrangements, Rentmeester filed this suit for copyright infringement. The district court dismissed the case pursuant to Federal Rule of Civil Procedure 12(b)(6), holding that there was no infringement as a matter of law, and the Ninth Circuit Court of Appeals here affirms. *Id.* at 1118.

In affirming the judgment, the Ninth Circuit applied its "extrinsic test" for substantial similarity. In doing so, it explained that some types of works—such as novels and plays—can be readily "dissected into protected and unprotected elements." *Id.* at 1118–19. However, photographs "cannot be dissected … in the same way." *Id.* at 1119. That is because the individual choices made in the composition of a photograph—such as "subject matter, pose, lighting, camera angle, depth of field, and the like"—are not "subject to copyright protection when viewed in isolation." *Id*. at 1119. Thus, even though Rentmeester's photograph involved "an unusual or distinctive way" of posing, which was "highly original," Rentmeester "cannot copyright the pose itself and thereby prevent others from photographing a person in the same pose." *Id.* at 1119. Instead, it is only the overall selection and arrangement of all of the elements in the photograph which are entitled to copyright protection. *Id.*

Applying this reasoning, the court held that the works in this case were not substantially similar as a matter of law. *Id.* at 1121. The Nike photograph and Rentmeester photograph were dif-

ferent, the result of a different "series of creative choices in the selection and arrangement of the elements." *Id.* While the "general idea or concept" of the photo was "borrowed," the general idea or concept was not protectable, and the specifics were "express[ed] in different ways." *Id.* at 1121–22. Consequently, there was no infringement as a matter of law.

Notably, the court emphasized that this decision was appropriately made at the pleading stage. *Id.* at 1123. It allowed that discovery might be necessary in some photography cases—for example, to test an independent creation defense, or to learn more about "the range of creative choices available to the plaintiff photographer." *Id.* This, however, was not such a case. Instead, "[n]othing disclosed during discovery could alter the fact that the allegedly infringing works are as a matter of law not substantially similar." *Id.* at 1124.

B. *Design Basics, LLC v. Lexington Homes, Inc.*, 858 F.3d 1093 (7th Cir. 2017)

The Seventh Circuit described this case as involving "the challenge in administering intellectual property law to discourage so-called intellectual property 'trolls' while protecting genuine creativity." *Design Basics, LLC v. Lexington Homes, Inc.*, 858 F.3d 1093, 1096 (7th Cir. 2017). The plaintiff, Design Basics, LLC, claims to own copyright rights in approximately 2,700 home designs, and has been involved in over 100 federal lawsuits. *Id.* at 1096–97. Its employees scout out potential copyright infringement cases and are paid a percentage of any resulting recovery, and a principal revenue stream for the company is copyright infringement litigation. *Id.* at 1097. That is apparently how this case came about, as it involved the alleged infringement of the plaintiff's architectural designs. *See id.*

The district court had granted summary judgment to the defendant, and the Seventh Circuit affirmed on two alternative grounds. First, it held that there was insufficient evidence to show substantial similarity between the two sets of architectural works. *Id.* at 1105. "[M]uch of the content of the house plans at issue is dictated by functional requirements and industry norms," and consequently, "[t]o whatever extent the parties' plans resemble one another, they likewise resemble countless other home designs in a crowded market." *Id.* Put another way, there was insufficient similarity of protectable expression. Second, as an alternative basis for affirming the judgment, the court held that there was no reasonable possibility that the defendant had access to the plaintiff's work. *Id.* The fact that the designs in question were available on the plaintiff's website "cannot by itself justify an inference that the defendant accessed those materials." *Id.* at 1108. Without any other reasonable basis for a jury to find access, and in view of the differences between the two sets of works, the judgment of the district court was therefore affirmed. *Id.*

§ 5.3 FAIR USE

A. *Oracle America, Inc. v. Google LLC*, 886 F.3d 1179 (Fed. Cir. 2018)

This long-running case returned to the Federal Circuit after a second jury trial. *Oracle Am., Inc. v. Google LLC*, 886 F.3d 1179, 1183 (Fed. Cir. 2018). Although the jury found that Google was entitled to the fair use defense, the Federal Circuit again reversed. *Id.*

Oracle claims that Google copied certain portions of 37 Java Application Programming Interfaces (APIs). *Id.* APIs, as previously described by the Federal Circuit, are "ready-to-use Java programs to perform common computer functions." *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339, 1349 (Fed. Cir. 2014). While Google wrote its own code to implement the "common computer functions" of the APIs, Google did copy two other aspects of them. *Id.* at 1348–51. First, it copied the "declaring source code," which comprise short phrases used to invoke (rather than implement) the API functions. *Id.* at 1351. Second, it copied the structure, sequence, and organization (SSO) of the APIs as a whole, described as "the elaborately organized taxonomy of all the names of methods, classes, interfaces, and packages." *Id*.

In overturning the jury verdict, the Federal Circuit walked through the familiar four-factor fair use test. *Oracle Am.*, 886 F.3d at 1196. The first factor—the purpose and character of the use—was broken down into three subparts. To begin with, the purpose and character was commercial—as Google derives revenue from the product in question—which weighed against a finding of fair use. *Id.* at 1198. Furthermore, the fact that Google incorporated the materials in question into a new context (smartphones) did not make it transformative—"a mere change in format … is insufficient as a matter of law to qualify as a transformative use." *Id.* at 1202. Finally, the Federal Circuit considered whether Google acted in bad faith, reasoning that "while bad faith may weigh against fair use, a copyist's good faith cannot weigh in favor of fair use." *Id.* at 1203. In the end, the court reasoned that "even assuming the jury was unpersuaded that Google acted in bad faith, the highly commercial and non-transformative nature of the use strongly support the conclusion that the first factor weighs against a finding of fair use." *Id.* at 1204.

Moving on to the second factor—the nature of the copyrighted work—the Federal Circuit found that while "the jury's assumed view of the nature of the copyrighted work weighs in favor of finding fair use, it has less significance to the overall analysis." *Id.* at 1205. At issue was the level of creativity of the works in question, and the extent to which functional considerations dictated their design. *Id.* at 1204–05. As the jury could have found that "functional considerations were both substantial and important," this factor weighed in favor of fair use. *Id.* at 1205.

The third factor—the amount and substantiality of the portion used—was deemed neutral. *Id.* at 1207. Even though Google copied only a small portion of Java, that portion was considered qualitatively significant. *Id.*

And the final factor—the effect upon the potential market for the copyrighted work—supported Oracle. The Federal Circuit emphasized that there appeared to be a market for Oracle's Java SE. *Id*. at 1209. The fact that Oracle and Google had been engaged in licensing negotiations demonstrated that there was a potential market for it. *Id.* at 1209.

In the end, after balancing the four factors, the Federal Circuit held that "allowing Google to commercially exploit Oracle's work will not advance the purposes of copyright." *Id*. at 1210. Google could have licensed Oracle's work, or developed a completely independent work, both of which would have "furthered copyright's goals of promoting creative expression and innovation." *Id.* In failing to do so, Google infringed Oracle's copyright. The Federal Circuit therefore reversed and remanded for a trial on damages.

B. *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169 (2d Cir. 2018)

This case considered whether the defendant's copying of "the content of more than 1,400 television and radio stations, twenty-four hours a day, seven days a week" for incorporation into a "searchable database," was a fair use. *Fox News Network, LLC v. TVEyes, Inc.*, 43 F. Supp. 3d 379, 383 (S.D.N.Y. 2014). The United States District Court for the Southern District of New York had held that some aspects of the defendant's service were covered by the fair use doctrine, but the Second Circuit has now reversed.

TVEyes records the content in question—news broadcasts and the like—for incorporation into a searchable database so that subscribers to the TVEyes service can "track the news coverage of particular events." *Id*. at 384. Transcripts of the programs are generated and queried against subscribers' preferred keywords. *Id*. The results are displayed to subscribers as "a thumbnail image of the show, a snippet of transcript, and a short video clip beginning 14 seconds before the word was used." *Id.* TVEyes stores the broadcasts in their entirety for 32 days, during which time users can choose to watch clips from the broadcasts—each of which is limited to 10 minutes in length—and/or download those clips for future viewing. *Id*. at 385. Although there is no technical limitation on copying or retransmitting these clips, TVEyes subscribers are required to "sign a contractual limitation in a User Agreement, limiting use of downloaded clips to internal purposes." *Id*. at 385.

Fox News brought suit because TVEyes included in its systems clips of original content broadcast on its Fox News Channel and Fox Business Network television news channels. *Id.* at 386. Fox makes this content available to cable and satellite subscribers in the first instance, but also

provides some clips on its website, and distributes and licenses some clips through an exclusive clip-licensing agent. *Id.* at 387.

At issue on appeal was the TVEyes "watch function," which "allows TVEyes clients to view up to ten-minute, unaltered video clips of copyrighted content." *Fox News Network, LLC v. TV-Eyes*, *Inc.*, 883 F.3d 169, 176 (2d Cir. 2018). The Second Circuit found that while the watch function is transformative, it has "only a modest transformative character" because "it essentially republishes that content unaltered from its original form." *Id*. at 178. It went on to find that, unlike the small snippets of text found to be a fair use in *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015) (the "*Google Books*" case), the 10-minute clips provided by TVEyes "likely provide TVEyes' users with all of the Fox programming that they seek and the entirety of the message conveyed by Fox to authorized viewers of the original." *Id.* at 179. Finally, it explained that the service "displaces potential Fox revenues"—both by providing a substitute for Fox programming, and for depriving Fox of licensing revenue—thereby negatively impacting the market. *Id.* at 180. In weighing these factors and making its ultimate determination, the court held that TVEyes was "unlawfully profiting off the work of others," and therefore not entitled to the fair use defense. *Id.* at 181.

C. *Philpot v. Media Research Center*, 279 F. Supp. 3d 708 (E.D. Va. 2018)

The defendant in this case used two of the plaintiff's photographs without permission. Each photograph was of a country music star performing at a concert. *Philpot v. Media Research Ctr.*, 279 F. Supp. 3d 708, 710–12 (E.D. Va. 2018). The defendant took these photographs and used them to accompany articles about the musicians' political views. *Id.* Only the text of the articles involved politics—the photographs themselves had nothing to do with political views on their own. *Id.* Still, the defendant moved for summary judgment on fair use grounds, and the court granted the motion.

The court reasoned that the defendant's use was transformative because it was "plainly different from plaintiff's intended use of the Photographs." *Id*. at 715. The plaintiff—a professional photographer of musicians—took the photographs "to depict the musicians in concert." *Id.* In contrast, the defendant used the photographs in connection with "informing citizens about pro-life celebrities and conservative celebrities." *Id*. The court held that, allowing the defendant to use photographs in this way without permission, attribution, or compensation, "provides social benefit by allowing readers to identify the celebrities depicted as individuals who share their political views." *Id.* at 716. This was deemed to count strongly in favor of fair use.

The court also reasoned that there was no market harm, further supporting a finding of fair use. The defendant had made the photographs available under a creative commons license, which allowed free use of his photographs so long as users abided by the relevant license terms and attributed the work back to the plaintiff. *Id.* at 719–21. In this case, there was no dispute that the defendant had failed to comply with these terms and failed to attribute the work back to the plaintiff. *See id.* Still,

the plaintiff's willingness to license the work without receiving any purely economic consideration convinced the court that there was not "any market" for the photographs, that any economic effects were "speculative," and that a finding of fair use was justified. *Id.*

§ 5.4 IMPLIED LICENSE

A. *Atlantis Services v. Asigra, Inc.*, No. 16-10864, 2017 U.S. Dist. LEXIS 174723 (D. Mass. Oct. 23, 2017)

This was a software copyright case. The plaintiff engaged the defendant to develop software for it. During the course of development, the parties agreed that some of the plaintiff's preexisting source code could be integrated into the new piece of software, in order to speed up the development timeline. Later, a dispute arose, and the plaintiff brought suit, claiming that the defendant's use of this preexisting code was copyright infringement.

The district court dismissed the copyright infringement claim pursuant to Federal Rule of Civil Procedure 12(c). It held that the plaintiff had granted an implied license to the defendant to use the preexisting code. The plaintiff claimed that it had revoked any such license, but the court rejected this argument. It noted that a nonexclusive implied license may be irrevocable if it is supported by consideration. In this case, the plaintiff's partial payment to the defendant, along with the defendant's actions, established that there was consideration for the implied license. Consequently, it was irrevocable, and the copyright claim was dismissed.

B. *LimeCoral, Ltd. v. CareerBuilder, LLC*, 889 F.3d 847 (7th Cir. 2018)

LimeCoral is a graphics design firm that prepared custom graphic designs for the online employment website CareerBuilder.com. CareerBuilder agreed to pay LimeCoral fees for the designs, in an agreement that stated that the designs would be the "sole and exclusive property" of CareerBuilder. *LimeCoral, Ltd. v. CareerBuilder, LLC*, 889 F.3d 847, 848 (7th Cir. 2018). However, the agreement was of limited duration, and the parties continued to do business for many years after the initial term expired. After the relationship broke down, LimeCoral sued for copyright infringement.

LimeCoral argued that it retained all copyright rights in the designs it created after the initial agreement expired. The Seventh Circuit agreed, but held that CareerBuilder was nevertheless entitled to a nonexclusive implied license to use the works in question. LimeCoral had created the works at CareerBuilder's request, delivered them to CareerBuilder with the understanding that they would be used on its website, and received payment for them. In the absence of any limitations imposed on their use at the time the works were delivered, there were none—"the license impliedly granted to CareerBuilder would encompass all of the rights of LimeCoral as the copyright holder."

Id. at 851. Moreover, because CareerBuilder paid for this work, the implied license was irrevocable. The district court's grant of summary judgment to CareerBuilder was therefore affirmed. *Id.*

C. *Joseph Paul Corp. v. Trademark Custom Homes, Inc.*, No. 3:16-CV-1651-L, 2017 U.S. Dist. LEXIS 188697 (N.D. Tex. Nov. 15, 2017)

In this architectural works case, the plaintiff moved for summary judgment of copyright infringement, and the defendants responded that summary judgment was not appropriate because its implied license defense presented a triable issue of fact. The court agreed, denying the plaintiff's motion.

The defendants presented undisputed evidence that they requested the plaintiff to create the architectural plans in question, that they paid for the plans, and that the plans were delivered without any restrictions on use. *Joseph Paul Corp. v. Trademark Custom Homes, Inc.*, No. 3:16-CV-1651-L, 2017 U.S. Dist. LEXIS 188697, at *11–12 (N.D. Tex. Nov. 15, 2017). This, they claimed, was enough to support an implied license. *See id.* The plaintiff argued that, notwithstanding the delivery of the plans without clear written restrictions on use, the relevant communications and circumstances showed that it was "not objectively reasonable" for the defendants to believe that they could bring the plans to a competitor for copying. *Id.* at *12–13.

The court held that this presented a factual dispute for trial. "[E]vidence of the [defendants'] payment and evidence that [the plaintiff] provided the [defendants] with a copy of the plans without any restrictions is sufficient to create a genuine dispute of material fact as to whether a nonexclusive license was created and whether such license was irrevocable after granted." *Id.* at *13. It was not, however, enough to establish the implied license as a matter of law, as the existence of an implied license is based on "the totality of the parties' conduct." *Id.* at *11. Consequently, summary judgment was denied.

Trade Secrets 2017–18: Key Developments and Takeaways

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§ 6.1 INTRODUCTION

This past year brought significant developments in trade secret law, both in the United States and abroad. Many of the notable cases related to the application of the Defend Trade Secrets Act (DTSA), the 2016 legislation that created a federal cause of action for civil trade secret misappropriation. This chapter highlights 10 developments that may shape trade secret law in the years ahead, including: (1) the meaning of the DTSA's interstate commerce requirement; (2) whistleblower immunity under the DTSA; (3) the DTSA's time limitation; (4) how trade secret plaintiffs may waive the right to compel arbitration by testing the litigation waters; (5) how courts are rejecting unsupported attorneys'-eyes-only designations; (6) the DOJ's crackdown on employee no-poach agreements; (7) the Tenth Circuit's decision rejecting a presumption of irreparable harm under the DTSA; (8) the rise of GMO trade secrets; (9) the continued threat of misappropriation from China; and

(10) how the courts continue to differ in their treatment of customer lists as trade secrets. A practice tip follows each topic.

§ 6.2 THE MEANING OF THE DTSA'S INTERSTATE COMMERCE REQUIREMENT

In order for a trade secret owner to avail itself of the DTSA, it must meet an important jurisdictional limitation: the trade secret must be "related to a product or service used in, or intended for use in, interstate or foreign commerce." When Congress passed the DTSA, it was unclear whether the interstate commerce requirement would be a significant hurdle for plaintiffs. Recent DTSA cases are showing that it can be, if the plaintiff fails to allege facts showing the requisite connection to interstate commerce.

For example, in *Hydrogen Master Rights Ltd. v. Weston*, 228 F. Supp. 3d 320 (D. Del. 2017), the United States District Court for the District of Delaware dismissed two DTSA claims brought by different plaintiffs. The first claim alleged that the defendants had misappropriated confidential recordings regarding hydrogen technology. A separate claim alleged that the defendants had misappropriated confidential information contained in a purchase agreement. The court dismissed both claims without prejudice because the plaintiffs failed to allege any nexus between the confidential recordings or purchase agreement and interstate or foreign commerce.

Similarly, in *Government Employees Insurance Co. v. Nealy*, 262 F. Supp. 3d 153 (E.D. Pa. 2017), the United States District Court for the Eastern District of Pennsylvania dismissed GEICO's DTSA claim for failure to allege a nexus between the alleged trade secrets and interstate commerce. In its complaint, GEICO stated that the defendants had misappropriated an affidavit that contained confidential information about GEICO's insurance claims. But GEICO's complaint did not mention a connection between the alleged trade secrets contained in the affidavit and interstate commerce. The court therefore dismissed the claim, but did so without prejudice, because GEICO *could* plausibly allege a nexus between the alleged trade secrets and interstate commerce.

Search Partners, Inc. v. MyAlerts, Inc., No. 17-1034 (DSD/TNL), 2017 WL 2838126 (D. Minn. June 30, 2017) provides a similar example from the United States District Court for the District of Minnesota. In that case, SPI sued defendant MyAlerts for allegedly using SPI's proprietary candidate information. As in *Government Employees*, SPI failed to address the interstate commerce requirement in its complaint. The court dismissed the plaintiff's DTSA claim with prejudice for failure to satisfy the interstate commerce requirement and failure to allege misappropriation within the meaning of the DTSA.

On the other hand, complaints that allege a connection to interstate commerce (even in a relatively cursory way) will likely survive a motion to dismiss. For example, in *Grow Fi-*

nancial Federal Credit Union v. GTE Federal Credit Union, No. 8:17-cv-1239-T-30JSS, 2017 U.S. Dist. LEXIS 129612 (M.D. Fla. Aug. 15, 2017), the defendants moved to dismiss, alleging that the complaint did not satisfy the interstate commerce requirement. The United States District Court for the Middle District of Florida disagreed and held that the allegation that Grow Financial "uses the trade secrets in question in connection with the provision of its products and services in interstate commerce" was sufficient to satisfy the interstate commerce requirement.

Similarly, in *Marimar Textiles, Inc. v. Jude Clothing & Accessories Corp.*, No. 17-2900 (JLL), 2017 U.S. Dist. LEXIS 163458 (D. N.J. Oct. 2, 2017), the defendant challenged the DTSA claim, alleging that the plaintiff did not establish a nexus between the alleged trade secrets (which related to textile designs) and interstate commerce. The United States District Court for the District of New Jersey rejected the defendant's argument and held that the plaintiff's complaint, which alleged that the defendant improperly used the trade secrets to create infringing goods to be sold throughout the United States, was sufficient to satisfy the interstate commerce requirement.

Notably, at least one court has allowed a plaintiff's DTSA claim to proceed when the complaint failed to allege a connection to interstate commerce. In *Wells Lamont Industry Group, LLC v. Mendoza*, No. 17 C 1136, 2017 WL 3235682 (N.D. Ill. July 31, 2017), the United States District Court for the Northern District of Illinois denied a motion to dismiss a DTSA claim on interstate commerce grounds. Interestingly, the court noted that the defendants had not provided any support indicating that the plaintiffs were required to make such an allegation in their complaint. The court reasoned that, even though the plaintiff's complaint did not explicitly allege a connection to interstate commerce, the trade secrets alleged in the complaint, which related to industrial gloves that the plaintiffs sold, were intended to cross state lines and thus satisfied the interstate commerce requirement.

PRACTICE TIP

DTSA plaintiffs should consider whether there is, in fact, a sufficient connection between the trade secrets at issue and interstate commerce. The facts supporting such a connection should be alleged in the complaint. But plaintiffs should also consider at the outset whether they will be able to show—as opposed to merely allege—that the interstate commerce requirement is satisfied. If the evidence shows that the interstate commerce requirement is not, in fact, satisfied, the plaintiff could lose the DTSA claim and potentially access to federal court.

As for surviving a motion to dismiss, courts have generally treated allegations that trade secrets are related to or used in a product or service that is sold in interstate commerce as sufficient to satisfy the interstate commerce requirement.

§ 6.3 WHISTLEBLOWER IMMUNITY UNDER THE DTSA

To prevent companies from using the DTSA to stifle legitimate whistleblowing, the statute exempts from both criminal and civil liability any trade secret disclosure made "solely for the purpose of reporting or investigating a suspected violation of law" to an attorney or government official under 18 U.S.C. § 1833(b)(1). As with many other aspects of the DTSA, the whistleblower provision left room for interpretation. Two recent cases highlight the meaning and limits of the whistleblower provision.

Unum Group v. Loftus, 220 F. Supp. 3d 143 (D. Mass. 2016) was one of the first cases to interpret the whistleblower provision. In that case, Unum sued a former employee for misappropriation, claiming that Loftus took documents containing confidential customer information and refused to return them. *Unum Grp.*, 220 F. Supp. 3d at 146. In response, Loftus filed a motion to dismiss, claiming that he was exempt from prosecution because the documents were given to his attorney as part of a legal investigation. The United States District Court for the District of Massachusetts rejected Loftus's argument because he did not present sufficient evidence that all of the documents were given to his attorney or that all were used to aid in a legal investigation. In addition to denying Loftus's motion to dismiss, the court enjoined Loftus from copying company documents, compelled Loftus to return all of Unum's documents, and enjoined Loftus from receiving a mirrored copy of the hard drive of his company laptop until Unum removed or redacted all of the files containing confidential information. *Id.* at 148. Thus, the *Unum* decision seemed to place the onus on the party

invoking the whistleblower exemption to allege specific facts that the trade secrets were used in a legal investigation.

In contrast, in *Christian v. Lannett Company*, *Inc.*, No. 16-963, 2018 WL 1532849 (E.D. Pa. Mar. 29, 2018), the United States District Court for the Eastern District of Pennsylvania dismissed a defendant's DTSA counterclaim against a former employee on whistleblower grounds. Originally, the plaintiff brought a suit for gender and disability discrimination, and the defendant, the plaintiff's former employer, asserted a DTSA counterclaim based on alleged trade-secret materials the plaintiff was using in connection with her lawsuit. The court dismissed the counterclaim because the defendant failed to provide any facts indicating that the plaintiff intended to use or disclose the alleged trade secrets to anyone other than the defendant in the litigation.

As with so many trade secret cases, the key difference between *Unum* and *Christian* lies in the specific facts. Both cases were decided at the pleading stage, which requires courts to take all factual allegations as true. In *Unum,* Loftus failed to present sufficient facts that he gave all of the documents in question to his attorney. Furthermore, Loftus stated that he was merely "contemplating a whistleblower action" without detailing what type of action he was seeking to pursue. *Unum Grp.*, 220 F. Supp. 3d at 146 n.2. In *Christian,* on the other hand, the plaintiff had already filed a lawsuit against her former employer, alleging gender and disability discrimination.

PRACTICE TIP

The law governing whistleblower immunity under the DTSA is still developing, but trade secret owners will have a better chance of surviving a whistleblower defense if the would-be plaintiff has not commenced litigation and cannot specifically articulate that the trade secrets will be used only to pursue legitimate whistleblower action.

§ 6.4 THE DTSA'S TIME LIMITATION

The DTSA allows plaintiffs to bring claims for "any misappropriation of a trade secret for which any act occurs *on or after* the date of the enactment of [the DTSA]." *See* Defend Trade Secrets Act, Pub. L. No. 114–153, § 2(e), 130 Stat. 381 (May 11, 2016). After the DTSA was enacted in 2016, one of the first questions confronting courts was how to apply the statute to improper trade secret acquisitions that occurred *before* the statute's effective date.

The argument that improper trade secret acquisitions occurring *before* the DTSA's enactment are not susceptible to DTSA prosecution is known as the "timing defense." Some courts have

carved out an exception to this defense by interpreting the word "act" to describe a pattern or single continuing misappropriation. *See Brand Energy & Infrastructure Servs. v. Irex Contracting Grp.,* No. 16-2499, 2017 U.S. Dist. LEXIS 43497, at *15 (E.D. Pa. Mar. 23, 2017). In other words, courts may treat a number of related acts of alleged misappropriation as one series of acts. This interpretation allows DTSA plaintiffs to bring forth claims for pre-enactment actions that continue to occur post-enactment.

But to move past the pleading stage, some courts have required a DTSA plaintiff to provide more than conclusory allegations of continuing post-enactment use. *See Hydrogen Master Rights, Ltd. v. Weston*, 228 F. Supp. 3d 320 (D. Del. 2017). For example, in *Ultradent Products v. Spectrum Solutions, LLC*, No. 2:17-CV-890, 2018 U.S. Dist. LEXIS 3858, at *7 (D. Utah Jan. 8, 2018), the United States District Court for the District of Utah dismissed a plaintiff's DTSA claim because the allegation that the defendant was "currently using or threatening to use Ultradent's trade secrets" was too conclusory. Similarly, in *Physician's Surrogacy, Inc. v. German*, No. 17CV0718-MMA (WVG), 2017 U.S. Dist. LEXIS 135325, at *27–28 (S.D. Cal. Aug. 23, 2017), the court dismissed the plaintiff's allegation that the defendants intended to disclose and use the alleged trade secrets as a mere legal conclusion entitled to no weight.

Similarly, some courts have dismissed claims based on post-enactment disclosures if the same information was acquired pre-enactment. For example, in *Champion Courage Ltd. v. Fighter's Market, Inc.*, No. 17-cv-01855-AJB-BGS, 2018 U.S. Dist. LEXIS 69043 (S.D. Cal. Apr. 24, 2018), the United States District Court for the Southern District of California dismissed the plaintiff's DTSA claim under Federal Rule of Civil Procedure 12. There, the plaintiff claimed that the defendant stole proprietary technology from the plaintiff before the DTSA's enactment date and then sold merchandise featuring the stolen technology after the enactment date. The court held that the post-enactment disclosure did not establish continuity for pre-enactment misappropriation because the defendant disclosed the same information *before the enactment* of the DTSA.

Careful drafting of the complaint can have a significant effect on the power of the timing defense. For example, in *AllCells, LLC v. Zhai*, No. 16-cv-07323, 2017 U.S. Dist. LEXIS 44808 (N.D. Cal. Mar. 27, 2017), the court denied the defendant's motion to dismiss a DTSA claim because the plaintiff sufficiently alleged that the trade secrets were used post-enactment in his complaint. In contrast, in *Cave Consulting Group, Inc. v. Truven Health Analytics, Inc.*, No. 15-cv-02177, 2017 U.S. Dist. LEXIS 62109 (N.D. Cal. Apr. 24, 2017), the court dismissed a DTSA claim because the plaintiff alleged that the defendant used its trade secrets, but failed to state when the use occurred.

PRACTICE TIP

When a DTSA claim turns on conduct that occurred before the statute was enacted, the plaintiff should include factual allegations in the complaint demonstrating that the alleged misappropriation continued, or inevitably will continue, post-enactment. On the flip side, defendants should assess whether they can argue that the alleged conduct occurred entirely before the DTSA was enacted.

§ 6.5 TRADE SECRET PLAINTIFFS MAY WAIVE THE RIGHT TO COMPEL ARBITRATION BY TESTING THE LITIGATION WATERS

Before filing suit, trade secret plaintiffs should carefully review relevant agreements for arbitration clauses. This is critical because a party that "substantially invokes the litigation machinery," may be found to have waived the right to compel arbitration. *S & H Contractors, Inc. v. A.J. Taft Coal Co.*, 906 F.2d 1507, 1514 (11th Cir. 1990). Though the exact test varies, courts routinely assess whether, under the totality of the circumstances, a party has used litigation proceedings to "test the waters" before invoking its right to arbitration. *See*, *e.g.*, *Gray Holdco, Inc. v. Cassady*, 654 F.3d 444, 453 (3d Cir. 2011).

A recent decision from the United States District Court for the Middle District of Tennessee illustrates how this concept can play out in a trade secret dispute. In *AFS Logistics, LLC v. Cochran*, No. 3:16-cv-3139, 2017 U.S. Dist. LEXIS 181081 (M.D. Tenn. Oct. 31, 2017), AFS filed a complaint against two former employees under the Tennessee Uniform Trade Secrets Act, alleging that the defendants had misappropriated trade secrets to support their own company. AFS waited eight months after filing its initial complaint before seeking arbitration and argued that arbitration was appropriate because the dispute arose out of AFS's employment relationship with the defendants. *Id.* at *7.

In assessing whether AFS had waived its right to arbitrate, the court asked whether AFS: (1) knew of its right to arbitrate; (2) acted inconsistently with that right under the particular facts and circumstances; and (3) prejudiced the defendants thereby. *Id.* at *4. The court answered all three questions in the affirmative, finding that AFS had waived its right to compel arbitration.

The court's analysis underscored AFS's extensive participation in the litigation process. AFS had amended its complaint, participated in conferences and settlement discussions, engaged in extensive discovery, responded to the defendants' motion to dismiss on the merits, and subjected itself to the court's ruling on numerous contested matters. Notably, it was not until nine days after the court

dismissed seven of its eight claims that AFS moved to compel arbitration. *Id.* at *6. Describing these tactics as "deliberate," the court noted that when "the judicial waters … did not flow the direction Plaintiff intended, [it] changed[d] routes in hopes of finding a different current." *Id*. at *14. Thus, parties considering arbitration should think twice about gauging the merits of their case in court.

More recently, the Alabama Supreme Court provided additional guidance on what actions a party may take prior to invoking an arbitration agreement. In *Bridgestone Americas Tire Operations, LLC v. Adams*, No. 1160877, 2018 Ala. LEXIS 27 (Ala. Mar. 16, 2018), plaintiff Ottis Adams left his job at Bridgestone to begin working with McGriff Tire Company. Bridgestone mailed a letter to McGriff, asserting that Adams was violating a noncompetition agreement and may have disclosed confidential information and trade secrets. McGriff responded to the letter by terminating Adams.

In response to his termination, Adams sued Bridgestone for tortious interference with business relationships and defamation. Three months later, Bridgestone moved to compel arbitration pursuant to the company-employee dispute resolution plan. Adams argued, among other things, that Bridgestone had waived its right to arbitration by participating in litigation. Bridgestone had previously filed an answer and counterclaim, ultimately waiting three months before it filed a motion to compel arbitration. In the interim, Bridgestone had also responded to initial interrogatories and requests for production. The court found, however, that Bridgestone's actions were not a substantial invocation of the litigation process, and thus found no waiver. *Bridgestone*, 2018 Ala. LEXIS 27, at *12–13.

PRACTICE TIP

At the outset of any trade secret dispute, litigants should diligently review all relevant agreements for arbitration clauses and determine whether the claims are likely to be covered. A trade-secret litigant might also consider mentioning its intent to arbitrate in pleadings or motions. As the Eleventh Circuit noted recently, "the key ingredient in the waiver analysis is fair notice to the opposing party and the [court] of a party's arbitration rights and its intent to exercise them. If [they] have such notice at an early stage in litigation, they can manage the litigation with this contingency in mind." *Gutierrez v. Wells Fargo Bank, NA*, 889 F.3d 1230, 1236 (11th Cir. 2018).

§ 6.6 COURTS ARE REJECTING UNSUPPORTED ATTORNEYS'-EYES-ONLY DESIGNATIONS

A common challenge for trade secret litigants is the need to invoke the litigation process to protect trade secrets without sacrificing their secrecy during litigation. To address this problem, courts

frequently approve protective orders that allow the parties to designate materials as "attorneys' eyes only" (AEO). The precise effect of the AEO designation varies from case to case, but it frequently limits review of documents and information to outside counsel and independent experts—and excludes the opposing party from reviewing the information directly. This can be exceedingly frustrating for litigants, particularly because the AEO designation can be overused and abused. Courts are therefore increasingly policing the use of AEO designations and removing designations when not supported.

A pending case out of the United States District Court for the Southern District of Alabama demonstrates when a court may refuse to grant a party the protection of an AEO designation. *Core Laboratories LP v. AmSpec, LLC,* No. 16-0526-CG-N, 2018 WL 2144355 (S.D. Ala. May 9, 2018) involves companies that compete in providing inspection and testing services to the oil and gas industry. One of the plaintiffs, Saybolt, had spent many years building a strong business relationship with oil giant Chevron. To that end, Saybolt had delegated certain employees to work strictly on Chevron matters. Defendant AmSpec was accused of recruiting and organizing the concerted resignation of these employees to take Chevron's business from Saybolt.

Saybolt initially designated its expert reports, as well as the information used in preparing them, as AEO. *Core Labs.*, 2018 WL 2144355, at *1. The magistrate judge granted AmSpec's request to compel disclosure of all documents reviewed by the experts and ordered the removal of AEO designations from the expert reports. The court reasoned that, by putting trade secrets at issue and then insisting they be kept from AmSpec, Saybolt had prejudiced AmSpec's ability to defend itself.

The plaintiffs appealed to the district court judge, arguing that AmSpec might use the sensitive information to continue harming Saybolt's business. The district court upheld the magistrate judge's decision. The court emphasized that "[t]he burden is on the movant to show the necessity of the protective order … with a particular and specific demonstration of fact as distinguished from stereotyped and conclusory statements." *Id.* at *2 (citing *Ekokotu v. Fed. Exp. Corp.*, 408 F. App'x 331, 336 (11th Cir. 2011)). The court was also concerned that Saybolt's arguments focused on information directly relevant to the case, observing that the "Plaintiffs essentially accuse [the] Defendants of having taken the information but do not want [the] Defendants to be able to see the information [the] Plaintiffs claim [the] Defendants stole." *Id.* at *3.

A party was similarly denied an AEO designation in a case out of the United States District Court for the Middle District of Pennsylvania. In *Jeddo Coal Co. v. Rio Tinto Procurement Ptd. Ltd.,* No. 3:16-CV-621, 2018 U.S. Dist. LEXIS 57803, at *4–5 (M.D. Pa. Apr. 5, 2018), the defendant, Rio Tonto, sought to protect documents detailing how much its customers (the plaintiff's competitors) paid for coal, the characteristics of the coal, how much the customers charged, and the amount those customers were committed to providing. The court found that this information did not rise to the level of trade secrets because Rio Tonto had routinely shared the information with its

trading partners, and the court found no articulation of "concrete and specific harms." *Jeddo Coal Co.,* 2018 U.S. Dist. LEXIS 57803, at *9–10. Although it removed the AEO designation, the court ordered that the plaintiff's representatives who viewed the information use it only in connection with the litigation.

PRACTICE TIP

Protective orders are an exception to the general rule that pretrial discovery should occur in the public eye. *Am. Tel. & Tel. Co. v. Grady*, 594 F.2d 594, 596 (7th Cir. 1978). Certainly, courts will grant AEO designations for information that is truly sensitive. But litigants should be prepared to meet their burden by showing with specificity why a protective order is necessary, as courts may be reluctant to hinder a defendant's ability to establish its defense. Further, if the requested documents are the same materials alleged to have been misappropriated in the complaint, parties should be ready to articulate with specificity how disclosure in discovery could further harm their interests.

§ 6.7 THE DEPARTMENT OF JUSTICE CRACKDOWN ON EMPLOYEE NO-POACH AGREEMENTS

Because trade secrets are often misappropriated by employees, there is often an overlap between trade secret and employment law. And there have been some significant recent developments in the law governing no-poach employment agreements. A no-poach agreement is an agreement between companies—formal or informal, oral or written—not to solicit or hire each other's employees. *See* U.S. Dep't of Justice & FTC, Antitrust Guidance for Human Resource Professionals (Oct. 2016), *available at* <https://www.justice.gov/atr/file/903511/download>. In October 2016, the Department of Justice (DOJ) announced its position that naked "no-poach" agreements are an unreasonable restraint on competition and therefore unlawful per se. *Id.* at 3. The DOJ further announced its intention to *criminally* prosecute parties entering into no-poach agreements or maintaining agreements already in place after the October 2016 announcement.

This year, the DOJ reiterated its commitment to prosecuting no-poach agreements. In fact, Principal Assistant Deputy Attorney General Andrew Finch said that the DOJ intended to bring multiple no-poach enforcement actions in early 2018. As of June 25, 2018, there had been only one.

On April 3, 2018, the DOJ's Antitrust Division filed a civil complaint in the United States District Court for the District of Columbia against Knorr-Bremse AG and Westinghouse Air Brake

Technologies Corporation. *See* Press Release, U.S. Dep't of Justice, Principal Deputy Assistant Attorney General Andrew C. Finch Delivers Remarks at the Heritage Foundation (Jan. 23, 2018), <https://www.justice.gov/opa/speech/principal-deputy-assistant-attorney-general-andrew-c-finch-delivers-remarks-heritage>. In the complaint, the government alleged that the defendants, the two largest global competitors in the rail equipment industry, maintained unlawful agreements to restrain competition in the labor market. According to the complaint, together with a third company that was later acquired by Westinghouse, the defendants allegedly agreed "not to solicit, recruit, hire without prior approval, or otherwise compete for employees." The government claimed that these no-poach agreements "denied American rail industry workers access to better job opportunities, restricted their mobility, and deprived them of competitively significant information that they could have used to negotiate for better terms of employment." Because there was no apparent legitimate business purpose for these agreements, the government characterized them as per se violations under the Sherman Act.

Along with its complaint, the Antitrust Division filed a civil settlement, which included the following provisions:

- an injunction enjoining the defendants from participating in any no-poach agreements; the injunction will be in effect for seven years;
- an obligation by the defendants to cooperate with the Antitrust Division in any investigation of other no-poach agreements between the defendants and any other party;
- an obligation by the defendants to notify its U.S. employees, recruiters, and the rail industry of the settlement and their obligations arising therefrom; and
- a provision implementing the Antitrust Division's new consent decree provisions.

In exchange, the DOJ agreed to refrain from bringing any further action against the defendants relating to the disclosed no-poach agreements. Newsletter, U.S. Dep't of Justice, Division Update Spring 2018 (Apr. 10, 2018), <https://www.justice.gov/atr/division-operations/division-update-spring-2018/antitrust-division-continues-investigate-and-prosecute-no-poach-and-wage-fixing-agreements>. Though as of June 25, 2018, the DOJ has not announced any similar enforcement actions, it has remained adamant that it will "zealously enforce the antitrust laws in the labor markets and aggressively pursue information on additional violations to identify and end anticompetitive no-poach agreements." *Id.*

PRACTICE TIP

Companies should be mindful of their recruiting practices—especially given the magnitude of penalties available under the Sherman Act. A practical first step for employers is to consider educating relevant professionals about the illegality of no-poach agreements and the sharing of other employee compensation-related information. In addition to the October 2016 guidelines, the DOJ and FTC have also released a list of "red flags," which provide further guidance on conduct to avoid. *See* U.S. Dep't of Justice, *Antitrust Red Flags for Employment Practices*, <https://www.justice.gov/atr/file/903506/download>. Employers might also consider evaluating the correspondence they have with competitors—including what information they share—both formally and informally, as parallel conduct and extensive communication could be evidence of an implicit agreement. Companies should also consider formulating internal policies, guidelines, or restrictions on the sharing of information with competitors.

§ 6.8 THE TENTH CIRCUIT REJECTS A PRESUMPTION OF IRREPARABLE HARM UNDER THE DTSA

Litigants seeking to prevent misappropriation of trade secrets often find themselves rushing to court for a preliminary injunction. But obtaining an injunction early in litigation is often no easy task. A party requesting a preliminary injunction must usually establish: (1) a likelihood of success on the merits; (2) a likelihood of suffering irreparable harm in the absence of preliminary relief; (3) that the balance of equities tips in its favor; and (4) that an injunction is in the public interest. *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008).

Showing the second element, likely irreparable harm, is particularly important. *Reuters, Ltd. v. United Press Int'l, Inc.*, 903 F.2d 904, 907 (2d Cir. 1990) ("[A] showing of probable irreparable harm is the single most important prerequisite for the issuance of a preliminary injunction."). Irreparable harm must be imminent—not remote or speculative—and incapable of being fully remedied by monetary damages. There are, however, situations in which courts relieve parties of the need to show irreparable harm. For example, when a defendant is violating a statute that provides for injunctive relief, courts occasionally presume a likelihood of irreparable harm. *See*, *e.g.*, *Kikumura v. Hurley*, 242 F.3d 950, 963 (10th Cir. 2001). But a recent ruling by the Tenth Circuit limits the applicability of this exception to trade secret claims under the DTSA.

In *First Western Capital Management Co. v. Malamed,* 874 F.3d 1136 (10th Cir. 2017), First Western Capital Management (FWCM), a subsidiary of plaintiff First Western Financial, fired employee Kenneth Malamed. Prior to his termination, Malamed printed out a copy of his client book, which included names and contact information for approximately 5,000 FWCM contacts. FWCM sued Malamed for misappropriation of trade secrets under both the DTSA and the Colorado Uniform Trade Secrets Act (CUTSA).

The district court granted the plaintiff's motion for a preliminary injunction and prohibited Malamed from competing for business with FWCM or soliciting business from any of its clients. Notably, the district court did not require First Western to establish that it would suffer irreparable harm if the injunction was denied. The court found that showing unnecessary because injunctive relief is specifically listed as a measure to prevent trade secret misuse in both the DTSA and the CUTSA. *First W. Capital Mgmt*., 874 F.3d at 1140; *see also* 18 U.S.C. § 1836(b)(3)(A); Colo. Rev. Stat. § 7-74-103. But for that reasoning, the district court would have denied injunctive relief, as any money damages were reasonably quantifiable. *First W. Capital Mgmt*., 874 F.3d at 1140.

The Tenth Circuit reversed the preliminary injunction, holding that irreparable harm may be presumed only when a statute *mandates* injunctive relief as a remedy. *Id.* at 1141 (citing *Fish v. Kobach*, 840 F.3d 710 (10th Cir. 2016)). If a statute (like the DTSA and CUTSA) merely *authorizes* injunctive relief, parties must still demonstrate a significant risk of irreparable harm to obtain a preliminary injunction.

PRACTICE TIP

While some courts employ a limited presumption of irreparable harm in certain trade secret cases, litigants should be prepared to demonstrate irreparable harm with specificity when seeking a preliminary injunction. *See Sasqua Grp., Inc. v. Courtney*, No. CV 10-528 (ADS) (AKT), 2010 U.S. Dist. LEXIS 93442, at *32–34 (E.D.N.Y. Aug. 2, 2010) (recognizing a rebuttable presumption of irreparable harm when an individual disseminates, as opposed to just uses, a trade secret). Litigants should also differentiate between those statutes that *mandate* injunctive relief from those that merely *authorize* it.

§ 6.9 THE RISE OF GMO TRADE SECRETS

The use of genetically modified organisms (GMOs) may provide a fertile field for new trade secrets. At a basic level, GMOs are the product of scientific processes that modify the genetic code

of a plant or animal. Unsurprisingly, the research and development of GMOs frequently involve proprietary formulas, processes, and techniques. These secrets can be incredibly valuable in the agriculture industry and they can be reflected in something as seemingly innocuous as a grain of rice. Thus, these secrets can prove to be irresistible targets for thieves.

For example, in December 2013, scientists Weiquang Zhang and Wengui Yan were charged in the U.S. District Court for the District of Kansas with attempting to steal samples of two types of genetically modified rice seeds. *See U.S. v. Zhang*, No. 2:13CR20134, 2013 WL 11257345 (D. Kan. Dec. 12, 2013). According to the complaint, this was not just average rice. The first contained a protein that would be used as a "therapeutic excipient," an ingredient commonly added to therapeutic drugs. The second contained a protein that was being developed to treat gastrointestinal disease, antibiotic-associated diarrhea, hepatic disease, osteoporosis, and inflammatory bowel disease. While Yan ultimately pleaded guilty to making false statements to the FBI, Zhang was tried and convicted of conspiring to steal trade secrets, conspiring to commit interstate transportation of stolen property, and interstate transportation of stolen property, and he was sentenced to 121 months in federal prison. Press Release, U.S. Dep't of Justice, *Chinese Scientist Sentenced to Prison in Theft of Engineered Rice* (Apr. 4, 2018), <https://www.justice.gov/opa/pr/chinese-scientist-sentenced-prison-theft-engineered-rice>.

While GMOs are widely recognized to be a booming industry, one lesser-known—though lucrative—market is the deer breeding industry. As the United States District Court for the Eastern District of Texas recently observed, single straws of buck semen sell for $5,000 to $20,000 on average, with bucks themselves going for up to $1,000,000. *N. Am. Deer Registry, Inc. v. DNA Solutions, Inc.*, No. 4:17-CV-00062, 2017 WL 2402579, at *1 (E.D. Tex. June 2, 2017). Many deer are sold at auctions, which require registration of the deer. Registries then collect information about a deer's lineage pool and compile the information in a database. For breeders to access a deer's information, they must become a member of either: (1) the deer registry where a particular deer is registered; or (2) a deer registry that is a member of the same association of deer registries.

In *North American Deer Registry*, an association of deer registries, North American Deer Registry (NADR), brought claims against DNA Solutions (DNAS), a company it had retained to perform DNA lineage verification. Those claims included misappropriation of trade secrets under both the DTSA and Oklahoma Uniform Trade Secrets Act. The court granted the plaintiff's request for a preliminary injunction, finding that genetic information, deer lineages, and member lists were indeed trade secrets. Despite small pieces of the registry having been made public, "the economic value of each trade secret [was] derived from the compilation of many data points … not readily ascertainable by the public." *Id.* at *7. Notably, the court found a likelihood of irreparable injury based on DNAS having lured customers away and NADR's stagnant market share in what was a growing

market. This amounted to a loss of market share, a harm the court felt could not be adequately redressed by legal or equitable remedies after trial. *Id.* at *9.

PRACTICE TIP

As existing industries evolve, and new ones are cultivated, so too will opportunities for the abuse of trade secrets. As illustrated above, there is a heightened need to safeguard trade secrets in industries utilizing genetic information and other biological materials. These types of industries frequently involve novel research and development, where the revelation of confidential data, formulas, or processes can be calamitous. Accordingly, companies should consider taking extra precaution to protect both physically and contractually what is often extraordinarily valuable—and extremely portable—information.

§ 6.10 THE CONTINUED THREAT OF MISAPPROPRIATION FROM CHINA

The threat of international misappropriation, particularly misappropriation from China, continues to loom large for trade secret owners. And on the international stage, tensions between the United States and China regarding intellectual property continue to rise.

In *U.S. v. Sinovel Wind Group Co. Ltd.*, No. 13-00084 (W.D. Wis. Jan. 24, 2018), a jury in the Western District of Wisconsin found Chinese-based Sinovel Wind Group Co. guilty of hundreds of millions of trade-secret thefts from American-based AMSC. In that case, the Chinese company, Sinovel, was a former customer of AMSC. Sinovel recruited an employee of an AMSC subsidiary to copy encrypted source codes from AMSC's computer system and provide them to Sinovel. Press Release, U.S. Attorney's Office, *Sinovel Corporation and Three Individuals Charged in Wisconsin with Theft of AMSC Trade Secrets* (Jun. 27, 2013). Sinovel then used the source code to build a wind turbine system. As a result, AMSC suffered a monumental $1 billion loss in shareholder-equity and almost 700 jobs.

Following the Sinovel action, the U.S. Trade Representative (USTR) investigated China's IP practices under section 301 of the Trade Act of 1974. The USTR found that China's trade secret practices are susceptible to "coercive technology transfer requirements, structural impediments to effective IP enforcement, and widespread infringing activity." United States Trade Representative, 2017 Special 301 Report, at 20 (2017).

In March 2018, the Trump Administration filed a complaint with the World Trade Organization and proposed tariffs on products from China. Request for Consultations by the United States, *China – Certain Measures Concerning the Protection of Intellectual Property Rights*, WTO Doc. WT/DS542/1 (Mar. 26, 2018). The complaint stated that China "appears to be breaking WTO rules by denying foreign patent holders, including U.S. companies, basic patent rights to stop a Chinese entity from using the technology after a licensing contract ends." The Trump Administration also proposed 25-percent tariffs on $50 billion of Chinese imports to protest Chinese companies' alleged theft of American technology. Press Release, Office of the United States Trade Representative, *President Trump Announces Strong Actions to Address China's Unfair Trade* (Mar. 2018). The USTR issued a list of 1,300 products including electronics, aircraft parts, satellites, machinery, and other goods. Press Release, Office of the United States Trade Representative, *Under Section 301 Action, USTR Releases Proposed Tariff List on Chinese Products* (Apr. 2018).

In response, China proposed tariffs of its own on 128 American products, valued at $3 billion. The EU supported the United States' complaint for stronger IP protections in China. The EU's complaint focused on the unequal treatment of non-Chinese companies in the import and export of technologies involving IP trade secrets. Request for Consultations by the European Union, *China – Certain Measures on the Transfer of Technology*, WTO Doc. WT/DS549/1 (Jun. 6, 2018).

PRACTICE TIP

Trade secret owners who do business in China or with Chinese companies should consider carefully assessing the threat of trade secret misappropriation. If a trade secret owner suspects it has been the victim of misappropriation from China, it might also consider whether to notify law enforcement.

§ 6.11 COURTS CONTINUE TO DIFFER IN THEIR TREATMENT OF CUSTOMER LISTS AS TRADE SECRETS

On December 8, 2017, the Eighth Circuit rejected a trade secret claim related to allegedly stolen customer lists. The case involved two companies that sell and manufacture envelopes, Tension and JBM. Tension filed a trade secret suit against JBM, claiming that JBM used Tension's customer list to sell their own envelopes to Tension's customers. *Tension Envelope Corp. v JBM Envelope Corp.*, 876 F.3d 1112, 1122 (8th Cir. 2017). The Eighth Circuit dismissed Tension's trade secret claim and held that customer contact lists are not considered trade secrets under Missouri law. *Id.* at 1123.

Whether customer lists qualify as trade secrets is a question that has been heavily litigated in the past year, with outcomes varying across jurisdictions. For example, in New York, a customer contact list may be deemed a trade secret if the list is developed through substantial effort, kept in confidence, and contains information not readily ascertainable. *Free Country Ltd. v. Drennen*, 235 F. Supp. 3d 559, 566 (S.D.N.Y. 2016) (quoting *N. Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 46 (2d Cir. 1999)). In *Art & Cook, Inc. v. Haber*, No. 17-cv-1634 (LDH) (CLP), 2017 U.S. Dist. LEXIS 164366, at *6 (E.D.N.Y. Oct. 3, 2017), the United States District Court for the Eastern District of New York rejected a claim that customer lists were trade secrets. The plaintiff, a cookware and kitchenware company, sued the defendant for downloading two spreadsheets created by the plaintiff. The first spreadsheet contained a list of customer contact information and the second contained a list of target customers. The court held that neither customer list was a trade secret because the information was generally known and readily obtainable in the industry. Specifically, the identities of the contacts on the lists could be obtained by attending trade shows, hiring representatives, and meeting buyers from various companies.

When determining whether information is readily ascertainable, some courts, like the U.S. District Court for the Southern District of Florida, consider the level of difficulty it would take to compile the customer list. For example, in *JetSmarter Inc. v. Benson*, No. 17-62541-CIV, 2018 U.S. Dist. LEXIS 60113, at *3 (S.D. Fla. Apr. 6, 2018), the court found the plaintiff's customer list to be a protectable trade secret because the plaintiff expended time, effort, and money in the development of the list and in maintaining its secrecy. *See also Bay Fasteners & Components, Inc. v. Factory Direct Logistics, LLC*, No. 17-CV-03995, 2018 U.S. Dist. LEXIS 46155, at *9 (N.D. Ill. Mar. 20, 2018). Other courts find the difficulty of compilation immaterial to a trade secret claim. For example, in *Duo-Fast Carolinas, Inc. v. Scott's Hill Hardware & Supply Co.*, 2018 NCBC LEXIS 2, at *19–20 (N.C. Super. Ct. Jan. 2, 2018), the Superior Court of North Carolina rejected the plaintiff's claim that its customer list was a trade secret, reasoning that the list was readily ascertainable regardless of how difficult and time consuming it would be to compile.

Finally, customer lists containing additional customer information are more likely to be protectable as trade secrets. For example, in *Red Valve, Inc. v. Titan Valve, Inc.*, 2018 NCBC LEXIS 31, at *30 (N.C. Super. Ct. Apr. 10, 2018), the North Carolina Superior Court held that the plaintiff's customer list qualified as a trade secret because the list contained purchasing preferences and order histories as well as customer requests and complaints. The court also found the plaintiff's vendor lists to be trade secrets because the lists specified the vendors' favorable pricing in addition to listing the names of the vendors. *Red Valve*, 2018 NCBC LEXIS 31, at *30–33.

PRACTICE TIP

Practitioners should consider the governing law on whether customer lists constitute trade secrets. Given the broad definition of trade secrets in the DTSA, customer information may be covered. But courts applying the DTSA frequently look to the forum's substantive trade secret law for guidance, so state-law decisions on this subject may be significant.

The Top Ten Trademark Decisions of 2017–18

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§ 7.1 INTRODUCTION

There is an old saying in sports that the best offense is a good defense. The idea, of course, is that it does not matter if the offense only scores one run if the defense prevents the opponent from scoring at all. Does this saying apply to trademark infringement claims? If the past year is any indication, the answer appears to be yes. Many of the most interesting and noteworthy decisions from the last year all have a common thread: affirmative defenses to infringement. Whether the case involved restaurants, whiskey, or rifle scopes, most of the cases discussed below involve in-depth discussion of affirmative defenses, from the First Amendment to laches, and fair use to functionality.

§ 7.2 THE TOP TEN TRADEMARK DECISIONS OF 2017–18

A. *Twentieth Century Fox Television v. Empire Distribution, Inc.*, 875 F.3d 1192 (9th Cir. 2017)

The first test of whether defense wins championships—a-hem, lawsuits—involves Twentieth Century Fox. The company went on the offensive with a declaratory judgment action, claiming its purported infringement of an essentially identical EMPIRE trademark was protected by the First Amendment.

On January 7, 2015, Twentieth Century Fox debuted a new television drama series called *Empire*. The show is set in New York City and depicts a fictional hip hop music label. The *Empire* series features original music as part of its characters' plot lines. The music was created specifically for the show and produced by well-known music producer Timbaland. Not only is this original music prominently featured in the show, but Fox also distributed the music online, sold albums in stores, and promoted the show and its music through live performances.

Fox's television series caught the attention of a real-life music label, Empire Distribution, Inc. (EDI). EDI was founded in 2010 and like the fictional Empire, it has released hip hop music, as well as rap and R&B. In addition to promotion of music from individual artists, EDI has also released compilations under the series title "*EMPIRE Presents*."

Not long after the show's premiere, EDI sent Fox a cease-and-desist letter. Rather than comply, Fox filed a declaratory judgment action on March 23, 2015. EDI filed counterclaims for trademark infringement, dilution, and unfair competition. Fox moved for summary judgment, which the district court granted. EDI appealed to the Ninth Circuit Court of Appeals.

The Ninth Circuit normally applies the *Sleekcraft* factors to determine whether there is a likelihood of confusion between two parties' respective use of their marks. *See AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979). However, when the use at issue is the title of an expressive work, the Ninth Circuit applies the *Rogers v. Grimaldi* test, originally developed by the Second Circuit. *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir. 2002) (citing *Rogers v. Grimaldi*, 875 F.2d 994, 997 (2d Cir. 1989)). Courts apply a different test for expressive works because they implicate the First Amendment. One underlying reason is the belief that consumers are less likely to consider the use in the title of an expressive work to suggest a connection or association with a third-party's trademark.

The court first addressed whether Fox's use of the EMPIRE mark qualifies as an "expressive work," thus requiring the application of *Rogers* rather than the traditional *Sleekcraft* analysis. The court stated the television series is "clearly an expressive work … as are the associated songs

and albums." *Twentieth Century Fox*, 875 F.3d at 1196. However, EDI argued that Fox's use went beyond the mere titles of these works, using the EMPIRE mark "as an umbrella brand to promote and sell music and other commercial products." *Id*. The court acknowledged that promotional efforts "technically fall outside the title or body of an expressive work," but that promotional efforts associated with an expressive work are "only a minor logical extension." *Id*. at 1196–97. The court saw little distinction between the title of the *Empire* series and the sale of albums or live musical performances labelled as music from the *Empire* series.

EDI argued that allowing this extension of First Amendment protection would allow infringement to occur under the guise of expressive works. It argued that businesses would create an expressive work as a pretext with the goal of selling associated merchandise under the work's title. The court dismissed the argument because it was clear that Fox's *Empire* series "is no such thing." *Id*. at 1197. As a result, the court concluded Fox's use of EMPIRE qualified as an expressive work and so it applied the *Rogers* test.

Traditionally, the *Rogers* test is a two-prong inquiry. First, does the use of the title have any artistic relevance to the underlying work? Second, does the work otherwise explicitly mislead consumers as to the source of the work? However, EDI also argued that the *Rogers* test should include a third threshold element, that the name or mark at issue must have significance beyond trademark significance, i.e., some type of "cultural significance."

EDI asserted that the trademark at issue must have a special meaning or cultural significance to the public. For example, the ROLLS-ROYCE trademark has a cultural significance as something luxurious or high class. The court rejected EDI's claim that "cultural significance" constituted a separate element, but the court acknowledged cultural significance is a factor to consider in evaluating whether the use of the mark has artistic relevance to the underlying work.

The court quickly determined that Fox's use of EMPIRE met the first prong. The series is set in New York, also known as the Empire State, and features conflict between family members seeking control over an "empire" built by the fictional record label's owner. The court concluded that Fox's use of EMPIRE had artistic relevance to the geographic setting for the work, and to many of the underlying themes of the work (expanding an empire or battling for control of an empire). Therefore, the court concluded Fox had met the first prong of the *Rogers* test.

With respect to the second prong, EDI argued that the court should examine whether Fox's use of the mark would confuse consumers. The court rejected this argument as a simple reapplication of the *Sleekcraft* factors. Instead, the second prong asks only whether the defendant explicitly misled consumers, such as through explicit statements or overt claims. Mere use of the mark cannot be enough to prevent application of the First Amendment defense. As a result, the court found that

Fox's use met the requirements of the *Rogers* test and was therefore protected by the First Amendment.

The court also addressed an alleged procedural error with respect to EDI's request for additional discovery. EDI requested the court defer ruling on Fox's motion to allow EDI time to conduct additional discovery regarding Fox's "reason for selecting the 'EMPIRE' name," Fox's "prior knowledge" of EDI and EDI's trademarks, and Fox's marketing strategy for the show. *Id*. at 1199–1200. The district court denied EDI's request and the Ninth Circuit affirmed. The court concluded that "[n]one of these facts is relevant to either prong of the *Rogers* test." *Id*. at 1200. This ruling is somewhat surprising as Fox's intent and knowledge could provide some insight as to whether Fox knowingly intended to create a connection with EDI in the minds of consumers. Yet the court's perfunctory treatment of the argument suggests the court is drawing a bright line with respect to the second prong. The court appears to conclude that regardless of what might be intended or known, only express or explicit statements or conduct will undermine an otherwise valid First Amendment defense under *Rogers*.

B. *Viacom International, Inc. v. IJR Capital Investments, L.L.C.*, 891 F.3d 178 (5th Cir. 2018)

If a fictional work can use a real-life trademark, can a real-life company adopt a fictional trademark for a restaurant that doesn't exist? While it seems far-fetched, the Fifth Circuit faced this very issue, helping delineate the scope of rights afforded to elements of a fictional work.

The underlying dispute involves IJR Capital Investments, L.L.C. and Viacom International, Inc. IJR is a small entity owned by Javier Ramos. In 2014, Ramos decided to open a chain of seafood restaurants. He initially planned to name the restaurant Crusted Crab, based on a cooked dish he would prepare with a "crusted glaze" applied to seafood. The name evolved into "The Krusty Krab." IJR applied to register THE KRUSTY KRAB for restaurant services with the U.S. Patent and Trademark Office (USPTO).

Unfortunately for IJR, and purportedly unknown to Ramos at the time he came up with the name, there has been a seafood restaurant operating under the identical name since 1999. The only catch is that the restaurant is a fictional restaurant for the Nickelodeon cartoon series *SpongeBob SquarePants*. The Nickelodeon network is owned by Viacom. In addition to appearing in the *SpongeBob* cartoon and movies, licensed merchandise also included The Krusty Krab restaurant as an element, such as toy playsets and aquarium ornaments.

Relying on its rights in the fictional restaurant name, Viacom sent IJR a cease and desist letter demanding IJR withdraw the application. IJR refused, although it chose to postpone opening

any restaurants under the name. Viacom sued IJR in 2016, alleging IJR's planned use constituted trademark infringement and unfair competition.

Viacom moved for summary judgment on its common law trademark infringement claim. Viacom introduced a consumer survey and expert report which showed a net confusion rate of 30 percent between a restaurant with the name The Krusty Krab and Viacom. In response, IJR argued that Viacom had failed to establish ownership of any rights in THE KRUSTY KRAB as a trademark. The district court agreed with Viacom and granted summary judgment. IJR appealed to the Fifth Circuit.

Because Viacom does not own a registration for THE KRUSTY KRAB, it needed to establish valid common law rights in the mark. IJR argued that individual elements of a fictional work such as places or characters in a television show were not eligible for trademark protection simply because the place or character appeared in the show. In a similar factual scenario, the Fifth Circuit had extended protection for the *title* of a comic book series, finding a third-party's use of Conan the Barbarian as the name for a restaurant infringed on the trademark rights associated with the movie franchise. *Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 148 (5th Cir. 1985). However, the court acknowledged that extending protection beyond the title of a work to individual elements of that work constituted a new and distinct issue.

The court acknowledged one of the purposes of trademarks is to protect the investment of the senior user and to prevent "free-riders" from appropriating the senior user's goodwill. The court reasoned that, in some circumstances, providing trademark protection to individual elements of a creative work would serve this purpose. The court cautioned that whether to extend such protection to an element is not governed merely by how successful the creative work is. Instead, "'[t]he salient question' is whether The Krusty Krab mark, as used, will be recognized in itself as an indication of origin for the particular product or service." *Viacom Int'l*, 891 F.3d at 187.

To answer the question, the court directed the district court to consider what role the element "plays within the show," suggesting that the frequency and importance of its appearance would play a pivotal role in establishing whether the element served as an indication of origin. *Id*. To illustrate the point, the court noted that other courts had provided protection to elements of fictional works, such as the "General Lee"—the orange car from the television series *The Dukes of Hazzard*—and the Daily Planet—the employer of Clark Kent in the *Superman* series. *Warner Bros. Inc. v. Gay Toys, Inc.*, 658 F.2d 76 (2d Cir. 1981); *DC Comics, Inc. v. Powers*, 465 F. Supp. 843, 847 (S.D.N.Y. 1978).

The court concluded The Krusty Krab was analogous to the Daily Planet and other elements that had been granted protection. The restaurant appeared frequently in the series, movies, and video games namely, in over 80 percent of *SpongeBob SquarePants* episodes. It also played a prominent role in many of the plot lines of episodes. Moreover, The Krusty Krab was subject to widespread merchandise licensing, including Lego® playsets, stickers, apparel, and other products. As a result,

the Fifth Circuit agreed that Viacom had successfully established trademark rights in THE KRUSTY KRAB, provided that the mark is distinctive.

The district court concluded that Viacom had failed to establish that THE KRUSTY KRAB is inherently distinctive, but found that the mark had acquired distinctiveness. In doing so, the district court relied upon Viacom's nearly 20 years of use, $197 million on promotional expenditures featuring The Krusty Krab products, $470 million revenue from two SpongeBob SquarePants feature films (which prominently featured The Krusty Krab), and millions of dollars of licensed products sold featuring The Krusty Krab. Moreover, Viacom established that The Krusty Krab receives widespread publicity and references in social media. The court concluded that all this evidence was sufficient to establish secondary meaning for THE KRUSTY KRAB. Therefore, it did not need to evaluate whether THE KRUSTY KRAB was an inherently distinctive mark.

With respect to likelihood of confusion, the court noted that THE KRUSTY KRAB is a strong mark in light of the significant sales, length of use, advertising, and publicity. The fact that IJR had adopted an identical mark, including the spelling with the letter K rather than a C, weighed strongly in favor of a likelihood of confusion. With respect to the likelihood of expansion, the court noted that consumers expect endorsements and extensions of fictional elements into restaurant businesses, citing as an example the licensed restaurant Bubba Gump Shrimp Co. from the movie *Forrest Gump.*

Viacom also introduced consumer survey evidence purportedly showing a confusion level of 30 percent. IJR contended that the survey was substantially defective and should not be considered. The Fifth Circuit focused on one question in particular, whether "THE KRUSTY KRAB RESTAURANT is affiliated or connected with any other company or organization." *Id*. at 198. The court concluded that the question "invites word association," which is normally entitled to little weight. *Id*. However, the court concluded that such flaws only affected the weight of the evidence and such flaws did not arise to the level of a "substantial defect" that would justify exclusion of the survey. *Id*.

In light of the foregoing, the Fifth Circuit concluded Viacom established there was no genuine issue of material fact as to a likelihood of confusion due to the identical nature of the marks, strength of Viacom's mark, and the evidence of actual confusion. Accordingly, the court affirmed the district court's ruling.

PRACTICE TIP

When conducting clearance searches, attorneys should discuss with their clients how the client came up with the mark. These discussions may unearth potential issues that might not be caught in a traditional clearance, helping avoid expense and loss of time associated with having to shift course to a new a mark later on in the process.

C. *Savannah College of Art and Design, Inc. v. Sportswear, Inc.*, 872 F.3d 1256 (11th Cir. 2017)

Over the past 10 years, the Internet helped create a widespread industry of screen printed apparel and similar merchandise. An especially attractive target for the industry are colleges and universities, like the plaintiff in this decision, Savannah College of Art and Design, Inc. (SCAD). However, even though the defendant apparel company sold clothing with identical trademarks, SCAD's claims were dismissed on summary judgment by the district court. The Eleventh Circuit was forced to step in and clarify its precedent regarding service mark infringement actions.

SCAD is a private, nonprofit college located in Georgia with an enrollment of approximately 11,000 students. The college has a reputation for fine arts education, including photography, design, architecture, and fashion. The college has continuously used its SAVANNAH COLLEGE OF ART AND DESIGN and SCAD marks since its founding in 1978.

In 2003, SCAD obtained federal registrations for its SCAD and SAVANNAH COLLEGE OF ART AND DESIGN word marks for education services. In 2011, SCAD began licensing its marks to a third party to sell branded clothing and merchandise. The college did not, however, seek to register its marks for any other services or goods.

Sportswear Inc. ("SI") is an online-only business that operates an interactive website to sell "fan" clothing. The company began selling apparel in 2003, primarily for K–12 schools. SI has since expanded to include colleges, Greek organizations, professional sports teams, and other groups. SI sells some products under license and some products without a license. The customer simply visits the website, picks the organization's name/logo and the type of product (shirt, hat, etc.).

In February 2014, SCAD first became aware of SI's sales of SCAD branded clothing through an email from a concerned parent. SCAD learned that SI had been selling SCAD apparel without authorization since at least as early as 2009. SCAD sued SI in July 2014 for trademark infringement.

The parties filed cross-motions for summary judgment. The district court found SCAD failed to establish priority with respect to goods and therefore granted summary judgment in favor of SI. SCAD appealed to the Eleventh Circuit.

The court began its analysis by noting that, although trademarks are used to identify goods and service marks identify services, the analysis is the same "in most respects." *Savannah College of Art & Design*, 872 F.3d at 1261. Infringement occurs not only whether there is an unauthorized use of a mark for the same goods or services, but also with respect to related goods or services. To establish a likelihood of confusion, SCAD was required to prove it had prior rights in a valid mark and that SI's unauthorized use of a mark would create a likelihood of consumer confusion with SCAD's prior use.

The district court never reached the likelihood of confusion analysis. Instead, the district court concluded that SCAD's infringement claim failed because SCAD's prior rights were limited to educational services and SCAD did not establish that it had prior rights for apparel products.

The court noted that SCAD's federally registered rights were limited to educational services, but framed the issue as whether SCAD's enforceable rights extended beyond the services listed in the registration. The court extensively analyzed prior precedent in *Boston Professional Hockey Association, Inc. v. Dallas Cap & Emblem Manufacturing, Inc.*, 510 F.2d 1004 (5th Cir. 1975). There, the National Hockey League and its member teams sued a manufacturer to prevent distribution of unlicensed patches featuring the teams' names and logos. The hockey teams had federally registered their marks for entertainment services, but not for goods. Yet the *Boston Hockey* court concluded such use created a likelihood of confusion.

The court further noted that the *Boston Hockey* decision "lack[s] critical analysis" but implicitly supports the conclusion that a registration covering services can extend its protection to goods. *Savannah College of Art & Design*, 872 F.3d at 1264. The court reasoned that whether to extend such protection depends largely on the strength of the mark at issue as well as the more general inquiry of whether there is a likelihood of confusion as approval or affiliation, and not necessarily as to source.

The court acknowledged *Boston Hockey* has been widely criticized with respect to some of the statements. For example, one critic alleges *Boston Hockey* eliminated the requirement of confusion as to source or affiliation, instead asking only if "customers recognized the products as bearing a mark of the plaintiff." *Id*. The court further noted some circuits hold that "service marks do not by their nature extend to goods or products." *Id*. at 1265–66. However, the court opined "allowing a party to take a free ride on another's registered trademark simply feels wrong," but expressed a competing concern that allowing such a rule might constitute a monopoly over a particular mark. *Id*. at 1266.

While seeming to invite an en banc review of its decision, and of the precedential value of *Boston Hockey*, the court instead remanded to the district court for further proceedings. The Eleventh Circuit concluded SCAD established prior rights in educational services and the district court should have proceeded to the likelihood of confusion analysis with respect to SCAD's services on the one hand and SI's goods on the other.

COMMENT

From a brand owner's perspective, enforcement is always easier when the rights at issue are federally registered. It is important to conduct a regular audit of a company's trademark portfolio. The audit should determine not only whether new marks have been adopted, but also whether previously protected marks have moved into new product or service areas.

D. *Leapers, Inc. v. SMTS, LLC*, 879 F.3d 731 (6th Cir. 2018)

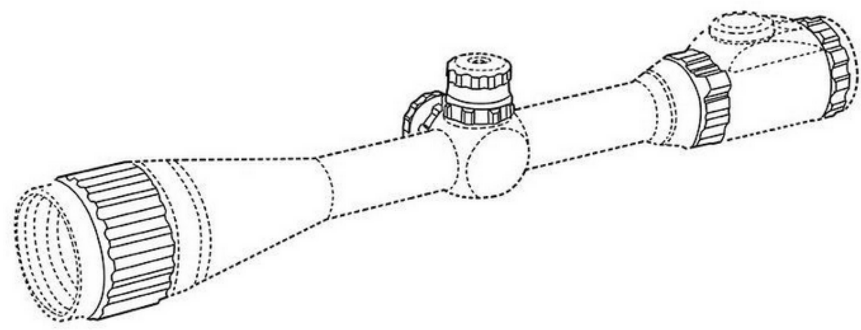
Legal vocabulary is often imprecise, including terms of art in trademark law. "Use" doesn't always mean "use" and "interstate commerce" can include commerce that technically is entirely intrastate. "Functional" is another tricky word, with multiple different meanings and applications. This Sixth Circuit decision addressed whether the design of graspable knobs on a rifle scope are functional and thus incapable of functioning as a trademark.

The plaintiff, Leapers, Inc., manufactures rifle scopes and other shooting products. Rifle scopes attach to a rifle and allow the user to more accurately aim and strike a target from a distance. Most rifle scopes have multiple adjustment knobs that allow users to fine-tune the focus and zoom of the scope. These adjustable parts of a scope are often covered with knurling patterns, which allow the knob to be gripped and manipulated more easily by the user's fingers.

Leapers utilized a Chinese sporting goods factory to manufacture its products. Eventually, Leapers terminated the relationship. However, the factory manager allegedly continued to manufacture and sell rifle scopes with Leapers' designs through third parties, including the defendant SMTS, LLC. Leapers sued SMTS along with other entities in 2014.

Leapers asserted it owned protectable trade dress for the knurling design applied to its rifle scopes. Specifically, Leapers defined four elements of its claimed trade dress: (1) wave-like scalloping with soft, round edges; (2) straight, parallel, unbroken lines; (3) consistent use of the wavelike scalloping at all relevant points of the scope; and (4) wide banding, with rough proportionality be-

tween the raised and lowered portions of the scalloping. A drawing of the claimed trade dress that is the subject of a pending application for registration is shown below.



As an affirmative defense, SMTS asserted Leaper's claimed trade dress was invalid because it is functional, or in the alternative, it lacked acquired distinctiveness. The parties filed cross motions for summary judgment on the defenses. The district court agreed with SMTS that the asserted trade dress was functional and did not analyze the alternative defense of whether the asserted trade dress had acquired distinctiveness. Leapers appealed to the Sixth Circuit.

Trade dress rights protect product packaging as well as product designs or configurations. *Wal-Mart Stores, Inc. v. Samara Bros*., 529 U.S. 205, 213–16 (2000). Although product packaging can be inherently distinctive, product designs cannot. Instead, product designs are only protectable through acquired distinctiveness among the relevant consuming public. This can be established by showing extensive use of the mark, significant sales, widespread publicity, and other evidence that shows that consumers recognize the design as a trademark for a particular source. *Id.*

For unregistered product design marks, the plaintiff also must demonstrate the trade dress is nonfunctional. The goal is to ensure competitors are not placed at an unfair disadvantage by allowing a party to monopolize ownership of a "functional" feature. Trade dress is functional: (1) if it is essential to the use or purpose of the product; (2) if it affects the cost or quality of the product; or (3) if exclusive use of the trade dress would put competitors at a "significant non-reputation-related disadvantage." *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 32–34 (2001).

Here, Leapers admitted knurling is a functional component of a rifle scope, but asserted that Leapers was not claiming rights in knurling generally, but instead in a specific design of knurling. Leapers argued its claimed trade dress is a purely ornamental design that is nonfunctional. As evidence, Leapers submitted testimony from its owners claiming the design was chosen for aesthetic purposes. Leapers also submitted an expert report asserting competitors used a wide variety of knurling patterns and that Leapers' design is not dictated by functional considerations.

The Sixth Circuit concluded "as a hypothetical matter" a knurling pattern could be purely ornamental, such as a company's name or logo. *Leapers*, 879 F.3d at 738. The issue is whether the particular pattern is essential to the use or purpose of the scope, or whether the pattern affects the cost or quality of the scope. The Sixth Circuit stated the district court conflated Leapers' allegedly unique knurling design with the use of knurling generally. Instead, a reasonable jury could rely on Leapers' evidence to conclude that Leapers' asserted trade dress was nonfunctional and therefore the parties' evidence created a disputed issue of material fact and summary judgment was therefore inappropriate. Accordingly, the court vacated the district court's grant of summary judgment to SMTS on the functionality ground and remanded to the district court.

E. *ZW USA, Inc. v. PWD Systems, LLC*, 889 F.3d 441 (8th Cir. 2018)

Generally, an infringement claim involving nearly identical marks used to sell directly competitive goods seems like an easy win. Yet the plaintiff's claim in this Eighth Circuit decision had these favorable facts and still lost—on summary judgment. The decision is a cautionary reminder regarding the risks associated with adopting a conceptually weak mark.

ZW USA Inc. does business as Zero Waste USA. Zero Waste sells disposable dog waste bags under the trademarks ONEPUL and SINGLPUL. The bags are known as "wicket" bags, and are dispensed quickly and easily using "a single pull of a hand." Since 2010, Zero Waste has used the marks ONEPUL and SINGLPUL for these bags. The marks are spelling derivations of the phrases "one pull" and "single pull."

In 2013, Zero Waste applied to register the marks with the USPTO. The USPTO presumed the marks were inherently distinctive and registered the marks on the Principal Register without requesting evidence of acquired distinctiveness.

PWD Systems, LLC is one of Zero Waste's direct competitors in the dog waste bag industry. PWD's bags are marketed under the brand BagSpot. PWD also uses the phrase "one-pull" and "one pull" to advertise its products on its website. In addition, PWD had also purchased the term zerowaste as a Google Adword. Therefore, if a company searched Google for zerowaste, PWD's website and its "one pull" waste bags would likely appear near the top of the search results.

Zero Waste sued PWD for infringement of its ONEPUL mark, and PWD filed a counterclaim for cancellation of the registrations. PWD alleged that Zero Waste's marks are merely descriptive, lacked secondary meaning, and are therefore invalid. The parties filed cross-motions for summary judgment. The district court found Zero Waste's marks to be distinctive and valid, but granted summary judgment to PWD on Zero Waste's infringement claim.

A trademark must be distinctive in order to be protectable. Distinctive marks include arbitrary marks like APPLE for computers, fanciful or made up marks like XEROX for copiers, and

suggestive marks such as COPPERTONE for suntan lotion. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992). However, if a mark directly conveys an immediate idea of an ingredient, quality, or characteristic of a good or service, then the mark is "merely descriptive" and not inherently distinctive. *Frosty Treats Inc. v. Sony Computer Entm't Am., Inc.*, 426 F.3d 1001, 1005 (8th Cir. 2005). There is often a blurry line between merely descriptive and suggestive marks, but marks that require a multi-step reasoning process or some exercise of imagination qualify as suggestive and immediately protectable marks. *Id.*

PWD argued a "one pull" bag is just a type of bag that is dispensed "with one pull of the hand." *ZW USA*, 889 F.3d at 450. In support, it submitted evidence of a number of competitors that use the phrase "one pull" or "one-pull" to describe their dog waste bags. *Id.* at 449–50. In response, Zero Waste relied on the presumption of validity afforded to registered trademarks. *Lovely Skin, Inc. v. Ishtar Skin Care Prods., LLC*, 745 F.3d 877, 888 (8th Cir. 2014).

The court concluded PWD's evidence of third-party use and Zero Waste's registration created a factual dispute as to whether the mark was inherently distinctive or merely descriptive. While the court acknowledged the presumption of validity may be sufficient to establish validity of the mark, the court held that the district court erred in granting summary judgment to Zero Waste and reversed the district court's decision as to the counterclaim.

With respect to infringement, the court clarified that summary judgment is appropriate when the dispute is with respect to "the proper interpretation to be given to the facts, rather than on the facts themselves." *Id*. at 446. The court determined a number of factors favored a finding of likely confusion: the ONEPUL and "one-pull" marks were all but identical, the goods are directly competitive, and the relevant consumers were likely to exercise only minimal care and are therefore more susceptible to confusion. However, the court noted that the two parties also prominently display their trade names in connection with their products, which "strongly" weighs against a likelihood of confusion, and that the ONEPUL mark was conceptually weak.

Zero Waste claimed PWD used "one pull" with bad intent. Yet the only evidence of intent is that PWD knew about Zero Waste's mark and that PWD purchased Zero Waste as a Google Adword. The court found the keyword purchase irrelevant since the ZERO WASTE mark was not at issue in the proceeding and that mere knowledge was insufficient to establish bad intent for an infringement claim.

As a result, the court concluded that Zero Waste failed to present evidence that could lead a jury to infer that consumers are likely to confuse the two parties' use of the ONEPUL and "one-pull" marks. Therefore the court affirmed the grant of summary judgment to PWD on the trademark infringement claim.

PRACTICE TIP

Attorneys should not merely move forward with whatever mark a client has adopted or proposes to adopt. An attorney should discuss the conceptual strength of a mark and advise as to the potential risks and costs associated with choosing a conceptually weak mark. Even if the mark is successfully registered, the mark may be worth little if it cannot be enforced against direct competitors.

F. *Sazerac Brands, LLC v. Peristyle, LLC*, No. 17-5933, 2018 U.S. App. LEXIS 15940, 892 F.3d 853 (6th Cir. June 14, 2018)

The past cannot be erased, but do one's chances improve if they have a trademark registration? In this Sixth Circuit decision, Sazerac Brands, LLC certainly hoped so.

In 1887, Colonel Edmond Haynes Taylor, Jr. built the Old Taylor Distillery in Kentucky. Colonel Taylor is considered by some to be the father of the modern bourbon industry, with his Old Taylor Distillery recognized as one of the most prolific distilleries of its time. Although the distillery had great success initially, sales all but disappeared with the institution of prohibition in 1920. The distillery changed ownership a number of times, ultimately ceasing production permanently in 1972. The OLD TAYLOR brand continued to be used with whiskey distilled elsewhere, with Sazerac purchasing the rights to the mark in 2009.

In 2014, Peristyle, LLC was formed to purchase and renovate the Old Taylor distillery to resume bourbon production. Eventually, Peristyle chose CASTLE & KEY for the new distillery name. However, at the time of renovation, Peristyle had not decided on a name and instead referred to the location as "the Former Old Taylor Distillery" or simply "Old Taylor."

Peristyle referred to "Old Taylor" in interviews, social media, and other promotional materials, including for events at the distillery. For example, Peristyle invited the public to sign up for a "VIP Mailing List for the Former Old Taylor Distillery" on social media and promoted the future opening with phrases like "We're saving a seat for you at … Old Taylor Distillery." Peristyle also kept a 400-foot "Old Taylor Distillery" sign on a warehouse along with a "The Old Taylor Distillery Company" sign located at the building's main entrance.

Sazerac sued Peristyle for trademark infringement, unfair competition, and false advertising. Sazerac claimed that, even if Peristyle had not used OLD TAYLOR to sell whiskey, Peristyle infringed Sazerac's rights in the mark by using "Old Taylor" to host special events (including weddings), renting barrel-aging warehouse space to others, and other promotional events and activities at

the distillery. Peristyle asserted its use of Old Taylor was merely describing the name of the distillery and its associated history. As such, Peristyle asserted such use was protected as a fair use. The district court granted summary judgment to Peristyle on its fair use defense and Sazerac appealed.

The fair use defense applies when the use complained of is not used as a trademark, but instead use of the wording is only made to fairly describe the goods or services or their geographic origin. 15 U.S.C. § 1115(b)(4). The fair use defense applies so long as the use is descriptive and done in good faith. This is true even if there is some evidence of consumer confusion. *KP Permanent Make-Up, Inc. v. Lasting Impression, Inc*., 543 U.S. 111, 119 (2004).

The Sixth Circuit noted Peristyle "does not plan to put 'Old Taylor' on the bottle" for its whiskey. *Sazerac Brands*, 2018 U.S. App. LEXIS 15940, at *8. Peristyle's use of "Old Taylor" so far was used to "pinpoint the historic location" of Peristyle's new distillery, such as references to "The Historic Site of The Old Taylor Distillery." *Id*. Peristyle's argument was further supported by the fact that the property is listed on the National Register of Historic Places under the name "Old Taylor Distillery." The Sixth Circuit agreed with the district judge that Peristyle was not trading off Sazerac's goodwill, but instead only "enjoying the goodwill already ingrained in the property it purchased." *Id*. at *9. The court recognized that on occasion Peristyle used "Old Taylor" without the word "former" or "historic," but that the context made clear Old Taylor was a reference to the geographic location or history.

Sazerac pointed to the Old Taylor signage still adorning the property as non-descriptive use. However, the court disagreed. Instead, the Sixth Circuit considered such signage to be historical and that Peristyle had not placed them there or otherwise used the signage in bad faith. With respect to special events, barrel aging, and other services that occurred at the distillery, the court noted that each and every event occurred on the property. Therefore, each use was an accurate and fair use of "Old Taylor" to describe the geographic location of these events.

Accordingly, the Sixth Circuit affirmed the district court's grant of summary judgment, finding Peristyle's use to be protected as a descriptive fair use.

G. *Adidas America, Inc. v. Skechers USA, Inc.*, 890 F.3d 747 (9th Cir. 2018)

In the latest episode of the ongoing "Sneaker Wars," Adidas America, Inc. sued Skechers USA, Inc. over claimed trade dress rights in two sneaker designs, including the well-known three-stripe design. The district court issued a preliminary injunction for both designs, but Skechers appealed to the Ninth Circuit Court of Appeals. The Ninth Circuit reversed the preliminary injunction for one of the designs, and which design might be surprising.

The first design at issue involved Adidas's "Stan Smith" shoe, which was first released in the 1970s. The shoe is one of Adidas's most popular shoes, with high sales and significant popularity

among fashion designers. The design has received widespread publicity, including being named the 2014 “Shoe of the Year” by *Footwear News*. In fact, as of 2014, the shoe was Adidas’s top-selling shoe of all time, with more than 40 million pairs sold worldwide.

Adidas alleged that Skechers “Onix” shoe infringed the trade dress in the Stan Smith shoe. Photographs of the two shoes are reproduced below.

Onix - Skechers **Stan Smith - Adidas**

The second design involved the Skechers Relaxed Fit Cross Court shoe. Adidas alleged the design infringed and diluted Adidas’s Three-Stripe mark. Shown below is a photograph of the Skechers shoe and the drawing for Adidas’s federally registered mark, Registration No. 3,029,129. The registered mark consists of “three parallel stripes applied to footwear … between the laces and the sole.” The dotted lines are not part of the mark and only show how the mark appears on the goods.

Adidas sued Skechers for trademark infringement and trademark dilution. Adidas relied on its federally registered rights for the Three-Stripe trademark. However, Adidas has not registered its trade dress for the Stan Smith design and therefore Adidas relied upon its common law rights. Adidas moved for a preliminary injunction for both designs. The district court granted the motion, and Skechers appealed to the Ninth Circuit.

In order to prevail on a motion for a preliminary injunction, the moving party must establish:

(1) A likelihood of success on the merits;

(2) The moving party will suffer irreparable harm without the injunction;

(3) The balance of equities weighs in favor of the moving party; and

(4) The injunction is in the public interest.

Winter v. Natural Res. Def. Council, Inc., 555 U.S. 7 (2008). On appeal, Skechers challenged only the elements of likelihood of success and irreparable harm.

With respect to a likelihood of success on the merits, the plaintiff must establish ownership of a valid mark and that the defendant's conduct infringes upon that mark. To be valid and protectable, product design trade dress rights must have acquired distinctiveness and must be non-functional. Skechers did not challenge whether the designs were functional and therefore Adidas needed only to establish acquired distinctiveness to prove its ownership of protectable trade dress for the Stan Smith design.

The evidence relied upon by the district court included Adidas's nearly 50 years' worth of use, significant sales volume, and widespread publicity over these 50 years. Evidence of copying by third-parties can also demonstrate acquired distinctiveness. The district court relied upon Skechers' use of the wording "Stan Smith" in metatags on its websites as a form of copying, noting that this would only be a useful search term if "consumers associate the term with a distinctive and recognizable shoe made by Adidas." *Adidas Am.*, 890 F.3d at 755. Because Adidas owned a registration for the Three-Stripe mark, the mark was presumed to have acquired distinctiveness and be non-functional. Accordingly, the Ninth Circuit concluded that Adidas owned valid, protectable trade dress rights for both shoe designs.

The court then turned to whether the Skechers designs were likely to create confusion with the Adidas designs. The court noted that the "similarities between the Stan Smith and Onix [shoes] are unmistakable." *Id*. The shoes used the same shape and material for the upper portions of the shoes, heel paths, stitching patterns, color patterns, and similarly shaped outsoles. The court considered the inclusion of the Skechers logo to be a "minor difference" that does not negate the fact that the overall commercial impression between the shoe designs was confusingly similar. *Id*. The Ninth Circuit agreed with the district court that the likelihood of confusion was heightened because both parties use the designs to sell shoes, and that an intent to confuse consumers could be inferred from Sketchers' use of the "nearly identical" design and use of "metadata tags to direct consumers who searched for 'Adidas Stan Smith' to the Onix web page.'" *Id.*

With respect to the Three-Stripe mark, the Ninth Circuit seemed less convinced as to the similarity of the marks. However, the Ninth Circuit concluded the district court did not err in finding there were still significant similarities between the marks, the goods were identical, and Adidas's

Three-Stripe mark was strong. Accordingly, the Ninth Circuit affirmed the district court's finding of a likelihood of success on the merits for both claims of infringement.

At one time, establishing a likelihood of confusion was enough on its own to establish irreparable harm. Many courts, including the Ninth Circuit, applied a general rule that "irreparable injury may be presumed from a showing of likelihood of success on the merits of a trademark infringement claim." *Herb Reed Enters., LLC v. Fla. Entm't Mgmt., Inc.*, 736 F.3d 1239, 1248–49 (9th Cir. 2013). However, a pair of Supreme Court cases called the practice into question. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *Winter*, 555 U.S. at 7. As a result, the Ninth Circuit has concluded that irreparable harm can no longer be presumed, but must be supported by concrete evidence.

Adidas argued the loss of control over its business reputation and damage to goodwill constituted irreparable harm. As evidence, Adidas pointed to the significant time and money spent to promote the Stan Smith design, as well as "its efforts to carefully control the supply of Stan Smith shoes" in an effort to prevent a "flooded" marketplace. *Adidas Am.*, 890 F.3d at 756. Adidas also presented consumer surveys demonstrating consumer confusion if the Onix shoes were allowed to be sold. As a result, the Ninth Circuit affirmed the district court's finding of irreparable harm.

With respect to the Three-Stripe mark, the Ninth Circuit characterized Adidas's argument as "narrow," that the Skechers shoe could create post-sale confusion "because consumers who see others wearing Cross Court shoes could associate the allegedly lesser-quality Cross Court shoes with Adidas and its Three-Stripe mark." *Id*. at 759. Adidas had not argued that the actual purchasers would be confused, presumably because the shoes included "numerous Skechers logos." *Id*. at 760.

From an evidentiary perspective, the court disagreed that the evidence supported Adidas's claim that Skechers were considered a lower-quality, discount brand, reasoning Adidas's evidence on this point came solely from Adidas employees rather than the consuming public. Moreover, the court found Adidas's theory to be implausible because post-sale confusion could only occur if consumers were so far away that they could not see the Skechers logos. In the court's opinion, consumers who were so far away could not reach any conclusion as to whether the shoes were of a lower quality. Unlike the Stan Smith design, there was no evidence that the Three-Stripe design derived value from "scarcity and exclusivity." *Id*. at 761. As a result, the court concluded that Adidas had failed to provide sufficient evidence of irreparable harm for the Three-Stripe design, and the court reversed the grant of a preliminary injunction with respect to this design.

Judge Richard Clifton dissented with respect to the Three-Stripe design. He concluded the majority incorrectly substituted its own evaluation of the evidence, such as discounting testimony from Adidas's employees as being unreliable. He noted the evidence established that Adidas's shoes were, on average, more expensive and that Adidas had spent significant sums to promote its Three-

Stripe mark. He argued that even if the point-of-sale purchaser is not confused that they are buying an imitation, Adidas is still harmed by allowing the consumer to obtain "prestige value" through purchase of a cheaper imitation. As a result, Judge Clifton would have affirmed the district court's grant of a preliminary injunction for both shoe designs.

PRACTICE TIP

Courts have not uniformly adapted to the purported restriction on the presumption of irreparable harm. As courts develop this area of the law—especially in those circuits that previously relied upon the presumption of irreparable harm for trademark infringement and dilution claims—attorneys should include all theories of infringement that the plaintiff can plausibly assert rather than limit themselves to a specific theory such as point-of-sale confusion or post-sale confusion.

H. *In re Brunetti*, 877 F.3d 1330 (Fed. Cir. 2017)

Since 1905, federal trademark law has contained a bar against the registration of immoral and scandalous matter. More than four decades later, section 2(a) of the Lanham Act added another similar bar against the registration of marks that may disparage. These registration bars have been enforced and upheld throughout the 20th century. However, on June 19, 2017, the Supreme Court struck down the ban on "disparaging" trademarks as unconstitutional. *Matal v. Tam*, 137 S. Ct. 1744 (2017). The USPTO maintained that *Tam* invalidated only the restriction on "disparaging" trademarks and that it did not affect the validity of other clauses in section 2(a), namely, clauses that banned scandalous or immoral trademarks. The Federal Circuit addressed this alleged distinction in this decision.

At issue is Erik Brunetti's clothing brand, FUCT. The USPTO refused registration on the ground that the mark FUCT—the phonetic equivalent of "fucked"—constituted immoral or scandalous matter. The Trademark Trial and Appeal Board upheld the refusal. Brunetti appealed the Board's order to the Federal Circuit, arguing that the FUCT mark is not scandalous and, in the alternative, the scandalous provision of section 2(a) is unconstitutional.

A mark is scandalous if "a substantial composite of the general public" considers it "shocking to the sense of truth, decency, or propriety; [or is] disgraceful; offensive; disreputable; [or] giv[es] offense to the conscience or moral feelings." *In re Fox*, 702 F.3d 633, 635 (Fed. Cir. 2012). A mark is also scandalous if it is "vulgar," meaning it is "lacking in taste, indelicate, [or] morally crude." *In*

re McGinley, 660 F.2d 481, 485 (C.C.P.A. 1981). These determinations are made in the context of contemporary attitudes. *Id*.

Brunetti argued the meaning of FUCT is ambiguous and that over his 20 years of operation, he had only received a single complaint about the brand name. The court found the argument and evidence unpersuasive, concluding substantial evidence supported the Board's finding that the FUCT mark is vulgar and therefore scandalous.

At the time Brunetti filed his appeal, his argument that section 2(a) is unconstitutional was foreclosed by the Federal Circuit's decision in *McGinley*. However, the *Tam* decision held that section 2(a)'s ban on disparaging trademarks related to the expressive character of marks, not their commercial purpose. *In re Tam*, 808 F.3d 1321, 1337–39 (Fed. Cir. 2015). After applying strict scrutiny, *Tam* determined that the disparagement clause was unconstitutional, but left open whether the other provisions of section 2(a) were constitutional, including the scandalous and immoral clauses. The Supreme Court affirmed, concluding that the bar on disparaging trademarks constituted viewpoint discrimination and was unconstitutional. *Id.*

Following the Supreme Court's decision, the *Brunetti* court requested additional briefing from the parties. Although the government conceded the ban is a content-based restriction, it argued the First Amendment is not implicated because trademark registrations are either: (1) a government subsidy; or (2) a limited public forum. In the alternative, the government argued trademarks are commercial speech and therefore require only intermediate scrutiny, and that the immoral or scandalous ban is appropriately tailored to substantial government interests.

The court first addressed the government's subsidy argument, noting the four-justice plurality in *Tam* had specifically rejected the argument. The court agreed, reasoning the registration of trademarks does not implicate Congress's spending power because the USPTO is entirely funded by applicants and registrants.

The government also claimed the Principal Register is a "metaphysical forum," similar to a city bus or other government property that can be regulated as a limited public forum. *Brunetti*, 877 F.3d at 1346. Courts have recognized forums that were not strictly physical in nature, such as a public university's student activity fund or a charity drive conducted in a federal workplace during working hours. *Id*. at 1347. The court distinguished these cases because the speech associated with a trademark registration "is not tethered" to any government property. *Id*. Instead, the Principal Register is merely a "database identifying the marks," much like databases for marriages, estates, cars, and other information. *Id*. Therefore, the Principal Register is not a public forum, according to the Federal Circuit Court of Appeals.

The court next considered whether trademark registration constitutes commercial speech, which would be reviewed under intermediate scrutiny. Here, the court distinguished among the various limitations imposed on the registration of trademarks. For example, the bar on registration of descriptive marks targets the mark's ability to function as a source identifier, while the immoral and scandalous provision targets the "expressive message" of the mark. *Id.* at 1349. Accordingly, the immoral and scandalous bar targets the expressive component of a trademark, not the commercial component, and as a result is subject to a strict scrutiny standard; the government did not contest that the bar could not survive strict scrutiny under *Tam*.

Nonetheless, the court concluded the immoral and scandalous bar would not survive even intermediate scrutiny. The court relied upon *Tam* to conclude that an interest to protect the public from offensive trademarks was "an inadequate government interest for First Amendment purposes." *Tam*, 137 S. Ct. at 1751, 1767. Also, the bar failed to directly advance the government's interest because applicants were still allowed to use the mark, regardless of whether it is federally registered. Moreover, the fact that the bar was inconsistently applied, approving or denying registration to nearly identical marks owned by different parties, undermined the argument that the restriction was narrowly tailored.

Having rejected the government's justifications, the court held the ban violated the First Amendment and reversed the Board's refusal to register Brunetti's FUCT mark.

Notably, Judge Dyk concurred in the judgment, but argued the court is under a duty to construe statutes narrowly to avoid constitutional questions. He reasoned the First Amendment does not protect obscene speech and therefore the ban on immoral and scandalous marks could be construed narrowly as a ban on obscene marks. *See U.S. v. Williams*, 553 U.S. 285, 288 (2008).

The court denied the government's motion for rehearing en banc. The government had until July 11, 2018 to seek certiorari or an extension of time to seek certiorari.

I. *Deere & Co. v. FIMCO Inc.*, No. 5:15-CV-105-TBR, 2017 U.S. Dist. LEXIS 169711 (W.D. Ky. Oct. 13, 2017), *superseded in part*, No. 5:15-CV-00105-TBR, 2018 U.S. Dist. LEXIS 46259 (W.D. Ky. Mar. 21, 2018)

Establishing exclusive rights in colors as a trademark is difficult. Colors tend to serve ornamental or communicative purposes rather than identifying the source of a product. Yet, for someone who grew up in the Midwest, they might associate green and yellow with a certain tractor and agricultural equipment manufacturer. In fact, John Deere regularly asserts rights in the green and yellow combination against third parties. This is true even when the third party sells equipment that John Deere doesn't sell, which is what occurred in this dispute.

Deere & Co., also known as John Deere, was founded in 1837. The company is best known for its tractors, but Deere sells a variety of agricultural, forestry, lawn, and garden equipment. Deere paints nearly all of its equipment with the same green and yellow combination.

Defendant FIMCO Inc. was incorporated in 1966 in South Dakota. FIMCO has two divisions, a lawn and garden division and an agricultural division. FIMCO sells a variety of agricultural implements, including sprayers and nutrient applicators. FIMCO's agricultural sprayers and applicators are sold under the brand AG SPRAY and are painted green and yellow.

Deere claimed it first discovered FIMCO's use of the green and yellow combination at a farm show in 2011. Deere corresponded with FIMCO between November 2012 and March 2015 in an attempt to settle the dispute, but when discussions failed, Deere filed the underlying complaint in April 2015 for trademark infringement, dilution, and unfair competition. FIMCO asserted defenses of functionality, laches, estoppel, and acquiescence. The district court previously granted partial summary judgment in favor of Deere on FIMCO's defenses of laches and functionality. *Deere & Co. v. FIMCO Inc*., 239 F. Supp. 3d 964 (W.D. Ky. 2017). The court then held a bench trial on Deere's infringement, dilution, and unfair competition claims.

First, the court considered the validity of Deere's claimed trade dress. Deere marketed equipment with the green and yellow combination since at least as early as 1904. By 1957, Deere's annual marketing spend was $5.4 million, rising to $80 million in 2016. On a global basis, annual sales were at least $1 billion in 1966, rising to more than $26 billion in 2016. Deere and its green and yellow equipment had received significant publicity in regional publications throughout the 20th century, but beginning in 1964 it received national recognition, such as the covers of *Forbes, Fortune* and other publications, all referring to "the green and yellow Deere colors." *Deere & Co.*, 2017 U.S. Dist. LEXIS 169711, at *17.

The court further noted Deere owned three registered trademarks comprising the claimed colors. The first registration issued in 1988 for a mark described as "a bright green body or frame of an agricultural vehicle [with] bright yellow wheels" for agricultural and lawn and garden tractors, trailers, wagons, and carts. *Id*. at *19. The second also issued in 1988 for the same mark, covering wheeled agricultural, lawn, and garden equipment, including sprayers and spreaders. The third registration issued in 2010 for a mark described as "the color combination green and yellow in which green is applied to an exterior surface of the machine and yellow is applied to the wheels," covering "tractor towed agricultural implements" including "nutrient applicators." *Id*. at *20.

In light of the foregoing, the court had no trouble determining that Deere had valid, enforceable rights in its green and yellow color combination.

Second, the court turned to the likelihood of confusion factors applied by the Sixth Circuit, beginning with the strength of the senior mark. The court concluded Deere's long and widespread use, significant advertising and sales, and extensive publicity all established that Deere's rights in the color combination were very strong.

FIMCO argued such strength was limited to tractors and did not extend to the goods FIMCO had sold with the green and yellow combination. For example, Deere did not sell nutrient applicators until 2009 and, although Deere had sold self-propelled sprayers, Deere had never sold non-self-propelled, i.e., trailed, sprayers. FIMCO further claimed that several third parties had used a similar green and yellow combination for trailed equipment. FIMCO presented testimony from equipment dealers that they had seen "plenty of green and yellow equipment in the past." *Id*. at *77. The court found as many as 40 companies have used the combination at some point. However, Deere established it had actively enforced its rights from the 1980s to the present and all but three of the third-parties had ceased such use. In sum, the court considered the mark to be very strong for tractors, but less strong for other agricultural implements and, in light of the third party usage, the strength factor weighed "only slightly" in favor of FIMCO. *Id*. at *93–94.

The applicators and sprayers sold by the parties are identical in broad terms. FIMCO argued that its sprayers are significantly less expensive and are not self-propelled like Deere's sprayers. The court was unconvinced and found the goods to be overlapping and closely related. Therefore the "relatedness of the goods" factor favored Deere. *Id*. at *96.

With respect to mark similarity, the parties stipulated the parties' colors were indistinguishable by the naked eye. The court found the placement of the colors on the equipment was also very similar: green frames with yellow wheels and yellow tanks. FIMCO argued its equipment included black accents and a prominent display of the AG SPRAY or SCHABEN brand. The court found these differences failed to negate the high similarity between the color schemes. Therefore, the court found the mark-similarity factor strongly favored Deere.

For evidence of actual confusion, the parties relied upon testimony from equipment dealers. Deere's witness testified that numerous customers mistakenly thought FIMCO's yellow and green products were Deere products. In contrast, FIMCO's witnesses testified that no purchaser had ever confused the products. The court found this anecdotal evidence provided some limited support for Deere, but did not give it great weight. Deere also submitted results from two confusion surveys, one involving FIMCO's Schaben brand and another involving the Ag Spray brand. The surveys demonstrated a net confusion rate of 22 percent and 39 percent respectively. Although FIMCO raised concerns with the survey's methods, the court found them reliable and, as a result, the evidence of actual confusion factor also favored Deere.

With respect to intent, Deere argued FIMCO adopted with bad faith because FIMCO had express knowledge of Deere's rights, and that consumers were more likely to purchase products in Deere colors. The court found mere knowledge was insufficient to establish bad intent of causing confusion, but instead FIMCO merely used the colors because "that's what people were ordering." Therefore, the court considered this factor to be neutral.

The remaining factors did not play a significant role in the court's analysis. The marketing channels overlapped, favoring Deere. Although the equipment was expensive, testimony established that some purchasers might not exercise a high degree of care. Therefore the likely degree of purchaser care slightly favored FIMCO.

Balancing the factors, the court concluded a likelihood of confusion existed, relying significantly on the relatedness of the goods, the similarity of the marks, and the evidence of actual confusion.

With respect to dilution, Deere was required to establish that its mark was distinctive and famous, that FIMCO began using the mark only after Deere's mark acquired fame, and that FIMCO's use was likely to cause dilution by blurring. The court already had found Deere's mark distinctive, so Deere had already established the first element.

A mark is famous for dilution purposes when it is "widely recognized by the general consuming public of the U.S. as a designation of source of the [owner's] goods or services." 15 U.S.C. § 1125(c)(2)(A). Fame is established similar to strength of the mark, through advertising, publicity, sales, and actual recognition. Deere argued its mark was famous early on in the 1900s; the court found that up until the 1960s, most of Deere's publicity and recognition occurred in regional publications or agricultural industry publications. Deere did not receive national publicity until the 1960s. Accordingly, the court concluded Deere's mark became famous by 1968.

FIMCO claimed it used the green and yellow combination well before 1968. FIMCO's founder created the company in 1966 after his previous employer, J-D-D Lubricants (JDD) went into bankruptcy. Deere had, in fact, sent JDD a demand letter in 1943 regarding JDD's use of green and yellow on motor oil cans. FIMCO also produced photographs from 1957 and two undated advertisements showing a JDD agricultural sprayer painted green and yellow. However, FIMCO failed to produce any other evidence that JDD sold sprayers, equipment, or parts that were green and yellow; it produced only catalogs featuring the colors green and yellow on the catalog pages, but not on any equipment. Moreover, there was no evidence that FIMCO acquired the goodwill associated with JDD's products; instead, it appeared FIMCO may have only purchased JDD's assets. As a result, the court found FIMCO's earliest use of the Deere colors was in 1998, after Deere's mark achieved fame.

With respect to the likelihood of dilution, the court found the same facts that supported a finding of infringement also supported a likelihood of dilution. According to the court, the evidence was even stronger because the strength of the Deere colors for tractors extended to other equipment for the dilution analysis. Moreover, Deere submitted a fame survey that resulted in a 74 percent net recognition rate for the Deere colors. With respect to intent, the court noted FIMCO knew farmers wanted to match their implements with their tractors. FIMCO also frequently depicted its green and yellow implements being pulled by Deere tractors. Deere also relied upon a dilution survey to demonstrate there was an actual association between FIMCO's use of the colors and Deere's use of the colors. The survey resulted in a net association rate of 38 percent and 43 percent respectively for the Schaben and Ag Spray brands. Accordingly, the court concluded FIMCO's use of the color combination was likely to dilute Deere's rights.

Deere requested a permanent injunction. Permanent injunctions are available if the plaintiff establishes: (1) there is irreparable injury; (2) there is a lack of an adequate remedy of law; (3) the balance of hardships favors issuance of the injunction; and (4) the injunction is in the public interest. Notably, the court determined there was a presumption of irreparable harm due to Deere's success on the infringement and dilution claims. The court did not address the recent line of cases determining that irreparable harm cannot be presumed. *See Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7 (2008). In fact, the court seemed to presume that the first, second, and fourth factors were all established merely by prevailing on the merits of an infringement claim. The court reasoned "so long as FIMCO continues using the [Deere colors] there is potential for future harm, and therefore there is no adequate remedy at law." *Deere & Co.*, 2017 U.S. Dist. LEXIS 169711, at *146–47 (quoting *Audi AG v. D'Amato*, 469 F.3d 534, 550 (6th Cir. 2006)). With respect to the fourth factor, the court concluded the public interest is served by "prevent[ing] consumers from being misled." *Id*. at *149. With respect to the third factor, the harm to Deere outweighed any potential harm to FIMCO because the injunction would not put FIMCO at competitive disadvantage and because the green and yellow equipment constituted only four percent of FIMCO's revenue.

Accordingly, the court granted Deere's request for an injunction, enjoining FIMCO from "using a combination of green and yellow colors" for "trailed and wheeled agricultural equipment," but not from selling equipment that is "solely" green or "solely" yellow, but instead prohibiting "any combination of green and yellow together on a piece of equipment." *Id*. at *149–50.

COMMENT

Strength of a trademark is not a static factor. A mark may become weaker or stronger over time. An organized, methodical enforcement program like Deere's can help increase the strength of a mark and help neutralize a potentially viable defense for an alleged infringer.

J. *Eat Right Foods Ltd. v. Whole Foods Market, Inc.*, 880 F.3d 1109 (9th Cir. 2018)

In this decision, the Ninth Circuit confronted a dispute over the incredibly creative trademark EATRIGHT, used in connection with cookies and other food products. The case pitted a small New Zealand entity, Eat Right Foods Ltd. (ERF), against the grocery chain Whole Foods Market, Inc. Although Whole Foods was once a customer of ERF, the relationship soured after ERF accused Whole Foods of infringement. The Ninth Circuit was tasked with determining if, as a result of this prior relationship, the doctrines of laches and acquiescence barred ERF's infringement claims.

Since 2001, ERF marketed and sold a variety of food products under the EATRIGHT and EAT RIGHT brands. The company also registered the marks with the USPTO for a variety of food products. From 2004 until 2013, ERF sold a line of gluten-free cookies to Whole Foods under the EATRIGHT mark.

Beginning in 2009, Whole Foods contracted with Nutritional Excellence, LLC to launch a health and wellness program. Nutritional Excellence developed ANDI, a patented food scoring system to provide nutritional information to consumers that was promoted under the brand EATRIGHT AMERICA. Its contract with Whole Foods required Whole Foods to display the EATRIGHT AMERICA mark wherever ANDI was referenced.

In early March 2010, ERF's managing director, Douglas-Clifford, travelled to San Francisco for a meeting with Whole Foods. She saw some promotional books and DVDs with the EATRIGHT AMERICA mark in the entrance of the store. However, she purportedly did not see any use of EATRIGHT AMERICA on any food products.

Shortly after her return to New Zealand, she emailed Whole Foods' in-house counsel and mentioned she "couldn't help but notice Whole Foods' America's Healthiest Grocery Store positioning and their alliance with Eat Right America … fantastic to see." *Eat Right Foods*, 880 F.3d at 1113. She also raised the possibility of "Whole Foods purchasing [ERF's] EATRIGHT brand." *Id*. A few months later, ERF discovered Nutritional Excellence had applied to register the EATRIGHT AMERICA mark with the USPTO and opposed the application.

In February 2011, Douglas-Clifford again visited Whole Foods stores in the United States, but this time noticed the EATRIGHT AMERICA mark used on food products. She waited until September to contact Whole Foods to complain of the alleged infringement. Whole Foods' counsel told Graff to contact Nutritional Excellence. In response, Douglas-Clifford again proposed Whole Foods purchase ERF's rights in its marks. Whole Foods' counsel said he would "get back" to her.

In February 2012, ERF's counsel began communicating with Whole Foods concerning the alleged infringement and sent a cease-and-desist letter on April 4, 2012. Whole Foods laid the blame on Nutritional Excellence. However, in an email with a heading of "PRIVILEGED SETTLEMENT NEGOTIATIONS UNDER FRE 408," Whole Foods' counsel stated Whole Foods wished to avoid a dispute and would cease use of the mark by the end of the year. Thereafter, the parties' counsel exchanged occasional phone calls and letters, but Whole Foods continued to state it had no interest in purchasing ERF's marks. In January 2013, ERF's counsel sent a letter requesting Whole Foods confirm it ceased use of ERF's trademarks as promised. Whole Foods again reiterated that ERF should contact Nutritional Excellence.

In April 2013, ERF reached a settlement with Nutritional Excellence, resulting in abandonment of its application. The next month, ERF contacted Whole Foods informing them that now that the dispute with Nutritional Excellence was resolved, it was time for Whole Foods to reach a final settlement. The parties were unable to reach an agreement, resulting in ERF filing its infringement complaint in December 2013. Whole Foods asserted affirmative defenses of laches and acquiescence and moved for summary judgment. The district court granted summary judgment on both defenses to Whole Foods. ERF appealed to the Ninth Circuit.

The defense of laches is an equitable defense, available to defendants when plaintiffs unreasonably delay in objecting to a defendant's use of an allegedly infringing mark. A defendant relying upon a laches defense must establish that the plaintiff: (1) unreasonably delayed in bringing suit; and (2) the delay prejudiced the defendant. *Evergreen Safety Council v. RSA Network Inc.*, 697 F.3d 1221, 1226 (9th Cir. 2012).

Laches is similar to, but distinct from, a statute of limitations defense. Notwithstanding this, courts apply a rebuttable presumption based on whether the lawsuit was filed within, or outside of, the state's most applicable statute of limitations. *Tillamook Country Smoker, Inc. v. Tillamook Cnty. Creamery Ass'n*, 465 F.3d 1102, 1108 (9th Cir. 2006). In Washington, the three-year statute of limitations for trade name infringement is considered the applicable statute, meaning that if ERF brought suit within three years, there is a presumption laches does not apply.

Because ERF filed suit on December 3, 2013, a presumption of laches would apply if ERF knew or should have known of the alleged infringement on or before December 3, 2010. ERF claimed it did not have actual knowledge of the infringement until 2011. However, ERF visited

Whole Foods in February 2010 and saw the mark on a variety of promotional materials. ERF also considered Nutritional Excellence's use of EATRIGHT AMERICA to be an infringement prior to December 2010 and knew of the company's collaboration with Whole Foods. Accordingly, the court affirmed the district court's finding that ERF knew or should have known of the infringement prior to December 3, 2010 and therefore the presumption of laches applied.

The presumption could be overcome if ERF could establish that its delay was still reasonable. Delay is reasonable to evaluate and prepare complicated claims and where parties are actively seeking to resolve the matter without litigation. *Danjaq LLC v. Sony Corp*., 263 F.3d 942, 954 (9th Cir. 2001). Delay is unreasonable if the purpose is to capitalize on the defendant's efforts for greater monetary gain. *Id*. ERF argued its delay was reasonable because of its settlement negotiations, but Whole Foods argued there were no settlement discussions until after ERF filed suit in December 2013. The court found Whole Foods' argument unpersuasive considering the numerous communications between the parties, including Whole Foods' own emails with SETTLEMENT COMMUNICATION as a heading. Although the evidence could support Whole Foods' argument that ERF merely wanted to sell its brand to a larger company, the Ninth Circuit concluded the district court incorrectly resolved a material factual dispute in Whole Foods' favor. Accordingly, the Ninth Circuit concluded ERF's delay could be reasonable, and the court vacated the district court's finding that the delay was unreasonable.

The element of prejudice can be established by economic prejudice or evidentiary prejudice. With respect to evidentiary prejudice, Whole Foods argued its employees could no longer remember names of individuals who worked on the 2009 licensing agreement, that the EATRIGHT AMERICA signs had been removed and were no longer accessible, and that relevant employees had moved on to new employment. The Ninth Circuit rejected Whole Foods' argument. Whole Foods removed signage after litigation "was reasonably foreseeable" and had not presented evidence that witnesses were unavailable to testify, but instead that witnesses had simply left the company. *Eat Right Foods*, 880 F.3d at 1120. This evidence, the court reasoned, is insufficient to establish evidentiary prejudice.

With respect to economic prejudice, the district court concluded Whole Foods had invested significant time and money into the EATRIGHT AMERICA campaign from 2009 through 2012. However, economic prejudice must be based on actions taken only during the plaintiff's delay, not all of the defendant's actions with respect to the allegedly infringing conduct. *Whittaker Corp. v. Execuair Corp.*, 736 F.2d 1341, 1347 (9th Cir. 1984). Accordingly, the district court's finding was clearly erroneous, and the Ninth Circuit vacated the finding with respect to economic prejudice.

Having vacated the findings both for reasonableness of the delay and existence of prejudice, the court remanded to the district court to reevaluate whether ERF could overcome the presumption of laches.

PRACTICE TIP

Delays can make or break an otherwise successful infringement claim. When a demand letter is sent, a timeline should be set for potential legal action. The timeline should include the likely date the presumption of laches could apply for each of the potential jurisdictions where an infringement claim could be brought.

The Top 10 Decisions from the Trademark Trial and Appeal Board of 2017–18

Tiffany A. Blofield
Bradley J. Walz
Winthrop & Weinstine
Minneapolis

§ 8.1 INTRODUCTION

Opposition proceedings dominated the Trademark Trial and Appeal Board's (TTAB or Board) docket last year outnumbering ex parte appeals and cancellation proceedings. From the third quarter of 2017 through the second quarter of 2018, there were three times as many opposition proceedings as cancellation proceedings and twice as many opposition proceedings as ex parte appeals. This increase in opposition proceedings may be linked to the inexpensive watch service options that now exist for trademark owners.

The majority of inter partes cases are resolved within 10 weeks after commencement, but 27 percent of cases take more than 12 weeks to be resolved. This number seems high given the Board only has the ability to determine the right to registration, which suggests more protracted settlement ne-

gotiations, summary judgment attempts, and/or a growing number of cases being resolved through a full trial on the merits.

This past year, some of those cases decided by the Board included precedential opinions regarding likelihood of confusion, abandonment, deceptiveness, standing priority, fraud, genericness, registration of trademarks in standard versus special form, functionality, and acquired distinctiveness. In addition, the Board tackled procedural issues, evidentiary objections, pretrial and disclosures, timeliness of discovery, surveys, and admissibility of expert testimony.

§ 8.2 THE TOP TEN TTAB DECISIONS FOR 2017–18

A. *WeaponX Performance Products Ltd. v. Weapon X Motorsports, Inc.*, 126 U.S.P.Q.2d 1034, 2018 WL 1326374 (T.T.A.B. 2018) (Precedential)

In this proceeding, the Board dismissed the section 2(d) opposition to register WEAPON X MOTORSPORTS in connection with automotive related goods and services because the opposer, WeaponX Performance Products, merely relied on Internet pages to prove prior use of the mark WEAPONX. This was not sufficient to prove ownership of the mark or priority of use without corroborating testimony to overcome hearsay objections to the Internet evidence.

Specifically, applicant Weapon X Motorsports, Inc. applied to register the mark WEAPON X MOTORSPORTS in connection with various "automotive parts" in International Class 7, and "automotive body kits and automotive brakes," in International Class 12, and various "automotive services related to body kits and performance conversion," in International Class 37. *WeaponX Performance Prods. Ltd. v. Weapon X Motorsports, Inc.*, 126 U.S.P.Q.2d 1034, 2018 WL 1326374, at *1 (T.T.A.B. 2018). The application was opposed based on a likelihood of confusion under section 2(d) of the Trademark Act, 15 U.S.C. § 1052(d), and abandonment. *Id.* at *1–2.

The opposer claimed prior common law rights in the mark WEAPONX and its pending application for the same mark. *Id.* at *1. In terms of evidence, the opposer objected that the applicant's submission of two testimony declarations as exhibits to its notice of reliance was an improper filing that did not provide the opposer with an opportunity to cross-examine the witnesses. *Id.* at *2. The applicant countered that: (1) it served its pretrial disclosures identifying both individuals as trial witnesses with summaries of their anticipated testimony; and (2) the opposer could have cross-examined the witnesses upon receipt of the testimony declarations. The Board agreed that the opposer could have cross-examined the witnesses pursuant to Trademark Rule 2.123(c), but chose not to do so. *Id.* at *3. The Board ruled that the objection "elevates form over substance." *Id.* Accordingly, the Board overruled the objection and refused to strike the testimony declarations. *Id.*

PRACTICE TIP

Although the Board still considered the declarations that were attached as exhibits to the notice of reliance, the better practice is to file testimony declarations separately.

The Board also considered the issue of standing: whether the opposer possessed a "real interest" in the outcome. *Id.* at *5. Specifically, the opposer had to show that it was more than a "mere intermeddler" and had a "direct and personal stake" in the outcome. *Id.* The Board noted three mistakes by the opposer. First, the opposer failed to submit a copy of its pending application, so the mere allegation of standing was insufficient of any proof. *Id.* at *6. Second, the opposer mistakenly believed its pending application was automatically of record without a copy showing the status and title. *Id.* Third, the opposer's webpage printouts, absent testimony from a witness, were hearsay. *Id.* Despite these mistakes, the Board still found sufficient evidence of the opposer's standing based on: (1) the applicant's admission in its answer that the opposer owned the application for the mark WEAPONX; and (2) the applicant's concession in its trial brief that, due to its earlier filing, the opposer's application was suspended. *Id.* at *7.

The Board next examined the issue of likelihood of confusion. To prevail, the opposer needed to prove by a preponderance of the evidence both priority of use and likelihood of confusion. *Id.* The applicant could rely on its October 29, 2013 application filing date, but could not rely on Internet printouts to show the date of first use. *Id.* The applicant had not accepted the information as fact, nor was there any corroborating testimony. *Id.* The Internet evidence did not fall within an exception to the hearsay rule, and was only admissible for what it showed on its face. *Id.* at *8. The declarations did not provide testimony regarding use of the mark, WEAPON X MOTORSPORTS.

The Board, therefore, concluded that the opposer did not establish ownership rights to the WEAPONX mark before October 29, 2013 due to insufficient evidence. *Id.* For completeness, the Board also noted that failure of proof prevented the opposer from showing that there is a likelihood of confusion between the marks WEAPONX and WEAPON X MOTORPORTS. *Id.* at *9.

PRACTICE TIP

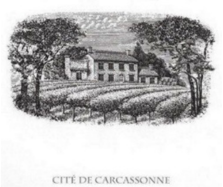
The opposer should have included a declaration with testimony to overcome the hearsay objection to Internet evidence and establish prior use of the mark.

Although an unpleaded claim, the Board allowed the opposer to assert the grounds of abandonment based on implied consent. *Id.* at *2. To establish abandonment, the opposer had to show both: (1) nonuse by the applicant; and (2) intent not to resume use. *Id.* at *9. However, three years of nonuse is prima facie evidence of abandonment that shifts the burden of showing use or intent to resume use to the applicant. *Id.* The opposer argued that the applicant abandoned the mark, because it failed to provide evidence that its mark was in use from 2001 to 2012. *Id.* Dismissing this argument, the Board noted that the applicant only had to rely on its application filing date as a constructive use date, thus any nonuse prior to this date was irrelevant. *Id.* Accordingly, the Board also dismissed the abandonment claim.

B. *In re Aquitaine Wine USA, LLC*, 126 U.S.P.Q.2d 1181, 2018 WL 1620989 (T.T.A.B. 2018) (Precedential)

The Board affirmed the examining attorney's refusal to register the mark, LAROQUE with the design below, based on a likelihood of confusion with the standard character word mark CHATEAU LAROQUE for wines.

Applicant Aquitaine Wine USA, LLC sought registration of the LAROQUE mark in connection with "[w]ine of French origin protected by the appellation of the origin Cité de Carcassonne" in International Class 33 as set forth below:



In re Aquitaine Wine USA, LLC, 126 U.S.P.Q.2d 1181, 2018 WL 1620989, at *1 (T.T.A.B. 2018). The examining attorney refused registration of the mark under section 2(d), 15 U.S.C. § 1052(d), based on likelihood of confusion with the mark CHATEAU LAROQUE for "[w]ines having controlled appellation Saint-Emilion Grand Cru." *Id.*

The Board examined the similarity or dissimilarity of the marks as to appearance, sound, connotation, and commercial impression. The appropriate test is not a side-by-side comparison of the marks, but rather it is whether there is sufficient similarity in commercial impression such that the average customer (i.e., ordinary wine drinker in the United States) would likely assume a connection between the parties. *Id.* (citation omitted). In doing so, the Board determined that the marks were similar in sight and sound because the shared term, LAROQUE, would have the same connotation in the applicant's mark as in the registrant's mark. *Id.* at *2. There was no indication in the

record that LAROQUE had a meaning (e.g., geographic), so there was no basis to narrow the scope of protection. *Id.*

When marks consist of both words and a design, the words are generally given greater weight because they are more likely to make a greater impression upon purchasers. *Id.* (citation omitted). The Board determined that LAROQUE was the dominant element of the applicant's mark, because it was the first term and was the largest portion of the mark. *Id.* at *2. Further, LAROQUE was also the dominant portion of the registrant's mark. *Id.* The Board rejected the argument that the dominant mark should be the design of the entire wine label. *Id.* at *4. Wine labels are required to contain more information, whereas only a name (not image) is given when ordering wine by the glass. *Id.* In any event, the Board does not consider the actual use of the marks, rather it is the appearance in the registration versus the application. *Id.* The Board explained that a "standard character mark" resides in the wording, not necessarily the particular font, style, size, or color. *Id.* at *5.

The applicant and the examining attorney had argued about the application of the "reasonable variations" standard based on the Federal Circuit's decision in *In re Viterra Inc*., 671 F.3d 1358, 101 U.S.P.Q.2d 1905, 1908 (Fed. Cir. 2012). The Board found that both sides were misinterpreting the *Viterra* decision which had rejected the "reasonable variations" standard. *Id.* Instead, the *Viterra* decision embraced the *DuPont* analysis which provides that a standard character mark "allows a broader range of marks to be considered." *Id.* at *5 (citing *Viterra*, 101 U.S.P.Q.2d at 1910); *see also In re E.I. du Pont de Nemours & Co*., 476 F.2d 1357, 1361 (C.C.P.A. 1973)). The Federal Circuit left it to "future cases to determine the appropriate manner to compare design marks with standard character marks." *Id.* The Board decided that it would consider "variations of the depictions of the standard character mark *only with regard to* 'font, style, size, or color' of the 'words, letter, numbers, or any combination thereof.'" *Id.* at *6 (citations omitted). Design components would be considered when determining overall connotation and commercial impression. Significantly, the applicant's house design mark had an image of a "chateau" building which reinforces (not lessens) the similarity of the marks and increases the likelihood of confusion with the CHATEAU term in the registrant's mark. *Id.* This factor supported finding a likelihood of confusion between the marks.

PRACTICE TIP

Standard character marks have a broad reach which is advantageous when applying to register a mark for a client. However, practitioners should be careful when assessing whether a prior registered standard character mark is confusingly similar to a client's design and composite mark. In addition, care should be taken in assuming design elements will be sufficient to differentiate the marks.

The Board found that the goods (wine) were similar. The applicant contended that the wines were different based on the geographic source. *Id.* at *7. The Board rejected this argument because the registrant's mark does not indicate its origins, and there was nothing in the record stating that the registrant must display such terms. *Id.* Further, consumers often shorten marks when ordering, i.e., LAROQUE alone. *Id.* Even if the full name were used, it is likely that consumers would remember it as LAROQUE or CHATEAU LAROQUE likely leading to confusion with the registrant's wines. *Id.* Significantly, the Board noted that there could be a likelihood of confusion as to the *source* of the goods even if the goods themselves were not confused. *Id.* at *8.

In assessing the similarities between the trade channels and consumers, the examining attorney provided evidence of the ability for consumers to shop online under a single website for French wines from different regions. *Id.* at *8–9. As a result, consumers are likely to find both wines offered through the same channels of trade.

The Board rejected the applicant's argument that U.S. consumers are relatively sophisticated because imported French wine is a luxury good. Wine purchasers are not necessarily sophisticated or careful in making purchasing decisions. *Id.* at *9. It must be assumed that inexpensive or moderately-priced wines are included in the applicant's and registrant's wine identifications. *Id.* The application and registration contain no limitations on trade channels, classes of consumers, or conditions of sale. *Id.* In sum, the Board concluded there was a likelihood of confusion precluding registration of the LAROQUE and design mark.

In a persuasive concurrence, Judge Ritchie agreed with the result, but disagreed with the majority's exclusion of designs from its analysis of standard character marks. *Id.* at *11. Instead, he found that "the Registrant's right to display CHATEAU LAROQUE in any font, style, size, or color, includes designs that would make it similar to the [design] mark sought by Applicant." *Id.* at *12.

C. *In re Calphalon Corp.*, 122 U.S.P.Q.2d 1153, 2017 WL 1476288 (T.T.A.B. 2017)

Applicant Calphalon Corp. sought registration of the proposed mark SHARPIN for goods identified as "cutlery knife blocks which incorporate built-in sharpeners that automatically sharpen knives," in International Class 21. *In re Calphalon Corp.*, 122 U.S.P.Q.2d 1153, 2017 WL 1476288, at *1 (T.T.A.B. 2017). The Board affirmed the examining attorney's refusal to register the mark because it was "merely descriptive" under section 2(e)(1), 15 U.S.C. § 1052(e)(1). *Id.*

In addition to appealing the refusal, the applicant submitted a request for reconsideration seeking to amend the drawing of the proposed mark from SHARPIN to SharpIN. *Id.* at *2. The applicant argued in its reply brief that the examining attorney erred by not entering the amendment as a "special form" mark, i.e., limited to this particular sequence of upper and lower-case letters. *Id.*

The applicant argued that because it contacted the examining attorney prior to filing its request for reconsideration that the examining attorney was required to seek clarification about its intent to amend to special form. The applicant cited section 807.03(h) of the *Trademark Manual of Examining Procedure* (TMEP): "the Examining Attorney must contact the Applicant if it is unclear whether the submitted drawing is intended be in standard character drawing." *Id.* at *3; TMEP § 807.03(h). However, section 807.03(c) discusses when the examining attorney should treat a standard character claim as a special form drawing. TMEP § 807.03(c).

The Board found that the record was not "unclear" as to whether the drawing was submitted in standard characters or special form. The applicant's amended drawing met the requirements for standard character drawings under Rule 2.52(a) for continued use of Latin characters, noting both uppercase and lowercase letters are part of the standard character set under TMEP § 807.03(b). Moreover, the applicant failed to select the special form option when requesting an amendment to the drawing in the TEAS system. *Calphalon Corp*., 2017 WL 1476288, at *4. Instead, the applicant stated that its amendment was a *non-material* amendment, and implicit in the examining attorney's acceptance of a non-material alteration is the conclusion that the amended mark contains the essence of the original mark. *Id.* Thus, the Board determined that the examining attorney did not need to inquire whether the amended drawing was intended to be a standard character drawing.

PRACTICE TIP

The applicant had two opportunities to register for the particular stylized mark SharpIN: (1) in its initial application; and (2) selecting the special form option when requesting an amendment. It is unwise to wait until a request for reconsideration to do so.

The applicant argued that its proposed mark was suggestive, not merely descriptive. It contended imagination was required to determine the nature of the product. *Id.* at *7. Further, the amended mark did not immediately convey a readily understood meaning to the average purchaser as to the nature of the applicant's goods. *Id.*

The applicant further argued that the evidence of record was insufficient to show mere descriptiveness because: (1) it showed the applicant's proprietary use of mark; (2) there are no dictionary definitions of "sharpin" or "SharpIN"; (3) there is not evidence that brand owners use "SHARPIN" or "SHARPEN" to describe similar goods; and (4) the applicant's use of the mark would not preclude competitors from accurately describing their products. *Id.* at *8. The Board disagreed, finding that the applicant misstated the test for descriptiveness. *Id.* The applicant improperly focused "upon whether a purchaser would understand its mark to refer to a type of product." *Id.* The appropriate consideration for descriptiveness is "whether a purchaser who knows that the goods are 'cutlery knife blocks which incorporate built-in sharpeners that automatically sharpen knives' would understand SHARPIN 'to convey that information.'" *Id.* (citation omitted).

To counter the descriptiveness finding, the applicant argued that SHARPIN is a new word of incongruous meaning. *Id.* at *9. The word must be interpreted to be understood. The Board found the applicant's incongruity argument unavailing. *Id.* The Board contrasted the instant case with *Tennis in the Round*, where the Board found incongruity, based on the TENNIS IN THE ROUND mark evoking an immediate association with "theater in the round" which was unrelated to the applicant's goods (i.e., tennis facilities where the court is not in the middle). *In re Tennis in the Round, Inc.*, 199 U.S.P.Q. 496 (T.T.A.B. 1978). In *Calphalon*, the Board found that SHARPIN evoked an immediate association with and was phonetically identical to "sharpen," and therefore lacked incongruity. *Id.*

Finally, the applicant argued the mark was a double entendre, because the mark had multiple suggestive meanings that were actually used by the applicant. Specifically, it argued the mark refers to both sharpening knives and that a sharpener is built within the knife block. *Id.* The Board disagreed finding the only readily-apparent meaning was "sharpening knives." *Id.* at *10. This is merely descriptive of a "key function of the goods." *Id.* The applicant's second proposed meaning,

"a sharpener is built within the knife block," can only come from the special form SharpIN, which is not the form of the mark. *Id.* The Board affirmed the examining attorney's refusal to register.

D. *Kate Spade LLC v. Thatch, LLC*, 126 U.S.P.Q.2d 1098, 2018 WL 1445797 (T.T.A.B. 2018) (Precedential)

Kate Spade LLC moved to strike the applicants' pretrial disclosures and to exclude subsequently filed testimony declarations, because of the failure to timely supplement their initial disclosures. *Kate Spade LLC v. Thatch, LLC*, 126 U.S.P.Q.2d 1098, 2018 WL 1445797, at *1 (T.T.A.B. 2018). The Board denied these motions.

In the opposition proceedings, Kate Spade LLC pleaded claims of false suggestion of a connection, likelihood of confusion, and dilution, related to the KATE SPADE mark. *Id.* Specifically, the applications against which these claims were asserted were for the marks PATIO BY THE SPADES (filed by Thatch LLC in connection with handbags, clothing and footwear) and THE SPADES (filed by The Spades Trademark Company, LLC in connection with fragrance). *Id.* The Board consolidated the opposition proceedings because Thatch LLC and The Spades Trademark Company LLC (collectively, "the applicants") were associated companies.

The applicant identified its principals as knowledgeable about various information. *Id.* Further, the applicants' initial disclosures provided that it may use "[d]ocuments reflecting third party use and registration of marks similar to [the applicants']." *Id.* The opposer also supplemented its production with documents of third-party use of SPADE marks. *Id.*

During the opposer's trial period, the applicant supplemented their initial disclosures to identify: (1) an employee of co-counsel, Nart-anong Chinda, who would testify regarding "[a]uthentification of recently obtained third party use goods for use at trial," and (2) "third party use witness to be determined" to testify regarding "[a]uthentification of third party use goods and services and use of third party marks." *Id.* Thereafter, Chinda was identified as a witness in the applicants' pretrial disclosures. *Id.* at *2. The applicants also added third-party witnesses to testify regarding the adoption, use, and registration of third-party marks. *Id.* The applicants filed testimony declarations for all three witnesses. *Id.* The opposer moved to strike these declarations as untimely, claiming it had been deprived of the right to seek discovery from them.

The Board's long-standing policy is to not address substantive evidentiary objections prior to final hearing. This motion related solely to the applicable procedural requirements. In assessing whether to strike, the Board applied a five-factor test:

> 1) the surprise of the party against whom the evidence would be offered; 2) the ability of the party to cure the surprise; 3) the extent to which allowing the testimony would disrupt the trial; 4) importance of evidence; and 5) the non-

disclosing party's explanation for its failure to disclose the evidence.

Great Seats v. Great Sets Ltd., 100 U.S.P.Q.2d 1323, 1327 (T.T.A.B. 2011).

The Board ruled that Chinda was merely authenticating documents and was therefore not adding substantively to the evidence. *Kate Spade*, 2018 WL 1445797, at *4. The applicants had promptly disclosed her identity after she collected the third-party evidence which was appropriate notice of her testimony. *Id.* Further, her inclusion in the pre-trial disclosure was timely. *Id.* The Board, therefore, denied the motion to strike Chinda's testimony.

The other two witnesses had not been identified until the pre-trial disclosures. *Id.* The Board found that the fourth *Great Seats* factor favored the applicants because evidence of third-party use and registration "can be powerful evidence of [a] term's weakness." *Id.* at *5. In addition, the fifth factor favored the applicant because there is no duty to investigate third-party use during discovery or to disclose every exhibit planned to be used at trial. *Id.* at *5–6. Further, these third-party users were known to the opposer as was the general subject matter. *Id.* at *6. Because there was no surprise, the first factor weighed in favor of the applicants too.

The opposer did not seek discovery regarding third-party use despite this issue being identified in the initial disclosures. *Id.* The Board rejected the opposer's claim that cross-examination would not be sufficient to challenge their testimony. *Id.* The opposer could have conducted discovery rather than wait three months to challenge during trial. *Id.* Thus, the second and third *Great Seats* factors also weighed in favor of the applicant. *Id.* In denying the motion to strike, the Board therefore concluded that the failure to disclose these two witnesses in the supplemented initial disclosures regarding third-party use was "both substantially justified and harmless." *Id.* at *7.

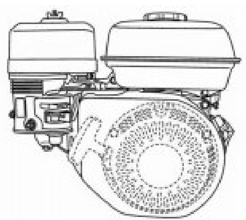
PRACTICE TIP

In the event that a witness is merely authenticating documents or providing testimony related to third-party use of similar marks, the Board *may* allow testimony from the witnesses even after the trial had begun. However, it is best not to leave it to chance and instead disclose the witnesses in a party's initial disclosures.

E. *Kohler Co. v. Honda Giken Kogyo K.K.*, 125 U.S.P.Q.2d 1468, 2017 WL 6547628 (T.T.A.B. 2017) (Precedential)

Applicant Honda Giken Kogyo K.K. sought registration of the product configuration mark below for "engines for use in construction, maintenance and power equipment," in International

Class 7. *Kohler Co. v. Honda Giken Kogyo K.K.*, 125 U.S.P.Q.2d 1468, 2017 WL 6547628, at *2 (T.T.A.B. 2017). In a 130-page opinion, the Board sustained the opposition on the grounds that the mark was functional under section 2(e)(5), 15 U.S.C. § 1052(e)(5), and that the mark had failed to acquire distinctiveness under section 2(f). *Id.* at *3.



The Board first considered evidentiary issues. The applicant objected to the admissibility of utility applications filed with the Japanese Patent Office. *Id.* at *8. This was an issue of first impression. In overruling the objection, the Board determined that the analysis of the Japanese utility model applications does not require application of Japanese law. *Id.* Rather, it required an analysis similar to the Board's consideration of the applicant's issued U.S. patents; that is, it must "determine whether the claims and disclosures in the patent show the utilitarian advantages of the design sought to be registered as a trademark." *Id.*

The Board sustained the applicant's objection to the admission of a decision from the Office of Harmonization that had affirmed a refusal to register a dimensional depiction of the engine, because European Community law is "at odds with U.S. law." *Id.* at *9. However, the Board overruled the applicant's objection to the admissibility of Turkish counsel's statements in support of an injunction against a company allegedly selling counterfeit pumps of the engine, because they were factual statements made that do not implicate Turkish law. *Id.*

Both parties sought to exclude expert testimony under *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993). The opposer sought to exclude an expert's testimony regarding comparative engine performance, cost, and quality, because it lacked reliability for not being based on sufficient facts or data, and was not the product of reliable principles and methods applied to the facts of the case. *Id.* at *11. The Board overruled the opposer's objection, because the expert's experience with engines was sufficient as long as his opinions were not based upon speculation. *Id.* at *12. The Board sustained the opposer's objections regarding the expert's testimony about market recognition of the engine appearance; he was not an expert in consumer or market research and did not conduct a survey. *Id.* at *13–14.

The applicant objected to an undisclosed expert opinion of a fact witness. *Id.* at *15. In overruling the objection, the Board found that most of his testimony was admissible as lay opinion

based upon the witness's prior experience as an engineer. *Id.* at *16. However, the Board sustained objections regarding his testimony outside of informed lay opinion.

The Board agreed with the opposer that the applicant sought protection of an overall configuration of the engine, rather than specific elements. The Board noted that the drawing in the application depicted the mark to be registered, and any matter not claimed as part of the mark must be in broken lines. *Id.* at *20. Only the engine's cover and rewind handle were drawn in broken lines.

The Board examined whether the product design was functional thereby prohibiting registration. The well-settled standard is whether, based upon the totality of the evidence, "a feature is essential to the use or purpose of an article or affects the cost or quality of the article" as established by the Supreme Court. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n.10 (1982). Opposer Kohler argued that: (1) the overall cubic shape and compact nature of the engine allowed it to fit within OEM requirements and have a lower center of gravity; and (2) utilitarian and engineering requirements regarding "particular positions and shapes of the component parts," thereby made them functional. *Kohler*, 2017 WL 6547628, at *22. In contrast, the applicant argued that its "competitors had multiple options to visually differentiate their engines, despite using the same general engine configuration… ." *Id.* The Board found that functionality was established.

The Board considered the functionality of the mark's separate features. *Id.* at *23. The applicant argued that the impact of the styling elements of each component and other purely decorative features expressed its trade dress. Disagreeing, the Board determined that the following parts served primarily functional purposes:

- the positioning and slanted shape of the fan which was better in directing cooling air to the hottest part of the engine;
- the fuel tank's positioning relative to other components and its roughly rectangular shape for compactness;
- the carburetor cover's relative positioning, its connection to clean air, and the purpose and reason for placing controls in their positions; and
- the overall cubic design of mark, because the engine was designed in that shape to work better and further the objectives of compactness and adaptability.

Id. at *23–34. However, the air cleaner cover was not primarily functional. *Id.* at *30.

The Board also considered the alternative ground of refusal, namely failure to acquire distinctiveness. The applicant had a heavy burden to prove this because: (1) the matter dealt with product configuration; and (2) many third parties used similarly-shaped engine configurations. *Id.* at *40. The opposer presented surveys, presented examples of third-party engines with similar configurations, and attacked the applicant's evidence. *Id.* Third-party uses do not have to be identical to the

applicant's mark in order to be relevant. *Id.* at *41. The applicant's mark did not serve as a unique identifier of the source of the goods, because third-party uses were sufficiently similar. *Id.*

Evidence must relate to the specific configuration in the mark and not to the goods in general. *Id.* Merely establishing that the engine was the market leader and had a good reputation was insufficient to establish acquired distinctiveness; neither is indicative of purchaser recognition of a configuration to indicate source. *Id.* at *42. The Board found the declarations unpersuasive because they were: (1) nearly identical showing that they were not composed individually; (2) based upon the drawing and a color photo showing elements that were not a part of the applied-for mark; (3) worded conclusively and failed to explain differences from competitors; and (4) not representative of engine purchasers. *Id.* at *43–45.

PRACTICE TIP

The declarations in support of acquired distinctiveness should be individualized, not conclusory, based on the actual mark, and explain how the mark is distinct and different from competitors.

Both parties submitted acquired distinctiveness surveys with flaws. The Board found that the flaws affecting the applicant's survey were much more significant because of their cumulative impact. *Id.* at *45. Both surveys used photos of engines (no brand names), as opposed to the mark as shown in the application and a suitable control drawing. *Id.* at *46. The use of photos was a fundamental problem. *Id.* The Board attributed the fact that the respondents mentioned specific engine features in the applicant's survey to the different color tones in the photos. It was, therefore, impossible to determine the extent to which the presence of color influenced responses. *Id.* at *48. Another flaw was that the key acquired distinctiveness questions did not focus the respondents on the features claimed in the drawing; therefore the responses did not prove that the respondents believed that all engines come from the applicant as the single source. *Id.* at *49. Thus, the Board concluded that the applicant's survey was not probative of acquired distinctiveness.

PRACTICE TIP

Surveys can also be highly probative if done properly, because they illustrate scientifically how the mark is perceived. However, if poorly designed, the Board may not afford it sufficient weight. A survey should use the actual design shown in the application drawing, not photographs.

Examining circumstantial evidence, the Board ruled that the probative value of the length and exclusivity of the applicant's long use of the engine design was diminished because others had engines of similar configurations during much of the same period. *Id.* at *53. Mere sales volume and advertising activities figures of successful sales were not probative of purchaser recognition of a configuration as a source indicator. *Id.* Additionally, the applicant's advertisements did not show the promotion and recognition of the specific configuration in the application, such as in advertising that directs the consumer to "look for" particular features. *Id.* at *55. With respect to copying, the evidence showed that the applicant enforced its claimed three-dimensional trade dress aggressively and successfully demanded changes to competitors' designs. *Id.* at *56. However, the three-dimensional trade dress contained multiple elements that were not part of the two-dimensional applied-for mark so it was insufficient to show acquired distinctiveness. *Id.*

PRACTICE TIP

Large sales volume and large advertising expenditures alone will not establish acquired distinctiveness. Instead, showing purchaser recognition of the configuration as a source indicator is critical.

F. *Estudi Moline Dissey, S.L. v. BioUrn Inc.*, 123 U.S.P.Q.2d 1268, 2017 WL 3499945 (T.T.A.B. 2017)

In this procedural decision of the Board, Estudi Moline Dissey, S.L. moved to compel responses to its discovery requests. *Estudi Moline Dissey, S.L. v. BioUrn Inc.*, 123 U.S.P.Q.2d 1268, 2017 WL 3499945, at *1 (T.T.A.B. 2017). BioUrn objected to those requests because the responses would not be due until after the closing of the discovery period. *Id.* BioUrn, therefore, opposed Estudi's motion to compel arguing that BioUrn was not under any obligation to respond substantively to untimely requests for discovery. *Id.* Estudi, however, argued that its discovery requests were timely because the last day to serve discovery fell on February 19, 2017, a Sunday. Estudi argued that Trademark Rule 2.196 allowed a party until the next business day if the last day to take an action fell on a Sunday; allowing it to serve discovery on Monday, February 20, 2017. *Id.*

It used to be that written discovery requests could be timely served even on the final day of the discovery period. Under the revised rules, however, advance planning is important because written discovery requests must be served early enough before the close of discovery for response to be due no later than the close of the discovery period.

Trademark Rule 2.120 now states "[i]nterrogatories, requests for production of documents and things, and requests for admission must be served early enough in the discovery period, as

originally set or as may have been reset by the Board, so that responses will be due no later than the close of discovery." 37 C.F.R. § 2.120(a)(3) (Trademark Rule 2.120(a)(3)). Trademark Rule 2.120 also states, "[r]esponses to interrogatories, requests for production of documents and things, and requests for admission must be served within thirty days from the date of service of such discovery requests." *Id.*

Rule 2.196 provides that when the last day of a period as fixed by statute or regulation falls on a Saturday, Sunday, or federal holiday within the District of Columbia, the action may be taken on the next business day. *Estudi Moline*, 2017 WL 3499945, at *2. The Board determined that this rule no longer applies to the deadline for service of written discovery requests in light of the revised Rule 2.120(a)(3). *Id.*

The Board also required that the two provisions of Rule 2.120(a)(3) must be read together in a way that allows the responding party the full response period. *Id.* As a result, service must be made with no less than 31 days remaining in the discovery period. *Id.* Thirty-one days includes the service date and affords the responding party the full 30 days necessary to respond to discovery requests, and also ensures that the last day for responding to discovery falls on or before the close of discovery. *Id.*

The Board sustained BioUrn's objection to Estudi's discovery requests as untimely. In order for BioUrn to have the full 30-day response period Estudi needed to serve its requests no later than Sunday, February 19, 2017. *Id.* at *3. But because its requests were served on Monday, February 20, 2017, the deadline for response would have been March 22, 2017, outside the close of the discovery period. *Id.* Nonetheless, after noting the untimely service of discovery under the new revised rules, the Board sua sponte reopened discovery so that Estudi's previously-served written discovery requests may be considered timely because of the mistaken understanding caused by the rule change.

G. *Tao Licensing, LLC v. Bender Consulting Ltd. d/b/a Asian Pacific Beverages*, 125 U.S.P.Q.2d 1043, 2017 WL 6336243 (T.T.A.B. 2017)

Tao Licensing, LLC petitioned to cancel Registration No. 4169245 for the mark TAO VODKA in connection with "alcoholic beverages except beer" owned by Bender Consulting Ltd. d/b/a Asian Pacific Beverages. *Tao Licensing, LLC v. Bender Consulting Ltd. d/b/a Asian Pacific Beverages*, 125 U.S.P.Q.2d 1043, 2017 WL 6336243, at *1 (T.T.A.B. 2017). Tao pled ownership of Registration No. 2472393 for the mark TAO in connection with "restaurant services" and No. 3770321 for the mark TAO for "nightclubs …" both in standard characters. *Id.* Tao sought cancellation on the grounds of likelihood of confusion under section 2(d), and nonuse as of the statement of use under section 1(a), among other grounds. Additionally, Tao alleged that Bender Consulting pursued its registration only after Bender Consulting's owner attempted and failed to sell Kai Vodka to Tao for sale in TAO restaurants and nightclubs. *Id.* Further, Tao alleged prior common law rights in TAO "in connection with the sale of alcoholic beverages, including vodka." *Id.*

In evaluating the alleged nonuse of Bender Consulting's claimed mark, the Board considered whether the importation or distribution of samples of Tao Vodka met the use in commerce requirement. *Id.* at *7. Bender Consulting filed its statement of use (SOU) on April 24, 2012 in advance of the September 20, 2012 SOU deadline. *Id.* at *8. However, as Bender Consulting conceded, it had not sold any goods under the mark as of the SOU filing date and did not until December 2014 at the earliest. *Id.* Bender Consulting relied on one case of sample bottles of TAO VODKA to establish the use of its mark in commerce. *Id.* at *6. This case contained samples bearing the TAO VODKA mark, and was shipped from a Vietnamese distillery in mid-April 2012 to Kai Vodka, LLC. *Id.* Kai Vodka, LLC, producer of Kai Vodka, is an entity in which Bender Consulting, solely owned by Mr. Bender, is a managing member and a part owner. *Id.* at *5. Kai imported TAO VODKA into the United States on behalf of Bender Consulting, and also registered the trade name "Tao Vodka Imports" in 2011. *Id.* As acknowledged by Mr. Bender, TAO VODKA and Kai Vodka are the same product. *Id.* Mr. Bender provided the samples free of charge to three entities: "out-of-state shareholder of Kai named J.M. Stevens & Associates, a restaurant across the street from Mr. Bender's office in Hawaii named Tango Contemporary Café, and a distributor named Northern Wine & Spirits, Inc." *Id.* at *6. However, as noted by the Board, none of these sales or distributions was supported by corroborating documentation. *Id.* Thus, the Board determined reliance on the April 9, 2012 shipment of vodka from the Vietnamese manufacturer did not establish use in commerce. Rather, this shipment was in preparation to offer the goods for sale, and not a bona fide use of the mark in commerce. *Id.* at *8. The Board opined that its decision regarding nonuse alone was sufficient to grant the petition to cancel, but it also would make a determination regarding the likelihood of confusion ground. *Id.* at *12. The Board proceeded to examine the similarities between the marks, the relatedness of the goods, and other relevant *du Pont* factors. *Id.*

The Board began with an examination of the fame of Tao's mark. Fame of the mark depends on the recognition of the mark by the relevant consuming public with strength measured along a spectrum of very strong to very weak, and stronger marks receiving a wider latitude of legal protection. *Id.* at *13. Based on evidence provided by Tao that showed commercial strength via "customer volume and revenue statistics, advertising expenditures and examples, unsolicited media coverage, and awards and distinction within and outside the restaurant industry," the Board determined that the mark was renowned and famous. *Id.* at *14. The Board also found that the marks shared the same dominant element TAO.

After finding TAO to be the dominant element of the applied-for TAO VODKA mark, and highly similar to the petitioner's marks, the Board next examined the relatedness of the goods and services and whether the degree of relatedness rises to such a level that consumers would believe the parties' goods and services come from the same source. *Id.* at *18. The Board looked to the "identifications of goods and services in the pleaded and challenged registrations, as well as the goods for which [Tao] had established prior use (vodka)." *Id.* The Board noted that in order for there to be a

likelihood of confusion, a party must show something more to establish that alcoholic beverages and restaurant and nightclub services are related. *Id.* The mere fact that restaurants serve beverages is not enough. Having said that, the Board determined that the record showed the requisite "something more" to establish the relatedness of goods and services. Tao uses the TAO mark to promote alcoholic beverages with TAO-formative names, for example "Tao-tini," and at least one vodka drink, as well as joint promotional events at TAO venues with vodka manufacturers and "Vodka Open Bars." *Id.* at *18–19. Tao also provided evidence of the popularity of providing customers with "bottle service," which includes alcohol with private labels bearing the mark of the restaurant or nightclub, likely to lead consumers to perceive the parties' goods as related. *Id.* at *19. Bender Consulting's actions also showed that it believed consumers would view the goods as related. Bender attempted to benefit from this connection by trying to sell its registration to Tao after rebranding Kai Vodka to TAO VODKA in a similar font after an unsuccessful attempt to sell Kai Vodka to TAO venues. *Id.* at *20.

After considering all the relevant likelihood of confusion factors, the Board held there would be likely confusion between Bender Consulting's TAO VODKA mark and Tao's TAO marks.

H. *In re United Trademark Holdings, Inc.*, 122 U.S.P.Q.2d 1796, 2017 BL 207764 (T.T.A.B. 2017)

United Trademark Holdings, Inc. sought registration on the Principal Register of the mark LITTLE MERMAID, in standard characters, for "dolls," in Class 28. *In re United Trademark Holdings, Inc.*, 122 U.S.P.Q.2d 1796, 2017 BL 207764, at *1 (T.T.A.B. 2017). The examining attorney refused registration of the mark under section 2(e)(1), 15 U.S.C. § 1052(e)(1), on the ground that the mark is merely descriptive of a feature or characteristic of United's goods. *Id.* United argued that LITTLE MERMAID referred to a specific character from a specific story that is in the public domain, thus, LITTLE MERMAID had two meanings as applied to dolls and one was not merely descriptive. *Id.* The Board agreed with the examining attorney that the use of LITTLE MERMAID in connection with dolls is merely descriptive; therefore, it refused to register the mark.

Section 2(e)(1) prohibits registration on the Principal Register of a mark that is merely descriptive of the applied for goods. *Id.* at *2. "Merely descriptive" within the meaning of section 2(e)(1) means it "immediately conveys knowledge of a quality, feature, function, or characteristic of the goods or services with which it is used." *In re Chamber of Commerce of the U.S.*, 675 F.3d 1297, 1300 (Fed. Cir. 2012). The Board must evaluate whether the average purchaser of the goods will understand the mark to immediately convey information about the goods. *Id.* Additionally, when two or more merely descriptive terms are combined, the Board asks whether the combination of terms evokes a non-descriptive commercial impression. *Id.*

Danish author Hans Christian Andersen created the fairy tale "The Little Mermaid," which was first published in 1837 and has been adapted numerous times, including an animated film by Walt Disney Pictures and a Broadway stage musical based on the film. *Id.* at *1–2. United argued that although LITTLE MERMAID evokes the appearance of a young or small mermaid, the proposed mark in its entirety conveyed the commercial impression of a specific fictional character in the public domain, and that this aspect of the mark was not merely descriptive of the goods. *Id.* at *2–3. Based on the record of dolls and references to "Disney's Little Mermaid," the Board agreed with United that the immediate commercial impression evoked by the mark when used in connection with dolls was the Little Mermaid fictional character. *Id.* at *3.

The Board stated that the case law draws a distinction between situations where the character is in the public domain and where the applicant owns intellectual property rights in the work from which the character arose. *Id.* One such case was *In re Carlson Dolls Co.*, 31 U.S.P.Q.2d 1319, 1320 (T.T.A.B. 1994), in which the Board held that MARTHA WASHINGTON for "historical dolls" was merely descriptive because consumers do not necessarily link the historical figure to commercial entities. The Board in *Carlson* noted that this differed from fictional characters, such as SUPERMAN, because consumers would reasonably expect goods and services bearing the name or image to come from the entity that created the character, and that such entity has the right to profit from its commercialization. *United Trademark Holdings*, 2017 BL 207764, at *3. Here, the Board opined that the fictional public domain character of the Little Mermaid from the Hans Christian Andersen fairy tale is not necessarily linked to a specific commercial entity because prospective consumers expect dolls labeled as LITTLE MERMAID to represent the fairy tale character; thus the label describes the purpose or function of the goods. *Id.* at *4. Furthermore, doll makers that would want to depict the character have a competitive need to use LITTLE MERMAID to describe their products. *Id.*

Therefore, the Board held that United's LITTLE MERMAID mark was merely descriptive of "dolls," and affirmed the registration refusal.

I. *Tommie Copper IP, Inc. v. Gcool-Tech Usa LLC*, Opposition No. 91223768, 2018 WL 2176468 (T.T.A.B. May 9, 2018)

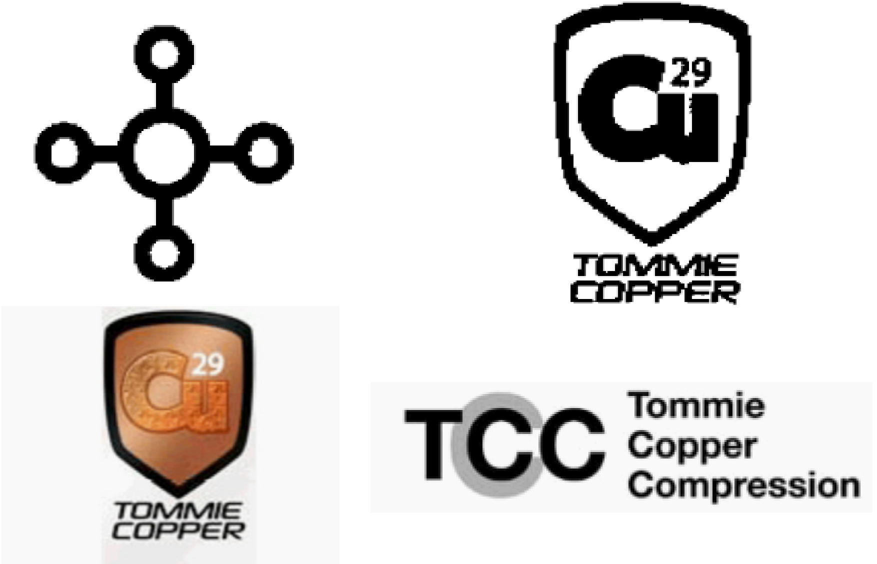
Gcool-Tech Usa LLC sought registration of its mark below for goods identified as "[c]lothing made of fabric containing copper, namely, athletic sleeves, dresses, gloves, hats, hooded sweatshirts, pants, scarves, scrubs not for medical purposes, shoes, shorts, skirts, socks, T-shirts, underwear," in International Class 25. *Tommie Copper IP, Inc. v. Gcool-Tech Usa LLC*, Opposition No. 91223768, 2018 WL 2176468, at *1 (T.T.A.B. May 9, 2018).

Gcool-Tech filed its application on March 26, 2015 under section 1(a), 15 U.S.C. § 1051(a), claiming a date of first use of September 16, 2013, and a date of first use in commerce of May 19, 2014. *Id.* at *2. During this proceeding, Gcool-Tech realized that it had not used its mark in the United States and amended the application filing basis to section 1(b), claiming a bona fide intent to use the mark in commerce. *Id.* Gcool-Tech had not sold any of the identified goods in the United States, but had sold some of them in Canada, the United Kingdom, and Chile. *Id.*

Tommie Copper IP, Inc., opposed registration of the mark on the grounds of likelihood of confusion under section 2(d), 15 U.S.C. § 1052(d), and fraud. *Id.* at *1. The opposer's marks included:

TOMMIE COOPER, in standard characters; and

The four design marks below



Tommie Copper established standing by providing its pleaded registrations showing their current status and title in Tommie Copper. *Id.* at *3. The Board ultimately decided to dismiss the opposition.

The Board first examined the issue of likelihood of confusion. The Board focused its analysis on one mark submitted by Tommie Copper because it was the most similar to the mark submitted by Gcool-Tech, and Tommie Copper's arguments on the likelihood of confusion were focused on these marks. *Id.* at *4. The Board first considered the similarity of the respective goods, channels of trade, and classes of consumers.

It found that the goods of the parties were in part identical as the broadly defined goods in Tommie Copper's mark registration encompassed Gcool-Tech's more narrowly defined goods, and that Gcool-Tech's remaining goods were common clothing articles making them related to Tommie Copper's goods. *Id.* The Board determined that because the goods were in part legally identical, it must presume that the channels of trade and classes of consumers were also the same. *Id.*

The Board next compared the marks for similarities in appearance, sound, connotation, and commercial impression. The design element of Gcool-Tech's mark was described as being "comprised of four incomplete polygons" in its application. *Id.* at *5. Gcool-Tech's brand manager, Aaron Fisher, testified that the design was intended to suggest the number "88" and the letter "C." *Id.* Tommie Copper's design mark was described as "consist[ing] of four circles connected by short lines forming the general shape of a cross," and argued that the marks are confusingly similar because both shapes presented an overall rounded appearance, in which the four rounded elements intersect at a central element that takes the form of a cross. *Id.*

The Board found Tommie Copper's arguments to be unpersuasive. First, Gcool-Tech's mark makes use of polygons as opposed to circles. *Id.* at *6. Second, Tommie Copper's mark has five, not four, circles with one being a central circle, which Gcool-Tech's mark lacks. *Id.* Third, both marks do not take the form of a cross. *Id.* Gcool-Tech's mark was in a four-leaf clover shape, whereas Tommie Copper's mark is more akin to a scientific symbol or molecule. *Id.* Fourth, Tommie Copper argued that the color of the marks were similar, but the Board found this argument to be unpersuasive as well. Tommie Copper claimed that because its mark was depicted in black, color was not a claimed feature and the icon may take any color as a result. *Id.* The Board disagreed, and stated that even if Tommie Copper's icon was displayed in orange, it would not contribute significantly to the similarity of the marks because orange is similar to the color of copper, and would be suggestive of the ingredient copper. *Id.* The Board determined that Gcool-Tech's mark, viewed as whole, was not similar to Tommie Copper's mark in appearance, connotation, and commercial impression. *Id.* In conclusion, the Board ruled that Gcool-Tech's mark is not likely to cause confusion with Tommie Copper's design mark.

The Board next examined the issue of fraud. The Board found that Gcool-Tech made a false, material statement of fact to the U.S. Patent and Trademark Office (USPTO) when it filed its application on a 1(a) basis, but that Gcool-Tech did not make this false statement with intent to deceive the USPTO. Gcool-Tech explained it was under the mistaken impression that use of the mark in other countries constituted use in commerce in the United States. *Id.* Gcool-Tech expressly denied that it intended to deceive the USPTO. *Id.* at *9. The Board found there was no direct evidence of Gcool-Tech's intent to deceive the USPTO, and insufficient evidence to show an inference of an intent to deceive. *Id.*

J. *In re Serial Podcast, LLC*, 126 U.S.P.Q.2d 1061, 2018 BL 107245 (T.T.A.B. 2018)

Serial Podcast, LLC sought registration of three marks: (1) SERIAL, in standard characters; (2) SERIAL, word and design; and (3) SERIAL, word and design (slightly different in design from the mark noted in (2)). All marks were for "entertainment in the nature of an ongoing audio program featuring investigative reporting, interviews, and documentary storytelling" in International Class 41. *In re Serial Podcast, LLC*, 126 U.S.P.Q.2d 1061, 2018 BL 107245, at *1 (T.T.A.B. 2018). The examining attorney refused registration of all three marks on the basis that "each was generic for the identified services, or, if not generic, merely descriptive of the services." *Id.* Serial responded that the marks were not generic, and that they were distinctive under section 2(f), 15 U.S.C. § 1052(f). *Id.* The Board found that the word SERIAL was generic for Serial's identified services, but found that the logos were distinct, so long as the word SERIAL was disclaimed.

The Board first examined whether or not the standard character mark was generic. There is a two-step inquiry in determining the generic nature of a mark. The first step is to determine what the genus for the goods and services at issue is, and the second step is to determine if the relevant public understands that the term sought to be registered refers to that genus. *H. Marvin Ginn Corp. v. Int'l Ass'n of Fire Chiefs, Inc.,* 782 F.2d 987, 989–90 (Fed. Cir. 1986). The examining attorney and the applicant agreed that the genus was set forth by the recitation of services in each application. *Serial Podcast*, 2018 BL 107245, at *2.

With respect to the second step, the examining attorney relied on dictionary definitions to establish that the word "SERIAL" means something that is published or broadcast in installments at regular interval, thus, Serial's sequential, episodic podcasts meet the dictionary definition. *Id.* Serial argued that the use of the term "serial" as a noun was antiquated and archaic because it referred to older entertainment genres that were unlikely to affect the relevant public's perception of the term in the podcast era. *Id.* at *3. Serial contended that although there are some modern examples of the use of "serial" as a noun, modern usage is overwhelmingly in the form of an adjective. *Id.* Accordingly, Serial argued that adjectival usage of the term "serial" is descriptive, not generic. *Id.* at *4.

However, the Board determined that both nouns and adjectives can be generic. See generally TMEP § 1209.01(c)(ii) (Oct. 2017) and cases cited therein. Additionally, the term "serial" is frequently used in the present day with no need for explanation to the relevant public. *Serial Podcast*, 2018 BL 107245, at *5. Furthermore, recent dictionary definitions and online articles define or use the term "serial" as both a noun and an adjective. *Id.* Thus, the Board concluded that the word SERIAL was generic for the identified services.

The Board next examined Serial's composite logos. The Board agreed with the examining attorney that the word SERIAL and the design elements—the typeface, color of the letters, rounded

rectangular backdrops for each letter—were not inherently distinctive, and noted that Serial's burden of proving acquired distinctiveness was particularly heavy because the elements of its logos were common. *Id.* at *10. But the Board found that the composite logos, taken in their entireties, acquired distinctiveness. *Id.* at *11. The Board determined that evidence in the record revealed that the composite logos had achieved public recognition as source indicators because others, such as *Saturday Night Live* and *Sesame Street*, created copies and parodies featuring the design elements. *Id.* at *12. The Board stated that in order to be parodied, a mark has to be well known. *Id.* The Board also noted that the record contained evidence of unauthorized copying of the composite marks, particularly unauthorized merchandise, showed the demand for clothing bearing the logos. *Id.* Therefore, the Board found that Serial, based on the totality of its unique evidence in the record, proved that its two composite marks have acquired distinctiveness.

Developments in European Intellectual Property Law 2017–18

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§ 9.1 INTRODUCTION

This chapter analyzes the latest developments in certain areas of European intellectual property law. This chapter first provides an update on developments relating to the Unified Patent Court (UPC). It then reviews a few recent noteworthy patent cases decided by the English and German courts. This chapter next examines the progress on the reform of the European trademark system and discusses several recent cases relating to exhaustion, bad faith, distinctiveness, non-traditional marks, and jurisdiction. Finally, this chapter takes a look at European data privacy and, more specifically, the General Data Protection Regulation, including its territorial reach and relevancy to U.S. companies.

§ 9.2 PATENTS

A. Update on Unified Patent Court

As set forth in the previous edition of this book, the UPC will have exclusive jurisdiction over unitary patents granted in Europe once the UPC becomes effective. For the UPC to be effective, France, Germany, the United Kingdom (UK), and 10 other European Union (EU) member states must ratify the UPC Agreement (UPCA). As of January 1, 2018, France and at least 10 other countries had ratified the UPCA. And on April 26, 2018, the United Kingdom announced that it had ratified the UPCA. As such, Germany is the last country required to ratify the UPCA before it goes into effect.

Prior to ratification of the UPCA by Germany, however, a pending complaint filed in the Federal Constitutional Court of Germany challenging the constitutionality of the UPCA, as it applies to Germany, must be resolved. Although there is no definitive timeline set for when this case will be considered, proponents of the UPCA are hopeful that the Federal Constitutional Court of Germany will render a holding by the end of 2018. If the complaint is dismissed, it is expected Germany will ratify the UPCA shortly thereafter. Alternatively, if the complaint is adopted for a decision, Germany's ratification of the UPCA may be delayed until after the United Kingdom's exit from the European Union (Brexit), which is currently set for March 29, 2019.

Another threat to the UPC as originally intended is Brexit itself. Because the United Kingdom is one of the top three patent issuing countries in Europe, there is a desire, on behalf of some drafters of the UPCA, for the United Kingdom to participate in the UPC post-Brexit in order to realize the UPC's maximum benefit. As set forth in article 84 of the UPCA, however, only EU member states may ratify the UPCA and therefore participate in the UPC, and post-Brexit, the United Kingdom will not be an EU member. Therefore, assuming the United Kingdom and other members of the UPC prefer the United Kingdom to remain a participating member in the UPC, the Brexit agreement between the United Kingdom and the European Union would need to address how the UK could participate in the UPC post-Brexit. Another solution for allowing the United Kingdom to become or remain involved in the UPC may include amending article 84 of the UPCA to remove the current requirement that only EU member states may ratify the UPCA. A mechanism for doing so may be article 149a of the European Patent Convention (EPC). The EPC, which forms the basis of the UPCA, states in article 149a that:

> Nothing in this Convention shall be construed as limiting the right of some or all of the Contracting States to conclude special agreements on any matters concerning European patent applications and European patents which under this Convention are subject to and governed by national law, such as, in particular (a) an agreement establishing a European patent court common to the

Contracting States party to it.

Because the United Kingdom is due to leave the European Union on March 29, 2019, a decision on whether and how the United Kingdom will remain a member of the UPC will have to be made soon.

B. *Actavis UK Ltd. v. Eli Lilly and Co.*, [2017] UKSC 48

In *Actavis UK Ltd. v. Eli Lilly and Co*., [2017] UKSC 48, the United Kingdom Supreme Court decided an important patent case relating to claim interpretation in Europe. Specifically, the Supreme Court decided the extent to which equivalents of a claim term are covered by a patent and whether it is permissible to make use of the prosecution history when determining the scope of such term. Taking a more pro-patentee stance than in previous UK cases, the Supreme Court applied a three-question test when evaluating infringement and concluded products of Actavis (the "Actavis Products") infringed Eli Lilly's patent.

More specifically, Eli Lilly owns European Patent No. 1 313 508 (the "EP '508 patent") for the use of pemetrexed disodium in combination with vitamin B12 for cancer therapy. The Actavis Products used pemetrexed with vitamin B12 for treating cancer. However, instead of using pemetrexed disodium specifically, the Actavis Products were pemetrexed diacid, pemetrexed ditromethamin, or pemetrexed dipotassium. Actavis claimed that because its products do not include pemetrexed disodium, the EP '508 patent would not be infringed.

The High Court of Justice Chancery Division Patents Court held the Actavis Products neither directly infringed nor indirectly infringed. The court of appeal affirmed the high court decision regarding direct infringement. However, the court of appeal reversed the decision on indirect infringement. The court of appeal reasoned that because the Actavis Products would contain sodium ions in a ratio that would fall within the claims of the EP '508 patent when the Actavis Products were reconstituted/diluted in a saline solution, and because the Actavis Products would eventually be reconstituted/diluted by customers, the Actavis Products indirectly infringed the EP '508 patent.

In reviewing the court of appeal's decision, the Supreme Court applied a three-question test, which is as follows:

> i) Notwithstanding that it is not within the literal meaning of the relevant claim(s) of the patent, does the variant achieve substantially the same result in substantially the same way as the invention, i.e. the inventive concept [is] revealed by the patent?
>
> ii) Would it be obvious to the person skilled in the art, reading the patent at the priority date, but knowing that the variant achieves substantially the same

> result as the invention, that it does so in substantially the same way as the invention?
>
> iii) Would such a reader of the patent have concluded that the patentee nonetheless intended that strict compliance with the literal meaning of the relevant claim(s) of the patent was an essential requirement of the invention?

In the absence of literal infringement, the defendant can, therefore, still infringe the asserted patent if the answers to the first and second questions are yes, and the answer to the third question is no.

In this case, the Supreme Court held that the Actavis Products infringed Eli Lilly's patent because even though they did not include pemetrexed disodium, the variants of pemetrexed in the Actavis Products achieved substantially the same result in substantially the same manner as pemetrexed disodium. Further, the Supreme Court concluded it would have been extremely unlikely for Eli Lilly to have intentionally excluded the pemetrexed variants based on the specific characteristics of pemetrexed.

With respect to whether and how much the prosecution history should be relied upon when interpreting claim terms, the Supreme Court agreed with the approaches taken by the German and Dutch courts. Specifically, the Supreme Court stated that reliance on the prosecution history should be limited when interpreting claim terms and "reference to the file would only be appropriate where: (1) the point at issue is truly unclear if one confines oneself to the specification and claims of the patent, and the contents of the file unambiguously resolve the point; or (2) it would be contrary to the public interest for the contents of the file to be ignored." In applying this approach, the Supreme Court found no reason in the file history to depart from its infringement conclusion.

As stated above, this holding offers a more pro-patentee approach in the United Kingdom than the country's previous cases. The three-question test established by the UK Supreme Court is similar to the U.S. claim interpretation procedure. However, the United Kingdom's reliance on the file history is much more limited than in the United States. As such, practitioners should note the similarities and differences when filing, prosecuting, and enforcing corresponding patents in both the United States and Europe.

C. Germany's Supreme Court Grants First Compulsory Patent License

Shionogi & Company, Limited is the owner of European Patent No. EP 1 442 218 ("EP '218"), which was filed in 2002 and granted in 2012. In the interim, particularly in 2008, Merck Sharp & Dohme introduced its drug marketed as Isentress, which includes the compound Raltegravir that is used in the treatment of human immunodeficiency virus (HIV) positive patients. Upon grant of EP '218, Merck filed an opposition proceeding at the European Patent Office (EPO) and

asserted that patent was invalid. Between 2014 and 2015, the parties attempted to negotiate a global license, but they were unable to reach mutually agreeable financial terms. In 2015, Shionogi commenced infringement proceedings against Merck in the Düsseldorf Regional District Court. The case was stayed pending final resolution of the EPO opposition.

In 2016, Merck filed a complaint in the German Patent Court requesting a compulsory license to the EP ’218 under section 24 of the German Patent Act. Merck also requested a preliminary ruling under section 85 of the German Patent Act requesting the court grant Merck permission to continue to market and sell Isentress during pendency of the compulsory license proceedings. That is, Merck requested a preliminary compulsory license. The patent court granted Merck the preliminary compulsory license, and the Bundesgerichtshof (German Supreme Court) affirmed the grant.

In its reasoning, the Bundesgerichtshof discussed two main requirements that the applicant for a compulsory license must demonstrate: (1) an attempt to license the invention under appropriate terms during an appropriate length of time; and (2) grant of the compulsory license is in the public interest. Regarding the first requirement, appropriate terms means the terms that a reasonable third-party licensee would be willing to pay in the relevant situation, and an appropriate length of time means that the negotiations commence and terminate prior to filing the request for the compulsory license. In this case, the Bundesgerichtshof found Merck’s argument persuasive because it had timely provided Shionogi two licensing proposals in the 2014 to 2015 timeframe: one offer was a running royalty and the other offer was a lump sum.

Regarding the public interest requirement, the Bundesgerichtshof stated that the particular circumstances of each case dictate whether a compulsory license situation should be granted. In the situation of a drug, particularly a drug used in the treatment of a severe disease, the Bundesgerichtshof noted that it would be in the public’s interest to grant the compulsory license if the drug used for the treatment of serious diseases has therapeutic properties, the available alternatives do not have the same therapeutic properties, or if the drug’s use avoids undesirable side effects. But if an equivalent alternative is commercially available, then a compulsory license is unjustified because the public interest can be satisfied by the alternative. The Bundesgerichtshof considered the opinion of the patent court’s expert, as well as opinions of the parties, persuasive in finding that the public interest would be best served if Isentress continues to be available because the drug was likely to be more effective, in comparison to potential alternatives, with a limited subset of patients, namely infants, children (12 years of age or less), pregnant women, and those who had been treated with Isentress for years. With respect to this limited subset of patients, there was a finding that the alternative may increase the risk of severe side effects, and the Bundesgerichtshof held that the public interest prong can be satisfied even if only a relatively small group of patients is affected, especially if it is a particularly high-risk group.

In July 2017, the patent court's grant of the preliminary compulsory license was affirmed with a preliminary injunction because it was urgently required by the public. In doing so, however, Merck was only able to continue to market and sell the then current versions of Isentress until completion of the main proceedings. In its request for the compulsory license, Merck proposed that the amount of the royalty for the preliminary compulsory license be set by the court. This proposal was adopted, but it was decided that the royalty determination be postponed until completion of the main proceedings. In October 2017, the EPO revoked EP '218. Nevertheless, the court decided in November 2017 that the royalty for the compulsory license was four percent of the revenue of Isentress during the period from the grant of the compulsory license to revocation of the patent.

D. *Warner-Lambert Company LLC v. Generics (UK) Ltd. (Mylan)* – Case ID: UKSC 2017/0078

The UK Supreme Court is currently deciding a case that will likely impact when bioscience-related patent applications are filed and how they are drafted. Warner-Lambert Company LLC markets pregabalin under its trademark Lyrica, through Pfizer Ltd., for three different indications: epilepsy, generalized anxiety disorder, and neuropathic pain. The UK patents covering pregabalin for the epilepsy and anxiety disorder indications expired in 2013. Warner-Lambert, however, still had another unexpired UK patent covering the use of pregabalin for treating pain, including neuropathic pain. The unexpired UK patent is referred to as a second medical use patent because European patent law allows a substance or composition, which is already known to have been used in a "first medical use," to be later patented as a second or further use (e.g., new indication), provided that the use is novel and inventive.

Generic drug manufacturers Actavis and Mylan wished to market a generic version of pregabalin for the treatment of epilepsy and generalized anxiety disorder (the non-patented indications). Warner-Lambert, however, was concerned that the generic version may also be used to treat pain (the patented indication) and, therefore, commenced infringement proceedings against Activis. In response, Actavis and Mylan sought revocation of the second medical use patent on the grounds of insufficiency of disclosure of the specification.

During litigation, the court of appeal, in *Warner-Lambert Company LLC v. Generics (UK) Limited (Mylan),* [2016] EWCA Civ 1006, affirmed the high court's decision that the second medical use patent was invalid for lack of sufficiency. Claim 1 of the patent was directed to the "[u]se of [pregabalin] … for the preparation of a pharmaceutical composition for treating pain," and claim 3 was directed to the use according to claim 1, wherein the pain is neuropathic pain. The court of appeal interpreted claim 1 to mean that pregabalin was required to work in treating all types of pain. And although the court recognized there was enough information in the specification to make it plausible that pregabalin would be effective in treating some types of pain, the court of appeal affirmed the

high court, which held that based upon the disclosure in the patent specification, it was not plausible that pregabalin would work in treating all types of pain. As such, claim 1 was held to be invalid for lack of sufficiency. Regarding claim 3, the court of appeal reviewed the evidence establishing that there are two types of neuropathic pain: central and peripheral neuropathic pain. But similar to its reasoning with respect to claim 1, the court held that claim 3 was invalid for lack of sufficiency because although the specification included data to support peripheral neuropathic pain, it lacked data and an experimental model to treat central neuropathic pain. And because claim 3 did not distinguish between peripheral neuropathic pain and central neuropathic pain, the claim was interpreted to include both, and found to be invalid for lack sufficiency.

This case is currently before the UK Supreme Court, which held a four-day hearing in February 2018 to decide the following issues:

1. Whether (and what) role plausibility should play in the statutory test for sufficiency, and whether a patent should be held insufficient for lack of plausibility even though it is in fact enabled across the full scope of the claim.

2. If a plausibility test is appropriate, provided there is basis to support the claim across part of its scope, whether later evidence can be used to fill the gap.

3. The correct approach to (and the use of expert evidence in) the construction of patent claims.

4. Whether a post-trial application to amend an invalid patent claim to limit it to a part found to be plausible is an abuse of process.

How the issue of plausibility is decided will likely impact when patent applications are filed and how they are drafted. The UK BioIndustry Association (BIA), a trade association in the bioscience sector, stated in its grounds for intervening in this case, it is of critical importance to a "bioscience company … to identify the optimum point in the period between discovery and therapeutic deployment at which to apply for a patent to protect its invention." It went on to say that "[i]f the application is filed early, there may be too little information for a patent office or a court to identify a plausible aspect of the disclosed invention and the patent or the relevant claim will be invalid." In such a situation, "[t]he company may be left with no patent protection, but would have disclosed its invention in the published patent application to competitor." If, however, the company files its patent application later, there is a risk that a third party will already have filed its patent application covering the same or a similar invention, thereby preventing the company from obtaining "any patent protection for its work and the value of the expensive research and development project will be lost." Although the Warner-Lambert case relates to the life science industry, the Supreme Court's holding

regarding the plausibility issue may extend into other industries, such as the medical device industry, particularly if the medical device includes a pharmacological component.

At the conclusion of the four-day hearing, the Supreme Court noted that it will take "some time" to render its decision. At the time of submission of this chapter, the Supreme Court has not done so, but the case is worth following for anyone filing patent applications in Europe.

§ 9.3 TRADEMARKS

A. Background

Over the last three years, the EU trademark law reform has been a major topic of interest and remains important as various changes continue to be implemented. In the meantime, the EU courts have continued to rule on interesting trademark issues involving exhaustion of rights, bad faith, acquired distinctiveness, non-traditional marks, and jurisdiction.

B. Update on European Union Trademark Law Reform

The EU trademark system is a dual system made up of the EU-wide trademark system and the national systems of the 28 EU member states. On March 23, 2016, the EU trademark reform (Regulation (EU) 2015/2436), a major overhaul of the EU trademark system, went into effect seeking to streamline proceedings and increase legal certainty to make the system more efficient and consistent (the "2015 EUTM Regulation"). There is now a new codified version, Regulation (EU) 2017/1001, which replaces the 2015 EUTM Regulation, while incorporating all of the amendments to the law that came into force on March 23, 2016 (the "2017 EUTM Regulation"). Certain parts of the new law went into force on October 1, 2017, including those noted below.

1. Deletion of the Graphical Representation Requirement

Applicants no longer need to be able to graphically represent the mark in an application. Marks can be represented in any appropriate form using generally available technology. This long-awaited change opens the door for brand owners to obtain registrations for non-traditional marks such as sounds and other multimedia marks.

2. Introduction of Certification Marks

Brand owners can register an EU certification mark, similar to what already exists in some EU member states as national certification marks. A certification mark can be applied for by any public or private entity if it does not have a business which supplies the kinds of goods and services certified by the mark. The owner must file regulations of use of the certification mark within

two months of the application. The regulations must contain: (1) the characteristics of the goods or services to be certified; (2) the conditions governing the use of the certification mark; and (3) the testing and supervision measures to be applied by the certification mark owner.

3. Change in the Time for Filing Priority Claims

Priority claims must be filed with the EU trademark (EUTM) application, and documentation in support of the priority claim must be filed within three months of the filing date.

4. Acquired Distinctiveness as Alternative Claim

During the examination stage, an applicant can claim acquired distinctiveness in the alternative, either at the start of the application process or later.

5. Change of Requirements for Language and Translations

Most types of evidence, including evidence of acquired distinctiveness or reputation, can be filed in any official language of the European Union regardless of the designated language of the proceeding unless the EU Intellectual Property Office (EUIPO) on its own motion or upon reasoned request by the other party requests a translation.

C. Key Trademark Cases

Although many of the selected key cases were decided under the EU trademark regulation that existed prior to the recent trademark reform, they would likely have been decided in the same way under the new 2017 EUTM Regulation.

1. Exhaustion

a. *Schweppes SA v. Red Paralela SL, Red Paralela BCN SL*, Case C-291/16 (CJEU Dec. 20, 2017) (ECLI:EU:2017:990)

Prior to 1999, Cadbury Schweppes owned the SCHWEPPES mark in the entire EU. In 1999, the SCHWEPPES mark was split between Coca-Cola, which now owns the SCHWEPPES registrations in the United Kingdom, and Cadbury Schweppes, which retained the registrations for the SCHWEPPES mark in the remaining EU member states. Red Paralela was importing SCHWEPPES branded tonic water that had been sourced from the UK (where Coca-Cola owns the SCHWEPPES trademark registrations) into Spain, where Schweppes owns the SCHWEPPES trademark registrations. Schweppes brought an action in the Commercial Court in Barcelona and was referred to the Court of Justice of the European Union (CJEU).

Generally, parallel importation is not an act of infringement because of the "exhaustion of rights" principle. In other words, trademark rights cannot be used to prevent parallel importation of goods within the EU if they were put on the market by or with the consent of the relevant trademark owner. In particular, article 7 of the 2008 trademark directive provides that:

> 1. The trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the [European Union] under that trademark by the proprietor or with his consent.
>
> 2. Paragraph 1 shall not apply where there exists a legitimate reason for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

Because Schweppes did not put the goods into the market, i.e., make the first sale, the question was whether the "exhaustion of rights" principle would apply. Red Paralela argued that there were important links between the two EU brand owners, Coca-Cola and Schweppes. In particular, they engaged in joint exploitation of the SCHWEPPES brand which amounted to implied consent of the other's sale of its own products in the other's territory.

The CJEU noted that relevant precedent provides that it is essential that a proprietor be able to oppose the import of an identical or similar product bearing an identical trademark or one liable to lead to confusion, which had been manufactured and put into circulation in another EU member state by a third party having no economic link with the proprietor. The court acknowledged that the mere fact that the trademarks were once in common ownership across the entire EU does not mean that the trademark rights cannot be enforced against parallel imports once an intra-EU division of the trademark ownership has occurred.

However, the central issue was the relationship between the owners and whether there was an economic link or whether the marks were used separately, each providing its own independent guarantee of trade origin. The CJEU found that in the present case the owners had actively and deliberately continued to promote the appearance or image of a single global trademark, thereby generating or increasing confusion on the part of the public as to the commercial origin of the goods bearing the mark. Accordingly, Schweppes was precluded from opposing the import of identical goods bearing the same mark.

2. Bad Faith

a. *PayPal, Inc. v. EUIPO – Hub Culture (VENMO)*, Case T-132/16 (GC May 5, 2017) (ECLI:EU:T:207:316)

Hub Culture Limited owns a EUTM for the mark VENMO in International Classes 9 and 36 for e-commerce services and related software and virtual currency. PayPal brought an invalidation action under article 52(1)(b) of the 2009 EUTM regulation (corresponds to article 59(1)(b) of the 2017 EUTM regulation), which provides that a EUTM must be declared invalid where the applicant was acting in bad faith when he filed the trademark application.

To put the matter in context, Hub Culture adopted the mark VEN in 2007. About two years later an unrelated third party, Venmo Inc. (now owned by PayPal), adopted the mark VENMO. Hub Culture believed that Venmo's adoption of VENMO violated Hub Culture's prior rights in the VEN mark. Hub Culture entered into discussion with Venmo about a resolution of the issue and a possible future commercial relationship. In 2010, while the parties were engaged in communications, Hub Culture filed a trademark application for the VENMO mark without Venmo's knowledge.

The leading precedent on bad faith is *Chocoladefabriken Lindt & Sprüngli*, Case C-529/07 (CJEU June 11, 2009). *Lindt* establishes that while all relevant factors much be taken into account when making a determination of bad faith, consideration must be given to the applicant's intention at the time of application. The applicant's intention is strong evidence of bad faith when a trademark application is filed with the intention of preventing a third party from marketing its own product, particularly when the applicant itself does not intend to use the mark.

The EUIPO Cancellation Division held that the application was made in bad faith. The board of appeal concluded that bad faith could not be established. Ultimately, the EU General Court annulled the board of appeal's decision and found bad faith.

The EU General Court found that Hub Culture had known of Venmo's use of the VENMO mark prior to Hub Culture making its owns filing for the mark, a primary factor in finding bad faith. The court also considered the commercial logic underlying the filing and the chronology of events leading up to it. In particular, the court felt that the only persuasive logic for filing the application would be that the filing would serve as a protective measure to prevent Venmo's entry into the EU market under the VENMO mark. Furthermore, Hub Culture had filed the application without informing Venmo during the course of negotiations between the parties exploring a commercial resolution, which also indicated bad faith.

b. Appeal No. 3982/2017 (Barcelona Ct. App. Apr. 27, 2017) (COSMOPOLITAN / COSMOBELLEZA)

Vida Estética S, S.L. owns Spanish trademark registrations for COSMOBELLEZA in Classes 16, 35, 41, and 44, the first of which was filed in 1998. Since 1998, Vida Estética has organized beauty and wellness trade shows in Barcelona under the COSMOBELLEZA mark. "Cosmobelleza" is the Spanish equivalent of "Cosmobeauty." In 2010, Vida Estética registered COSMOBEAUTY in Spain in Classes 16, 35, 41, and 44.

On October 19, 2010, the defendant, G Y J Publicaciones Internacionales S.L., the editor and distributor of the Spanish edition of Cosmopolitan magazine, and licensee of Hearst Communications Inc., owner of the EU trademarks COSMOPOLITAN and COSMO in Classes 9, 16, and 41, issued a supplement to the Spanish edition of COSMOPOLITAN magazine under the name COSMOBEAUTY, which was sold in many parts of Spain, including in several stores next to the domicile of the plaintiff. Eight days later, the plaintiff filed its Spanish trademark application for COSMOBEAUTY, which was opposed by Hearst Communications on the basis of its COSMO and COSMOPOLITAN registrations. Hearst's opposition was unsuccessful and the plaintiff's registration for COSMOBEAUTY was granted, although the plaintiff has never used the mark.

In May 2013, the defendant published the spring/summer edition of COSMOPOLITAN magazine with an extra magazine under the name COSMOBEAUTY. Vida Estética brought an infringement action against G Y J Publicaciones Internacionales before the Commercial Courts of Barcelona. The defendant counterclaimed for a declaration of invalidity of the plaintiff's COSMOBEAUTY registration, arguing that it had been filed in bad faith.

The plaintiff argued that the application for COSMOBEAUTY was in good faith because it is the English equivalent of its COSMOBELLEZA mark and it intended to expand the COSMOBELLEZA trade show internationally and online to other jurisdictions. The Appeal Court of Barcelona rejected the plaintiff's arguments. The court found that the trademark COSMOBEAUTY had been filed in bad faith because it had been filed after Hearst had commenced use of the COSMOBEAUTY mark in Barcelona, and so the plaintiff knew or should have known of this prior use. In addition, the court was not convinced that the plaintiff was being genuine about its intent to use the mark because no use of the registered mark had been made in the years following the registration and there was no evidence to support the assertion that the plaintiff intended to use the mark internationally.

3. Distinctiveness

a. *Hanso Holding AS v. EUIPO*, Case T-798/16 (GC Nov. 30, 2017) (ECLI:EU:T:2017:854)

Hanso Holding AS applied to register the mark REAL as depicted below in connection with meat, fish, poultry, coffee, tea, cocoa, grains, agricultural products, and other goods in International Classes 29, 30, and 31.

The EUIPO refused registration under article 3 of the 2008 TM Directive (article 7 of the 2017 EUTM Regulation), which provides that trademarks that are devoid of any distinctive character shall not be registered. The EU General Court upheld EUIPO's refusal to register the mark because it is descriptive of a characteristic of the goods at issue, namely, that the goods are genuine, authentic and not artificial.

b. *Bet365 Group Ltd. v. EUIPO – Robert Hansen*, Case T-304/16 (GC Dec. 14, 2017) (ECLI:EU:T:2017:912)

Bet365 Group Limited applied to register BET365 for various computer games, gaming apparatus, Internet and computer gaming, and related goods and services in Classes 9, 28, 35, 36, 38, 41, and 42. The EUIPO refused registration because the mark is descriptive of betting services that are available 365 days a year. Bet365 provided evidence of acquired distinctiveness that consisted of statements by its chief executive and the chief executive of an association of gambling and betting operators and other evidence of the geographic scope and longevity of its use and the investment made in promoting it. The EUIPO found the evidence sufficient, and the mark was published.

Thereafter, a third party filed a request to invalidate the BET365 mark claiming that it was descriptive of the goods and services and not distinctive because Bet365 did not use the mark throughout the European Union but mainly in Ireland and the United Kingdom. The Fifth Board of Appeal of the EUIPO found that although Bet365 had convinced it of its commercial success, the company failed to provide sufficient evidence of consumer awareness in the relevant territory, and denied registration.

The general court assessed the evidence differently and found that proof of acquired distinctiveness is required in the EU member states where English is spoken or widely known, not where there is elementary or passive knowledge of English language. It is necessary to take account of factors such as the market share held by the mark and how intensive, geographically widespread, and long-standing the use of the mark has been; the significance of the investments by the undertaking to promote it; the proportion of the relevant class of persons who, because of the mark, identify the product as originating from a particular undertaking; and statements from chambers of commerce and industry or other professional associations. The general court found that Bet365 provided sufficient evidence.

4. Non-Traditional Marks

a. *Red Bull GmbH v. EUIPO*, Case Nos. T-101/15, T-102/15 (GC Nov. 30, 2017) (ECLI:EU:T:2017:852)

Red Bull GmbH owned two registrations for the color combination of a specific color of blue and a specific color of silver in connection with energy drinks.

Red Bull described the mark in the first registration as "the colors blue (RAL 5002) and silver (RAL 9006). The ratio of the colors is approximately 50%-50%." Red Bull described the mark in the second registration as blue (Pantone 2747C) and silver (Pantone 877C) and "the two colors will be applied in equal proportion and juxtaposed to each other." Both registrations claimed acquired distinctiveness.

Optimum Mark brought invalidity actions against both of Red Bull's registrations. The EUIPO Board of Appeal held the registrations to be contrary to article 4 and 7(1)(a) of the 2009 EUTM Regulation, which provides that a EUTM must consist of a sign capable of being represented graphically. Red Bull appealed to the EU General Court arguing that its color combination mark had been represented graphically and the colors were clearly defined. The EU General Court upheld the board of appeal's invalidation of the registrations.

COMMENT

The graphic representation requirement has been removed effective October 1, 2017. However, marks must still be represented with precision and clarity under the new 2017 EUTM Regulation, so the issues in the case would be similar under the current law.

The EU General Court found the registration invalid because Red Bull failed to provide a specific spatial arrangement of the blue/silver combination. The general court ruled that merely juxtaposing two colors without shape or contours does not meet the requirements of article 4 nor does providing a reference to two colors in every conceivable form. The general court went on to find that Red Bull's graphic representation and description allowed several different combinations of the colors and did not serve to specify a predetermined and uniform manner of presentation.

Red Bull's own evidence of use of the mark in support of its claim of acquired distinctiveness showed a very different arrangement of the blocks of color than shown in the graphic representation of the mark, making it clear that Red Bull was seeking protection that would cover different arrangements of the colors, not just the arrangement actually shown in the application. Accordingly, the general court dismissed the appeal.

b. *Christian Louboutin, Christian Louboutin SAS v. Van Haren Schooner BV*, Case C-163/16

In 2012, French shoe designer Christian Louboutin filed suit against Van Haren, a Dutch company whose retail outlets were selling affordably priced stilettos with red soles, alleging that Van Haren infringed Louboutin's trademark. Louboutin owned a registration in Belgium, the Netherlands, and Luxembourg (Benelux Registration 874489) for "the color red (Pantone 18 1663TP) applied to the sole of a shoe" for high-heeled shoes. The mark is represented as follows (the dotted line not being part of mark, but used to show placement of the mark). Note: Because this book is printed in black and white, the red depiction appears as gray.

The suit, originally filed in the Netherlands court, made its way to the CJEU after the District Court of the Hauge awarded Louboutin a preliminary injunction. The issue before the CJEU is whether the EU trademark directive prohibits registration of the mark. The EU trademark

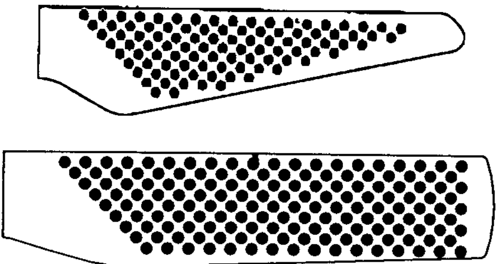
directive provides a number of grounds on which registration of a mark may be refused or declared invalid. In particular, the directive states, in relevant part:

> The following shall not be registered…
>
> (e) signs which consist exclusively of:
>
> (i) the shape which results from the nature of the goods themselves;
>
> (ii) the shape of goods which is necessary to obtain a technical result;
>
> (iii) the shape which gives substantial value to the goods

In February 2018, the Advocate General of CJEU (AG) handed down a nonbinding opinion which stated that the prohibition set out in the trademark directive is capable of applying to a sign combining color and shape, and a trademark combining color and shape may be refused or declared invalid on the grounds set out under the trademark law. Therefore, if the red soles are not a separate entity from the shape of the high-heeled shoes, then the mark cannot be registered. The CJEU has yet to issue its opinion. Readers will need to stay tuned for final disposition of this case and the future of red sole stilettos in Europe.

c. *Pi-Design Ag, Bodum France SAS and Bodum Logistics A/S v. OHIM, Yoshida Metal Industry Co. Ltd.*, Cases C337/12 P to C340/12 P (May 11, 2017) (ECLI:EU:C:2017:360)

Yoshida owns two registrations for a two-dimensional mark with an array of dots appearing on a trapezium shape as depicted below for cutlery, scissors, knives, forks, spoons, and related goods in International Class 8 and household or kitchen utensils and containers, turners, spatulas, knife blocks, tart scoops, and pie scoops in International Class 21.



Pi-Design, Bodum France, and Bodum Logistic petitioned to invalidate Yoshida's registrations on the ground of non-registrability. Specifically, the EU trademark directive

article 7(1)(e)(ii) prohibits registration of signs that consist exclusively of the shape of goods which is necessary to obtain a technical result.

The general court concluded that the marks at issue constituted the shape of goods, representing the handle of knives and other cutlery. The court also recognized that the array of black dots featured on the marks' surfaces was the knives' indentations.

Yoshida filed for patent protection at the same time as it filed its trademark application. Although the array of dots could not be patented, it was clear in view of Yoshida's patent that the indentations were there to obtain the technical result of providing the knives with a non-skid structure. The general court, therefore, found that the handle had a functional character and neither the shape of the handle nor the array of black dots had a fanciful or ornamental character. Accordingly, the marks were considered to be purely functional shapes for a technical result and not entitled to registration.

5. Jurisdiction

a. *Hummel Holding A/S v. Nike Inc. and Nike Retail BV*, Case C-617/15 (CJEU May 18, 2017) (ECLI:EU:C:2017:390)

A trademark infringement claim was brought in Germany by Hummel against Nike Inc. and its Netherlands subsidiary Nike Retail BV based on Hummel's EUTM rights. Hummel claimed injunctive relief against Nike Inc. and Nike Retail in respect not only to Germany, where the claimed infringement was alleged to take place, but to the European Union as a whole.

The German court clearly had jurisdiction over the infringement within Germany, so the issue in the case is whether or not the German court had jurisdiction to provide EU-wide relief. Article 97 of the 2009 EUTM Regulation (article 125 of the 2017 EUTM Regulation) requires EU-wide infringement claims to be brought in the courts of the EU member state in which the defendant is domiciled or, if the defendant is not domiciled in any of the EU member states, then in the EU member state in which the defendant has an establishment. If the defendant is neither domiciled nor has an establishment in any of the EU member states, the proceeding shall be brought in the EU member state in which the plaintiff is domiciled or, if the plaintiff is not domiciled in any EU member state, then in the EU member state in which the plaintiff has an establishment.

Nike Inc. is not domiciled in any EU member state. However, Nike Retail, Nike Inc.'s subsidiary has a German subsidiary of its own, Nike Deutschland GmbH. Nike Deutschland was not a party to the proceedings. However, if Nike Deutschland, a second-tier subsidiary of Nike Inc., is regarded as an "establishment" of Nike Inc. within the meaning of article 97 of the 2009

EUTM Regulation, then the German court could issue an EU-wide injunction. If Nike Deutschland is not regarded as an "establishment," then the German court could not issue an EU-wide injunction.

The CJEU ruled that if the second-tier subsidiary is a center of operations which "has a certain real and stable presence from which commercial activity is pursued, and has the appearance of permanency to the outside world" (in other words, if it has people, equipment, management, etc. and is equipped to do business with third parties), then it would be considered an "establishment" of a parent company that itself has no seat in the EU. The CJEU also clarified that it is irrelevant whether the local entity is a second-tier rather than first-tier subsidiary or whether the local entity has itself participated in the alleged infringement.

§ 9.4 DATA PRIVACY

A. Introduction

The European Union's new data protection regime, the General Data Protection Regulation (GDPR), came into effect on May 25, 2018 and replaced the Data Protection Directive 1998. The GDPR aims to strengthen and unify the protection of personal data across the EU by imposing more rigorous operational requirements on organizations that process personal data, whilst at the same time providing transparency to individuals as to how their personal data is handled. The GDPR also gives individuals greater rights over their personal data, such as the right to erasure (often referred to as the "right to be forgotten"), and the newly introduced right to data portability. The GDPR does not affect the substantive rules relating to the ownership of intellectual property rights. However, the exercise of many intellectual property rights, particularly those relating to data, often comes with additional obligations where such data includes personal data. Intellectual property lawyers will need to understand the scope of such obligations when dealing with copyright, database rights, and related transactions. The broad extra-territorial scope, outlined below, means that a very broad range of transactions will be potentially within scope.

Breaches of the GDPR's obligations are potentially extremely onerous, since they can potentially result in fines of up to four percent of annual global turnover or €20 million, whichever is greater. Data privacy compliance is therefore likely to be a much more central issue in technology transactions involving EU data and counterparties. This section provides an overview of the GDPR and identifies some of the issues likely to be relevant to intellectual property practitioners.

B. Territorial Scope and Impact on U.S. Organizations

Due to its nature as a regulation rather than a directive, the GDPR became immediately applicable throughout the European Union from its implementation date. Its impact will be felt beyond

the European Union's borders, because the GDPR's extra-territorial application extends to situations where:

1. the personal data is processed in the context of an establishment in the European Union, regardless of whether or not this processing takes place in the European Union;

2. goods or services are offered to individuals in the European Union, irrespective of where the offering organization is located and whether the goods or services are paid for; and

3. the individual's behaviour in the European Union is monitored, again irrespective of where the monitoring organization is located.

The processing of personal data only needs to fall under one of the above categories for the GDPR to apply and, importantly, the citizenship of the individual whose personal data is processed is irrelevant.

This extra-territorial application is particularly relevant to online service providers outside the European Union, whose websites are targeted to or otherwise frequently visited by EU customers. As the GDPR states that tracking individuals on the Internet to analyse or predict their personal preferences will trigger the application of the GDPR, website providers should carefully review the technological tools they deploy on their homepages, as these may inadvertently bring these online service providers within scope of the GDPR by virtue of test 3 outlined above.

Additionally, the GDPR can be expected to raise privacy standards across the world, as countries outside the European Union are likely to revise their data protection legislation as a consequence of the GDPR coming into force. For example, organizations established in Switzerland were already required to implement the changes introduced by the revised Swiss Federal Data Protection Act, and the United Kingdom will fully implement and retain the privacy protections introduced by the GDPR once Brexit takes effect.

C. What Is "Personal Data"?

The GDPR defines personal data as "any information relating to an identified or identifiable natural person (a 'data subject')." An individual is identifiable where they can be identified by reference to data such as a name, physical identifiers, or even location data. The GDPR provides a non-exhaustive list of what constitutes personal data, ranging from obvious examples such as name and address, to online identifiers such as cookies and IP addresses, which can be used in conjunction with other information to identify a data subject. These will often not qualify for intellectual property rights in themselves and often will not constitute copyright works or inventions under most legal

systems. However, their selection and assembly in databases may attract copyright or database rights in certain systems.

The GDPR also affords a higher level of protection to sensitive personal data (known as "special categories of data"). The list of sensitive personal data is exhaustive (unlike the open-ended definition of personal data), and comprises:

1. racial or ethnic origin;
2. political opinions;
3. religious or philosophical beliefs, or trade union membership;
4. genetic data (data which relates to the inherited or acquired genetic characteristics of a natural person, which result, in particular, from the analysis of a biological sample of that natural person);
5. biometric data for the purpose of uniquely identifying a natural person (personal data received from the specific technical processing relating to the physical, physiological or behavioural characteristic of a natural person, such as facial images);
6. health (personal data relating to the physical or mental health of a person, which reveals information about his or her health status); and
7. sex life or sexual orientation.

Although criminal convictions and offences are not classified as sensitive personal data, the GDPR provides for additional safeguards in relation to the processing of such data, and organizations must have both a lawful basis under the GDPR, as well as either legal or official authority, for the processing of such data.

D. Lawfulness of Processing

The GDPR requires organizations to process personal data lawfully, fairly, and in a transparent manner. This requires that any processing of personal data must be based on one of the lawful bases set out in the GDPR.

"Processing" is broadly defined and includes any operation or set of operations which is performed on personal data or on sets of such data. Examples of processing include collecting, recording, organising, storing, adapting, retrieving, or disclosing such data. This brings a very wide range of data, technologies, and related transactions within the scope of the GDPR.

There are six lawful bases for processing personal data under the GDPR:

1. Where the data subject has *consented* to the processing of their personal data for one/more specific purposes.

2. Where the processing is *necessary to perform a contract* with the individual, or for taking steps to comply with a request made by the individual with a view to entering into a contract.

3. Where the processing is necessary to comply with an organization's *legal obligations*.

4. Where it is necessary to protect the *vital interests* of the data subject or another natural person.

5. Where it is necessary for the performance of a task carried out in the *public interest* or in the exercise of official authority vested in the organization.

6. Where there is a *legitimate interest* which justifies the processing, provided that the rights and freedoms of the individual do not override such legitimate interest.

"Legitimate interests" is the most flexible lawful basis for processing personal data and the legitimate interest relied on can be that of the organization, or even a third party. Commercial interests can also be relied on, as well as broad societal benefits. However, organizations will need to demonstrate and maintain a record of how the legitimate interest was balanced against the fundamental rights and freedoms of the individual. Where the fundamental rights of individuals take precedence and override an organization's legitimate interests (for example where the data subject would not reasonably expect the processing, or if it would cause unjustified harm), this will not be an appropriate legal basis for processing.

When relying on "consent," organizations should bear in mind the higher standard required for consent to be valid under the GDPR. Any consent provided by the data subject must be freely given, specific, informed, and an unambiguous indication of the data subject's wishes by a clear and affirmative action, such as ticking a box when visiting a website, or actively choosing a setting when using online services. The principle of accountability requires that organization must be able to demonstrate that consent has been validly obtained.

It is important to note that for certain types of processing (for example, "profiling," i.e., analysis of a data subject's behaviours and preferences to predict the data subject's future behaviors and preferences, as well as the processing of certain types of personal data, such as sensitive per-

sonal data) stricter rules apply, and more specific and restrictive lawful bases may be required by an organization.

E. Data Protection by Design and Default

The GDPR requires organizations to implement the principle of data protection by design and default.

Data protection by design requires an organization to give due and proper consideration to its data processing activities in designing new systems or processes.

Data protection by default requires organizations to ensure they only process the personal data which is necessary to achieve their specific purpose. This underpins the fundamental data protection principles of data minimisation and purpose limitation, which require that organizations do not process personal data unnecessarily or make such data available to the public unless specifically agreed to by the individual in question.

F. Rights of Data Subjects

Under the GDPR, individuals have the rights to:

1. *be informed* about the collection and use of their personal data, including the purposes of such processing and retention periods of the data;
2. *withdraw* their consent to processing;
3. *have access* to their personal data;
4. have inaccurate or incomplete personal data *rectified*;
5. request the *erasure* of their personal data in certain situations;
6. request the *restriction or suppression* of their personal data;
7. invoke *data portability*, enabling them to move, copy, or transfer personal data from the organization to a third party;
8. *object* to the processing of their personal data in certain circumstances, unless the organization can demonstrate compelling legitimate grounds for such processing; and
9. *lodge* a complaint with the relevant data protection authority.

G. Conflict with Intellectual Property Rights

The data subjects' rights under the GDPR, particularly the rights of access, erasure, and data portability, potentially conflict with intellectual property rights in proprietary data.

In particular, the right of data portability allows data subjects to receive their personal data in commonly used electronic format (i.e., in a reusable format), free of charge. The data subjects may request that the personal data be sent directly to a third-party organization, which may include an organization's competitors. The right to data portability is limited to personal data which is provided by the data subject or observed by the organization, e.g., "raw" data processed by wearable devices. It will not apply to data that the organization has derived or inferred from the provided and observed data, such as data subject's user preferences, which is usually the area which requires the most significant investment and application of proprietary technology.

H. Requirements for Profiling

Organizations often collect personal data to engage in profiling individuals, for analytical purposes, including preference-based marketing and to make automated decisions. Despite the fact that the data may have been collected and is subject to intellectual property rights, the organization should ensure that it meets the more stringent requirements for profiling under the GDPR, given the stringent requirements imposed by the GDPR and European regulators on profiling.

In addition, the GDPR provides further protection to individuals by extending their right of access. As part of this enhanced right, data subjects are entitled to obtain details of, among other things, the categories of data which are used to build a profile, the logic involved in the profiling, and the personal data which is used by the controller as input when creating a profile.

The GDPR provides valuable derogations from the exercise of data subjects' rights. For example, a data subject's request to exercise their right to data portability or to access their data used for profiling, does not have to be honored if the exercise of such rights would adversely affect the rights and freedoms of others, which includes the intellectual property rights or trade secrets of third parties. Nevertheless, this exception will be construed narrowly by regulators and will not be a blanket means of denying access to a data subject.

I. Impact on IP Licence Agreements and IT Contracts

Most licence agreements give rise to reporting obligations, for example, for infringement, product complaints, and royalty payments. Where information about the infringers, such as names, addresses, or IP addresses, is passed from the licensee to the licensor, both parties may be subject to the GDPR. Contractual parties will therefore need to comply with the applicable requirements of

the GDPR, including in relation to lawful, fair and transparent collection and processing of personal data.

A similar requirement will arise where a licensee is required to disclose know-how to a sub-contractor or sub-licensee, if this information includes personal data relating to individuals.

Organizations will need to be particularly careful where arrangements require or result in a transfer of personal data outside the European Economic Area (EEA). Transfers are permitted to countries whose data protection laws are deemed to provide an adequate level of protection of personal data by the European Commission. The United States is not one of those countries and transfers of personal data from the EEA to the United States will need to be subject to appropriate safeguards—typically through the EU-U.S. privacy shield scheme or through the use of data transfer agreements incorporating standard contractual clauses mandated by the European Commission.

J. Scientific Research, Clinical Trials, and Public Health

The GDPR extends the scope of professionals entitled to process data related to health, i.e., one of the special categories of personal data under the GDPR. For instance, if an organization does not intend to rely on explicit consent, health data may only be processed in limited circumstances, including the processing by professionals for the purposes of preventative occupational medicine, management of health and social care systems, and medical diagnosis. This is qualified by the requirement that the professional processing the health data is managed by an individual who has a professional obligation of confidentiality under the law of an EU member state or is regulated by the rules of a national competent body. Clinical research organizations will need to be aware of the GDPR's requirements when transferring scientific or clinical data across borders.

K. Photographs and Image Rights

A living, identifiable, person's image is personal data for the purposes of the GDPR, and can only be processed where one of the six lawful bases for processing, outlined above, apply. Those seeking to exploit the image rights of individuals should therefore consider the implications of the GDPR in addition to issues relating to copyright. While data protection issues have been raised as subsidiary arguments in some European image rights litigation, such issues are now likely to have greater prominence given the potential liabilities for non-compliance outlined above.

An individual's image may constitute a special category of personal data (for example if it reveals an individual's ethnicity or religion), thereby giving rise to the more stringent rules on processing. However, the GDPR's recitals provide some comfort, in that the processing of photographs will only be considered to be processing of a special category of personal data if the processing is

executed through means which enable the unique identification of the natural person, such as facial recognition software.

L. Domain Names, the ICANN, and the WHOIS

The GDPR may have a significant impact for rights owners' access to information relating to domain name registrants, which is often critical in proceedings against infringers of IP rights. The WHOIS system, maintained by the Internet Corporation for Assigned Names and Numbers (ICANN), is an open access service which publishes registrants' personal information on a publicly accessible website and, therefore, potentially may breach the GDPR.

The European Commission has advised the ICANN to modify its policies in relation to WHOIS on the basis that the definitions of "purposes" and "legitimate interests" included in ICANN's policy were too ambiguous and did not comply with the GDPR, which requires that the purposes of the processing of personal data must be "specified, explicit, and legitimate."

The ICANN recognized the GDPR's impact on its ability to maintain a single WHOIS system. The ICANN currently in the process of modifying the WHOIS system to introduce a registration directory service. In the interim, ICANN has approved a temporary specification, which became effective on May 25, 2018, and which contains instructions to domain name registry operators and registrars on compliance with the GDPR. The specification requires tiered access to any WHOIS data which is not public, and more limited public accessibility to registrants' data.

This shift in approach represents the conflicting interests of IP practitioners, judicial authorities, and data subjects; on the one hand, judicial authorities and IP practitioners are striving to retain access to registrants' data in order to act against IP infringements and cybercrimes, whilst privacy and data protection groups advocate a stringent approach to the access and storage of personal data.

Key IP Legal Trends 2018–19 in Brief – Retail

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§ 10.1 INTRODUCTION

For retailers monitoring the ever-changing IP landscape, 2018 has delivered a variety of important developments. There have been U.S. Supreme Court decisions, continued efforts to bring IP legislation, and the continuation of certain industry trends. In the following overview, several key IP developments that occurred in the retail industry from late 2017 through summer 2018 are identified. There are also practice tips on trends that retailers and their attorneys may wish to watch.

§ 10.2 TRADEMARKS AND COPYRIGHTS

Retailers were party to only a few cases decided over the past year, but most provide useful reminders regarding best practices. New cases filed in the past year likewise may shed some light on the trends that retailers can expect to see in practice in the coming years.

A. Use of Another's Trademark to Indicate a Signature Style

Retailers must use care on in-store signage or advertising when referring to the signature style of a trademark holder. In *Tiffany and Company v. Costco Wholesale Corp.*, 274 F. Supp. 3d 216 (S.D.N.Y. 2017), the court found that "Tiffany" is used within the jewelry industry in the phrase "Tiffany setting" to designate a type of multipronged solitaire ring setting. Although Tiffany did not assert trademark infringement against Costco's use of "Tiffany style" or "Tiffany setting," it did assert, and the court agreed, that it was trademark infringement to use "Tiffany" as a standalone term without a modifier or where the modifier did not appear on the same line as "Tiffany" in its display case signage.

PRACTICE TIP

Counsel will need to pay special attention when there are line breaks in a retailer's in-store signage or advertising that reference a trademark in the context of describing an item not made by that trademark owner.

B. Bad Trademark Parody Still Dilutes and Infringes

Retailers and others will likely find parody a poor defense to trademark dilution and infringement. Although parody has its place in defense of copyright infringement, it has no statutory basis in trademark law. In the latest example, *VIP Products, LLC v. Jack Daniel's Properties, Inc.*, 291 F. Supp. 3d 891 (D. Ariz. 2018), the court was not amused by VIP's alleged parody of the Jack Daniel's Old No. 7 bottle trade dress in the form of a liquor-bottle-shaped, squeaky dog toy called "Bad Spaniels," where trade dress features were replaced with scatological references to "Old No. 2" and the like. The court summarily disregarded the defendant's claim of parody, finding VIP's clear intent was to capitalize on Jack Daniel's famous mark's popularity and good will for its own commercial gain.

PRACTICE TIP

Counsel should be wary of asserting a defense of "parody" of a trademark, because parodies seeking to leverage the popularity of another's trademark for their own commercial gain can still be found liable for trademark dilution or infringement.

C. Expanding Trademark and Trade Dress Assertions

Based on cases filed but not yet decided in the United States over the past year, there are likely to be more attempts to strengthen trademark color marks, pocket designs, and product design trade dress. A recent decision in favor of Christian Louboutin's red shoe-sole trademark by the European Union's highest court may put more wind in Louboutin's sales (pun intended) for further enforcement in the United States. Levi's is asserting trade dress protection for its red tabs on the outside of the pockets of its jeans, thus broadening the pocket designs for which counsel needs to review. Further, the market appears to be growing for fashion fakes and cosmetic dupes. In response, expect to see designers and beauty brands asserting trade dress in their unique packaging and product designs.

D. More Sellers Will Be Sued Directly for Counterfeits

Although there are growing numbers of counterfeit goods sold through sponsored ads and online marketplaces, the counterfeiters remain ever elusive. Retailers providing online marketplaces like eBay and Amazon are unlikely to be found liable for copyright infringement as long as they comply with the Digital Millennium Copyright Act (DMCA). As to trademark infringement, to which the DMCA does not apply, liability can be avoided as long as they act responsibly to remove counterfeit sellers every time they receive notice. Those trying to assert infringement claims against the counterfeiters will need to look past the platform on which the sellers peddle their fakes to the sellers themselves. Often, "contact-the-seller" attempts fail and online marketplaces refuse to provide the information. In such cases, luxury brand retailers and designers may need to file suit against defendants that can only be identified by their domain name (especially in light of the decreased WHOIS information available) or their chosen seller name on an online marketplace.

E. DMCA Safe Harbor Has Limits

The DMCA will not provide a safe-harbor defense to online retailers who are involved in the printing and shipping of infringing goods. *H-D U.S.A., LLC v. Sunfrog, LLC*, 282 F. Supp. 3d 1055 (E.D. Wis. 2017) involved Sunfrog, which provides an online marketplace to bring together t-shirt designers and buyers. When a buyer selects a t-shirt design, Sunfrog prints and ships the t-shirt to the buyer. SunFrog's business model is unlike that of eBay. eBay has found protection under the DMCA safe harbor because courts have found that eBay had no involvement in consummating the transaction involving the infringing goods, other than providing a platform for the buyer and seller to interact. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001). In contrast, SunFrog promotes infringing designs created by its users, has possession of and an opportunity to inspect the goods it prints before it ships them, and knows that purchases of infringing goods are made because it is the one to actually print and ship the goods to the buyer. *H-D*, 282 F. Supp. 3d at 1062. Accord-

ingly, this case affirmed that an online marketplace cannot have more involvement in transactions than to provide a platform on which buyers and sellers can meet to buy and sell goods if they expect to maintain a DMCA safe harbor defense from liability.

F. Fabric Design Raises Issue of Copyright Due Diligence

Some retailers may need to tighten their copyright policies, especially when it comes to fabric design. In *Unicolors, Inc. v. Urban Outfitters, Inc.*, 853 F.3d 980, 991 (9th Cir. 2017), the court found retailer Urban Outfitters liable for willful infringement because it made no attempt to check or inquire into whether any of the designs it used in its apparel were subject to copyright protection. As Urban Outfitters asserted, it is challenging to search for copyright protection of visual works at the Copyright Office, in part because the works deposited with copyright applications are not available for viewing. The court stated:

> Regardless of how difficult it may be to determine whether particular designs have been registered with the Copyright Office, a party may act recklessly by refusing, as a matter of policy, to even investigate or attempt to determine whether particular designs are subject to copyright protections.

Unicolors, 853 F.3d at 992. The *Unicolors* case is also noteworthy because it concluded that even in the absence of direct evidence of access to the original work, summary judgment may be granted for plaintiffs on the issue of copyright infringement “when the works are so overwhelmingly similar that the possibility of independent creation is precluded.” *Id*. at 987.

PRACTICE TIP

When using fabric design inspiration from any source, it is a best practice to assume that it is subject to copyright protection, then, in the absence of evidence to the contrary, use additional sources of inspiration to create a whole new work such that the similarities to any one source are minimized.

G. Is Graffiti Copyrightable?

Retailers have stumbled into the debate as to whether graffiti is protectable by copyright. After receiving a cease and desist letter from graffiti artist Jason Williams a/k/a Revok, H&M filed a declaratory judgment action against Williams for use of graffiti that appeared in the background in connection with its advertising campaign. In another lawsuit, Oakley was sued for using the outdoor

murals of two street artists Donald Robbins and Noah Darr (known as "Keptione" and "DJ Rakus") as the centerpiece of their ad campaign. Together these serve as cautionary reminders to legally clear the photography used in ads. Although H&M and Luxottica (which owns Oakley) dispute that the works are entitled to copyright protection, the hurdle for the "originality" required to secure copyright protection is quite low.

PRACTICE TIP

A retailer should have its IP counsel clear photography for use of potentially infringing content, including backgrounds (e.g., architecture, sculpture, or graffiti).

COMMENT

The past year brought many reoccurring issues for retailers but also has stirred up new issues for expanded trademark and copyright protection. This largely has revealed the limitations of the law to seek redress for counterfeits on social media and online marketplace platforms.

§ 10.3 PATENTS

A. Design Patent Damages

In yet another round of the *Apple v. Samsung* patent litigation, a district court jury in May 2018 awarded Apple approximately a half billion dollars in damages for design patent infringement. Many will recall the 2012 jury verdict that awarded Apple just over $1 billion in damages. Through a 2013 retrial, appeal, and adjustment, the award was reduced to $399 million. Then, in 2016, the case went to the U.S. Supreme Court for consideration of the proper scope of design patent damages. Federal law says a company selling an "article of manufacture" that is found to infringe a design patent is liable for its total profits on sales of that article. Samsung asked the U.S. Supreme Court to decide whether design patent damages should be based on sales of the entire product or just its infringing components. The Court ruled that while the relevant "article of manufacture" might be the entire product in some cases, it might only be certain components of the product in other cases. The Court did not decide whether the relevant article of manufacture in this case is the entire phone or just certain of its components. Instead, the Court simply ruled that the relevant article of manufacture need not always be the entire product sold to the customer.

The Supreme Court decision was deemed, at least by some, a victory for Samsung. In the wake of that decision, retailers may have foreseen lesser damages on the horizon, at least in certain situations, for design patent infringement. And while it seems much of the story is yet to be written, the Supreme Court's decision may portend outcomes where the damages for design patent infringement are based solely on the profits attributed to certain components of a product.

Apple believes in the value of design. It therefore champions the position that design patent infringers should forfeit all the profits they make from the infringing product. That position is shared by many design-focused retail players, such as Nike and numerous designers, including many from the fashion industry.

The Supreme Court sent the *Apple v. Samsung* case back to the district court for a determination of the correct damages in view of the Supreme Court's guidance. In May 2018, the jury returned a verdict in Apple's favor for damages of $539 million. Thus, notwithstanding the Supreme Court ruling that the relevant article of manufacture may be less than the entire product, the jury *increased* Apple's award by $140 million.

The cascade of *Apple v. Samsung* decisions may yield uncertainty in the minds of retailers. Will the damages for infringing a design patent potentially be *less* for a multi-component product where only certain components infringe the patented design? Or, will the magnitude of the damages awarded to Apple make retailers more cautious in following the design trends set by competitors?

The authors posed these questions to University of Minnesota Law School Professor Tom Cotter, who publishes the highly-regarded "Comparative Patent Remedies" blog. Professor Cotter offered the following remarks:

> I would not overreact, but I do think companies need to be careful if they are planning to release products incorporating design features that are similar to patented designs. In my view, there is risk that some firms will use the design patent damages statute (35 U.S.C. § 289) as leverage for trying to extract a settlement. By allowing disgorgement of the entire profit attributable to the "article of manufacture," the statute makes no economic sense whatsoever. The Supreme Court's decision in *Apple v. Samsung* does say that the article of manufacture is not necessarily the entire end product, but provides no guidance for determining what the relevant article is. Many courts may follow Judge Koh's lead in *Apple v. Samsung* on remand and instruct the jury on the four factors recommended by the Solicitor General in his brief in *Apple v. Samsung*. But those factors do not provide much in the way of predictability. In *Apple v. Samsung* itself, the jury on remand awarded *higher* damages than it did the first time around!

The four factors recommended by the Solicitor General are: (1) the scope of the design claimed in the plaintiff's patent, including the drawing and written description; (2) the relative prominence of the design within the product as a whole; (3) whether the design is conceptually distinct from the product as a whole; and (4) the physical relationship between the patented design and the rest of the product (e.g., does the design pertain to a component that a user or seller can physically separate from the product as a whole, is the design embodied in a component that is manufactured separately from the rest of the product, and can the component be sold separately?) One thing is clear; the story on design patent infringement damages has not been fully written. Professor Cotter notes the following:

> Since the parties have settled the case, there will not be any further appeals. But other courts will have to address the issue of how you determine what the article of manufacture is—and also how to determine the profit attributable to that article, if it is less than the entire end product.
>
> Another issue that most people have overlooked is whether this is a jury issue at all. A recent Federal Circuit case on trade secrets casts doubt on that. See *Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics Am., Inc., f/k/a/ Intersil Corp*. (Fed. Cir. 2018).

For further discussion, see Thomas. F. Cotter, Comparative Patent Remedies Blog, *Is Disgorgement of Profits a Jury Issue* (May 1, 2018), <http://comparativepatentremedies.blogspot.com/2018/05/is-disgorgement-of-profits-jury-issue.html>.

B. NPEs Less of a Factor?

There are indications and reports of non-practicing entities (NPEs) initiating fewer lawsuits, having a harder time collecting large payments from operating companies, slowing or even ending their acquisition of patents, or otherwise evolving their business strategies. While the reports and opinions on these trends vary, retailers may be grappling with NPEs less in 2018, at least compared to NPE activity levels from the 2011 timeframe.

Several factors may be reducing, or at least changing, the activities or strategies of NPEs. The U.S. Supreme Court's May 2017 decision in *TC Heartland v. Kraft Foods*, 137 S. Ct. 1514 (2017), has eliminated some of the venue shopping that had favored NPEs. In that decision, the Court held that patent infringement cases can be brought only in the judicial district where the defendant is incorporated or where the defendant has committed acts of infringement and has a regular and established place of business. Since that decision, major decreases have been reported in the number of patent cases filed in the Eastern District of Texas, a famously plaintiff-friendly venue. While the

TC Heartland case may not favor national retailers that have stores in the Eastern District of Texas, other retailers may be delighted with the reduced likelihood of having to litigate there.

Another factor that has impacted the extent to which NPEs enforce their patents successfully has been the establishment of the U.S. Patent and Trademark Office's (USPTO) trials for revisiting the validity of (and potentially invalidating) an issued U.S. patent. The America Invents Act (AIA) established the Patent Trial and Appeal Board (PTAB), thereby launching the new world of inter partes reviews (IPRs), post-grant reviews (PGRs), and covered business method (CBM) reviews. The PTAB has been a difficult venue for the owners of patents. The trials available at the PTAB have been a powerful tool in the hands of alleged infringers. This has seemed to reduce the value and power of U.S. patents. From the perspective of retailers, this may have a positive impact insofar as it provides retailers more robust options for defending themselves from NPEs.

Two other developments that continue to settle in and potentially suppress NPE activity are: (1) the lesser availability of business method patents in the United States; and (2) the negative impact of the Supreme Court's 2014 decision in *Alice Corp. Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014) on the availability (and validity) of software patents, including patents on software for business methods. Both developments seem to have at least some limiting effect on the activities of NPEs.

It should be noted, however, that the landscape here is fluid. In April 2018, for example, the USPTO issued a memo (the so-called *Berkheimer* memo) to its examiners providing additional guidance on how to determine whether the subject matter of an invention is eligible for U.S. patent protection. The memo may give increased hope to those pursuing software type patents. Moreover, this area of U.S. patent law is ever-evolving. Thus, while the current legal environment appears to have some limiting effect on NPE activity, that environment is once again shifting in 2018.

Finally, on the proposed legislation front, 2018 brings continued efforts to curb the activities of NPEs. Both houses of Congress are considering STRONGER Patents Act bills. While this proposed legislation includes numerous changes (discussed in the next section), one of its parts is intended to address misleading patent demand letters, and has been described as targeting NPEs. Specifically, title II of this proposed legislation is titled "Targeting Rogue and Opaque Letters" (TROL). It defines "bad faith" in the context of patent demand letters, such as knowingly making false or misleading statements. Violations would constitute unfair or deceptive acts and would be subject to punishment by the Federal Trade Commission.

In connection with the Senate bill (S. 1390), hearings were held in the Judiciary Committee in April 2018. In the same month, the companion bill in the House of Representatives (H.R. 5340) was referred to the Subcommittee on Courts, Intellectual Property, and the Internet. Some commen-

tators have suggested these bills are not sufficiently balanced (e.g., may be too patent-friendly) to be enacted in their current form.

With respect to the demand letters section of this proposed legislation, Professor Cotter states the following:

> This provision does not strike me as so pressing any more. Most states now have some sort of similar legislation, but to my knowledge they have not used them very much. Plus, some of the worst aspects of the patent troll phenomenon seem to be receding.

A separate bill in the House of Representatives, the Trade Protection Not Troll Protection Act (H.R. 2189), seeks to make it harder for NPEs to initiate patent infringement actions in the U.S. International Trade Commission (ITC). In May 2017, this proposed legislation was referred to the Ways and Means Committee's subcommittee on trade for consideration. This bill is another example of ongoing attempts to hinder the activity of NPEs. On this topic, Professor Cotter remarks:

> Patent trolls have not gone away, but the issues do not seem as pressing as they did a few years ago. This legislation is very narrow, addressing only cases before the ITC. Those cases are important, but on the other hand the ITC hears less than 100 cases altogether annually, and only some of them involve trolls. I question whether this bill will be high on Congress's agenda.

C. Perceived Decrease in Strength of U.S. Patent System

Each year, the U.S. Chamber of Commerce ranks the strength of each country's patent system. In its January 2018 list, the U.S. patent system ranked 12th internationally, tied with Italy, down from 10th in 2017, continuing its decline. One factor cited by the Chamber has been the availability of patent-hostile trials at the USPTO for seeking invalidation of issued U.S. patents. Nobody who owns a patent wants to end-up defending it in the PTAB. In connection with the impact of PTAB procedures, the Chamber cited the ease of challenging U.S. patents, the high volume of PTAB trials, and the disproportionate rate of rejections. The Chamber also cited the reduced opportunity to amend claims in PTAB trials. Other cited factors include a cautious and restrictive approach to determining eligibility for patentable subject matter in the areas of business methods and computer-implemented inventions. In this regard, the Chamber mentioned the 2014 Supreme Court decision in *Alice Corp. v. CLS Bank International*, and the resulting impact on business-method patents and software patents.

COMMENT

For retailers, the results of the foregoing developments are varied. On the one hand, some of the noted developments may benefit retailers. For example, the enhanced ability to invalidate business method and software patents, the issuance of fewer such patents in the first place, and the stricter venue rules for patent infringement litigation may reduce the extent to which retailers endure tussles with NPEs. On the other hand, there are questions about how a declining U.S. patent system will impact the U.S. economy. Will it negatively impact innovation in the United States?

In at least one notable index, the answer appears to be yes. The 2018 Bloomberg Innovation Index showed the United States falling outside the top 10 list of most innovative countries for the first time since *Bloomberg* began publishing this index. Specifically, the United States was ranked 11th out of the 50 economies considered. South Korea was first, Sweden was second, Singapore was third, and Germany was fourth.

For retailers concerned that the U.S. patent system has failed to strike the right balance, the situation is fluid. For example, the constitutional attack on PTAB trials in the *Oil States Energy Services, LLC v. Green's Energy Group, LLC*, 138 S. Ct. 1365 (2018) case was decided in April 2018. In that case, the plaintiff had argued that the USPTO's IPR process is unconstitutional. The Supreme Court disagreed, finding the process constitutional on the challenged grounds. Thus, IPR trials will continue at the USPTO.

There are, however, indications that USPTO trials will be changed in the near future to make them at least somewhat less patent-hostile. In February 2018, the United States Senate confirmed Andrei Iancu as Director of the USPTO. Since his confirmation, Director Iancu has discussed his intentions to bring more predictability to the U.S. patent system. In April and May of 2018, Director Iancu gave speeches in congressional committees indicating that the USPTO is considering potential improvements to the AIA trial standards and processes. According to Director Iancu, some of the issues under review include the institution decision, claim construction, the amendment process, and the conduct of hearings.

Further, in May 2018, the USPTO published a Notice of Proposed Rule Making in the Federal Register that would change the claim construction standard for interpreting claims in PTAB proceedings. The proposed change would replace the current broadest reasonable interpretation (BRI) standard with the standard used in district court litigation and at the ITC (where words of a claim are

generally given their ordinary and customary meaning). The proposed rules also would require the USPTO to consider relevant claim constructions from a prior civil lawsuit or ITC proceeding. Both changes are intended to bring greater predictability. In the *Oil States* case, for example, the patent owner had successfully asserted and defended its patent in district court, only to have the USPTO subsequently reach a different decision: that certain claims of the patent are invalid.

The failed attack on the constitutionality of PTAB proceedings in the *Oil States* case could increase the focus on legislative efforts to strengthen the U.S. patent system. As noted above, both houses of Congress are considering STRONGER Patents Act bills. The proposed legislation includes numerous changes to PTAB reviews. For example, the proposed changes would: (1) add new limitations on who can initiate a PTAB review (by requiring the requesting party to show either a reasonable likelihood of being sued for infringement of the patent in question or a competitive harm related to the patent's validity); (2) forbid bringing an IPR or a PGR in cases where a court or the ITC have previously decided the validity of the claims on novelty or obviousness grounds; (3) require the PTAB to consider prior district court claim constructions for the patent; (4) require the claims to be construed by their ordinary and customary meaning (the standard used in court and at the ITC); (5) make it easier for the patent owner to amend its claims; and (6) make it easier for a successful patent enforcer to enjoin infringing activity.

It is unclear whether the STRONGER Patents Act, as currently drafted, will be enacted. Professor Cotter provides his opinion as follows:

> I do not think it will. There is still a big divide among industries. Pharma and some others want stronger patent protection (e.g., making injunctions the presumptive remedy for infringement), but Silicon Valley for the most part is opposed. I do not expect the bill to pass in its current form.

COMMENT

Given everything at play in 2018, the coming months seem destined to bring more change to the IP arena. In the area of patents, in particular, there may be major change. Some of the potential changes offer upside for retailers. The U.S. patent system, however, has been changing so much in recent years that it is easy to worry about lack of predictability and stability. Like other businesses, retailers should stay tuned.

Key IP Legal Trends 2018–19 in Brief – Food, Beverage, and Restaurant Industries

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§ 11.1 INTRODUCTION

Consumers are increasingly concerned with transparency and accessibility when it comes to their food and beverage consumption. This chapter identifies four key trends shaping the food, beverage, and restaurant (FBR) markets: (1) the focus on transparent and healthy products; (2) the desire for local and craft products; (3) the growth of ordering and delivery platforms; and (4) the need for traceability in the supply chain. This chapter discusses the intellectual property implications of each trend and provides related practice tips.

§ 11.2 FOCUS ON TRANSPARENT AND HEALTHY PRODUCTS

A. Industry Trend

One key trend driving the FBR industry sector is a focus on product transparency. Transparency calls for accessible information about the ingredients, additives, growing and processing methods, origins, and sustainability of food products. David Henkes, *Food Industry Forecast: Key Trends Through 2020*, Emerson Climate Technologies, *available at* <https://www.emerson.com/documents/commercial-residential/Dallas-Food-Industry-Forecast-Key-Trends-Through-2020-en-151204.pdf>. Consumers’ distrust pressures producers to make information about their supply chains, production processes, and ingredients readily accessible. Brands should use labels that give consumers confidence in the purity and safety of their food and drink products. Mintel, *Global Food & Drink Trends 2018*, at 4 (2018), <http://www.mintel.com/global-food-and-drink-trends/> (follow “Download Your Free Copy Now” hyperlink).

Consumers’ interest in healthy products has been a long-term trend in the industry. Looking at U.S. trademark applications from 2007 to 2017, there have been roughly 200 to 300 applications filed each year in the food and beverage classes (classes 29–33) that include the terms “natural,” “healthy,” and “organic” or variants of these terms (excluding a dip in applications for “organic” marks in 2009 through 2011). Natural products are increasingly popular. What has changed recently is consumers’ desire to know the details behind the broad claims. In Mintel’s 2018 study of global food trends, the market research firm found a 17 percent increase in the number of natural product claims over the last 10 years. *Id.* These natural claims included assertions that food had no additives or preservatives, was organic, or was GMO-free. *Id.*

B. Limited Regulatory Guidance on Key Terms

As FBR companies increasingly want to incorporate product claims into their brands, advertising, and packaging, existing laws and regulations have not yet provided specific guidance on many key terms. Despite beginning rulemakings and accepting thousands of comments on the definitions of “natural” and “healthy,” the U.S. Food and Drug Administration has yet to issue regulations defining these key terms. In a speech to the National Food Policy Conference this spring, FDA Commissioner Scott Gottlieb provided no timelines but promised action on both these issues, including seeking comment on whether there should be a standard icon or symbol for the word “healthy” that everyone could use on food packages. U.S. Food & Drug Administration, Remarks by Scott Gottlieb, M.D., Commissioner of Food and Drugs at the National Food Policy Conference,

Washington, DC, Mar. 29, 2018, *Reducing the Burden of Chronic Disease*, <https://www.fda.gov/NewsEvents/Speeches/ucm603057.htm>.

Likewise, food and beverage manufacturers lack definitive guidance on what does and does not constitute a genetically modified organism (GMO). In 2016, Congress passed the National Bioengineered Food Disclosure Standard Act requiring the U.S. Department of Agriculture (USDA) to develop labels on foods containing GMOs, which the agency calls bioengineered or "BE" food. *See* 7 U.S.C. § 1639b. This standard exempts restaurants from the mandatory disclosure requirement. 7 U.S.C. § 1639b(b)(2)(G)(i). In May 2018, the USDA issued its latest rulemaking related to this law proposing, in part, several variations on BE designs for review and comment:

National Bioengineered Food Disclosure Standard, 83 Fed. Reg 19860, 19873-74 (2018) (to be codified at 7 C.F.R. pt. 66).

The existing guidance on GMOs comes from the FDA, not the USDA, in a non-binding "guidance." U.S. Food & Drug Administration, *Guidance for Industry: Voluntary Labeling Indicating Whether Foods Have or Have Not Been Derived from Genetically Engineered Plants*, Section II.B (2015), <https://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm059098.htm>. Despite their popularity, the FDA recommends that producers not use "non-GMO" and "GMO free" labels for products. *Id.* The FDA suggests these claims are hard to substantiate. *Id.*

PRACTICE TIP

IP lawyers should follow the FDA and USDA developments to guide their clients in when and how to use these key terms. Moreover, FBR companies should avoid developing designs that look like the final BE designs or elements of the BE designs adopted by the USDA as this could prompt a different type of false advertising claim.

C. False Advertising Litigation Based on Health or Nutritional Labels

With no binding guidance from the USDA or FDA regulations, plaintiffs have brought numerous claims against food and beverage producers for false advertising under the Lanham Act and various similar state statutes. While courts often defer or stay litigation pending definitive agency guidance, not all courts do. Moreover, resolution of some of the definitional issues could lead to further disputes requiring courts to interpret the application of the newly-issued agency rules.

In *In re KIND LLC "Healthy & All Natural" Litigation*, 287 F. Supp. 3d 457 (S.D.N.Y. 2018), the plaintiffs based false advertising or misrepresentation claims on the premise that products with an "all natural" label cannot include GMO ingredients. The district court considered whether to stay the plaintiffs' class action suit alleging that the defendants deceptively marketed their products as "natural" and "non-GMO" despite the fact that these products contained "synthetic and genetically modified ingredients." *KIND*, 287 F. Supp. 3d at 460. The KIND defendants moved to dismiss, arguing that the USDA had primary jurisdiction to determine whether a product was non-GMO. *Id.* at 464. The court had stayed the plaintiffs' natural claim in a prior ruling, deferring to the FDA's future definition over the term. *Id.* at 467. The court stayed the plaintiffs' non-GMO claim as well, but indicated its impatience with further stays absent FDA progress on these issues. *Id.* at 470–71.

In *Rosillo v. Annie's Homegrown, Inc.*, No. 17-cv-02474-JSW, 2017 U.S. Dist. LEXIS 190130, at *2 (N.D. Cal. Oct. 17, 2017), the district court stayed the plaintiffs' claim that Annie's Naturals products were in fact not natural because they contained "synthetic and highly processed ingredients." The defendants moved to dismiss, arguing the FDA held primary jurisdiction over the term "natural." The court relied on the FDA's request for comment regarding the use of the term "natural." *Rosillo*, 2017 U.S. Dist. LEXIS 190130, at *6. The *Rosillo* court noted that numerous other courts have similarly deferred cases pending FDA regulation. *Id.* In a later continuation of the stay, the court expressed reluctance similar to the *KIND* court to stay matters indefinitely.

While *KIND* and *Rosillo* represent a common judicial trend, not all courts choose to stay misrepresentation claims. In *Burton v. Hodgson Mill, Inc.*, No. 16-cv-1081-MJR-RJD, 2017 U.S. Dist. LEXIS 53160, at *22 (S.D. Ill. Apr. 6, 2017), the district court denied defendant Hodgson Mill's motion to dismiss and allowed the case to proceed. The named plaintiff, Burton, argued the "all natural" uses violated Illinois state law prohibiting deceptive practices because the product contained "synthetic agents" and "genetically modified ingredients." *Burton*, 2017 U.S. Dist. LEXIS 53160, at *1. The case turned on whether a reasonable person would interpret "all natural" to exclude GMO and synthetic ingredients. *Id.* at *15. While USDA and FDA regulation could be relevant, the *Hodgson* court found the FDA's definition of "natural" was not vital to the issue. *Id.* at *14. The plaintiffs voluntarily dismissed their case seven months later.

Slogans, product names, and packaging can all serve as advertising claims. The plaintiffs sued over packaging labels in all three of the above cases. The *Rosillo* plaintiffs also argued that the product name, Annie's Naturals, was a misrepresentation. *Rosillo*, 2017 U.S. Dist. LEXIS 190130, at *2. In *Beccera v. Dr. Pepper/Seven Up, Inc.*, No. 17-cv-05921-WHO, 2018 U.S. Dist. LEXIS 54937, at *2 (N.D. Cal. Mar. 30, 2018), the plaintiff argued that including the term "diet" in product names for diet sodas was a misleading claim regarding the product's health benefits. The *Becerra* court found that the plaintiff's belief that diet soda would aid in weight loss, beyond the fact it has no calories, to be unreasonable.

PRACTICE TIP

In light of these recent decisions, IP counsel should scrutinize both brands and accompanying advertising claims that consumers might view as a guarantee of quality or health benefits. Even after regulatory definitions and guidelines issue, producers purporting to follow such definitions and guidelines will not be insulated from such claims because complaints alleging false advertising or misrepresentation often revolve around the reasonable belief of consumers. For example, the definition of the term "natural" informs a court's determination of reasonable belief, but does not necessarily govern the matter.

§ 11.3 DESIRE FOR LOCAL AND CRAFT PRODUCTS

A. Industry Trends

Another key industry trend focuses on local products. When the National Restaurant Association surveyed 700 chefs about trends for 2018, three of the top 10 trends were variations on the "local" theme: hyper-local, locally sourced meat and seafood, and locally sourced produce. National Restaurant Association, *The Top 10 HOT Trends for 2018* (Dec. 6, 2017), <https://www.restaurant.org/News-Research/News/What-s-Hot-Top-10-trends-in-2018>. Consumers associate local options with social responsibility, fresh and high quality products, sustainable practices, clean food, and healthy products. *See* Henkes, *supra*. "Local" is a subjective term and while there is no uniform definition, it can imply small-sized artisan or craft production, fresh and natural, family-owned, direct delivery from producers, or sourced from within 150 mile radius. *See* Henkes, *supra*.

Related to the local concept, craft breweries and distilleries are also popular. Locally produced and craft alcoholic beverages rank among the top beverage trends, according to the National Restaurant Association. The craft trend extends to sodas and cocktails with natural ingredients,

which rank among the top beverage trends. National Restaurant Association, *supra*. Responding to numerous instances in which larger companies purchased small brewers and continued to market their products as "craft" beers, the Brewers Association launched its own seal in 2017:

In a press release explaining the launch, the Brewers Association described the seal as "capturing the spirit with which craft brewers have upended beer, while informing beer lovers they are choosing a beer from a brewery that is independently owned." Brewers Association, *Brewers Association Launches New Seal to Designate Independent Beers* (June 27, 2017), <https://www.brewersassociation.org/press-releases/brewers-association-launches-new-seal-designate-independent-beers/>. In a jab to industry giants, the press release continued: "These breweries run their businesses free of influence from other alcohol beverage companies which are not themselves craft brewers." *Id.*

In an open letter to the Brewers Association on May 7, 2018, Pete Coors, chairman of the board of directors of Molson Coors, commented on the certification mark program: "You must know that it is insulting to those of us who don't meet the clever criteria of your self-proclaimed definition of 'craft brewer.'" Keith Gribbins, *Craft Brewing Business* (May 2018) <https://www.craftbrewingbusiness.com/featured/an-open-letter-to-pete-coors-ninkasi-brewing-counters-coors-chairmans-critique-of-the-craft-movement/>. The letter generated an open letter from Nikos Ridge, the Brewers Association president and co-founder, who responded to Coors' comment as follows: "What is insulting is for you to lie to craft beer customers about the origins of their beer and then argue that it's a problem when we [craft brewers] point it out." *Id.* Time will tell which definition of "craft" the public comes to embrace.

B. Little Regulatory Guidance

Unlike with "natural," "healthy," and "GMO," there is no impending overarching, regulatory national framework for the terms "local" and "craft." The USDA defines "local foods" as "direct or intermediated marketing of food to consumers that is produced and distributed in a limited geographic area." U.S. Department of Agriculture, *Definition of "Local Food,"* <https://www.nal.usda.gov/aglaw/local-foods#quicktabs-aglaw_pathfinder=1>. The USDA acknowledges that there

is no one distance from the source to define local, but notes that "a set number of miles from a center point or state/local boundaries is often used" and emphasizes that "local food systems connect farms and consumers at the point of sale." Similarly, there is no set federal definition for craft as it relates to the FBR industry.

PRACTICE TIP

False advertising claims regarding these terms may be more difficult because of the lack of regulatory and industry consensus on their meaning and the difficulty of measuring consumers' reasonable expectations because of the subjectivity of these concepts.

C. Trademark Filings Mirror or Will Mirror Trends

U.S. trademark applications for marks containing the term "local" mirror the FBR uptick, with four applications filed in 2007 and 46 filed in 2017 in the food and beverage classes 29 through 33. Filed applications for "craft" products similarly increased in frequency from 23 to 216 (for the years 2007 and 2017 respectively). Of course, these filings only measure the intended uses or actual uses that appear in brands themselves. Far more likely is the appearance of these words on packaging and in advertising.

Given the lack of regulatory guidance, IP lawyers can expect more producers to set their own definitions by creating and obtaining trademark protection for certification mark programs. For example, the GROWN LOCAL certification mark employs a flexible definition of local: "grown or produced at a physical location that is reasonably determined to be local with respect to a physical location of the typical consumer of such products," while requiring the products to be GMO free. U.S. Trademark Reg. No. 4,378,672. In contrast, the MICHIGAN APPLES LOCALLY GROWN certification mark requires that the certified apples must be grown in Michigan. U.S. Trademark Reg. No. 3618631. While there are only nine active U.S. certification applications and registrations that contain the word "LOCAL" or a close variation, all relate to food or beverages and only three of the filings predate 2015.

The use of "craft" certification marks for "craft" uses on food and beverage products is more recent. There are only two active federal certification marks containing "craft" or a close variation; both applications are for alcohol, and both were filed in 2017. The more noteworthy is the BREWERS ASSOCIATION CERTIFIED INDEPENDENT CRAFT seal discussed above. To qualify for use of this certification mark, the brewer must meet the certifier's definition of a "craft brewer" among other requirements. Serial No. 87/523,409. This definition requires companies to be small

(fewer than 6 million barrels of beer annually), independent (less than 25 percent owned by a non-craft brewer), and traditional (a majority of its alcohol volume comes from beer). Brewers Association, *Craft Brewer Defined*, <https://www.brewersassociation.org/statistics/craft-brewer-defined/>.

PRACTICE TIP

FBR companies with national brands should consider incorporating popular terms into the client's own brands, taglines, and advertising so long as such inclusion is not misleading and any claims can be substantiated. For companies with a local sales reach, developing and promoting certification marks through a third-party association may provide benefits similar to having a national brand. Associations that own certification marks may wish to expanding protection to the European Union since the European Union Intellectual Property Office began accepting certification mark applications as of October 1, 2017. EU Trademark Regulation (EU 2015/2424), Official Journal of the European Union L341/21, L341/46-48 (Dec. 24, 2015).

§ 11.4 GROWTH OF ORDERING AND DELIVERY PLATFORMS

A. Industry Trends

Two recent trends not specific to the FBR industry—rising minimum wages and stricter immigration policies—are contributing to an increased desire for technological development. Tommy Lee, *Labor, Tech Fuel 2018 Restaurant Industry Outlook and Trends*, Aprio, <https://www.aprio.com/whatsnext/labor-tech-fuel-2018-restaurant-industry-outlook-trends/>. Within the FBR industry, this has prompted the growth of new delivery, ordering, and payment platforms and services. *Id.* The restaurant and grocery industry has experienced an "off-premise boom" in consumption. Consumers demand more and more outlets for purchasing, through services like online delivery, app-based ordering, kiosk ordering, and curbside pick-up. *Global Food & Drink Trends 2018*, *supra*, at 4. Such offerings permit restaurant and food production companies to distinguish themselves through distinct experiences. Tara Nurin, writing for *Forbes*, suggests food purchases are no longer purely transactional. Tara Nurin, *10 Trends That Will Determine Your Drinking in 2018*, Forbes (Jan. 31, 2018), <https://www.forbes.com/sites/taranurin/2018/01/31/ten-trends-that-will-determine-your-drinking-in-2018/#15720e1c2992>. Instead, customers buy experiences.

Food producers and retailers can decrease labor costs and provide a unique customer experience if they employ new ordering and delivery platforms. Consumers are better able to customize

their experience when given numerous ways to purchase goods. *Global Food & Drink Trends 2018*, *supra*. Technology like kiosk ordering allows customers to individualize their purchase without the high labor costs of in-person ordering.

B. Impact on Branding

The continuing rise of consumers purchasing food and beverage online is making trademark owners rethink their branding and packaging strategies. What looks good in a supermarket aisle or end cap at a mass merchandiser may not translate well to a small thumbnail of the product when viewed online. Also, consumers' desire for transparency (as discussed in *supra* section 11.2) may lead to increased use of photos of products or discussions of the products' ingredients and less room for designs and slogans. Moreover, companies may wish to expand existing brands or create new brands to cover mobile apps or ordering and delivery functions, creating a need for new searching and filing strategies.

PRACTICE TIP

Make sure that clearance and filing strategies take into account possible brand extensions to new means of payment, ordering, and delivery. Discuss with clients the consistency and transformability of their logo/trade dress/brand architecture to make sure that it translates well across platforms.

C. Impact on Licensing

On the licensing front, partnerships will be more important than ever as retailers and restaurants need to develop or strengthen relationships with payment and delivery services. The stakes are high given the impact that a faulty ordering process or late delivery can have on a brand and its goodwill. This is especially true given that many service providers are more logistics-driven companies than brand-driven companies. Important factors to consider are if and how these vendors can use food brands and, if there will be exclusivity, whether to create a co-brand with a logistics brand and a food brand. By focusing on brand guidelines and performance specifications such as order processing and delivery times, FBR companies can minimize the brand risk inherent in this kind of arrangement.

PRACTICE TIP

Make sure that key vendor arrangements regarding product ordering and delivery are reviewed by brand lawyers as well as IT contract lawyers. Develop clear guidelines for how vendors can use the brands as part of their services and whether this includes a co-branded arrangement. Establish parameters for key performance metrics such as times for order and delivery and temperature control.

§ 11.5 FOOD SAFETY

A. Industry Trend

The food industry faces mounting challenges as consumers demand more information about what they purchase, but the difficulty of tracking food through globalized supply chains inhibits the industry's ability to provide that information. *See* Sean Crossey, *How the Blockchain Can Save Our Food*, New Food (May 17, 2018), <https://www.newfoodmagazine.com/article/36978/blockchain-can-save-food/>. In particular, the industry has weathered serious incidents over the past few years, including the United Kingdom horsemeat scandal and a salmonella outbreak, both of which cost companies millions of dollars. *Id*. Most recently, the United States dealt with an untraceable E. coli outbreak that caused five deaths and hundreds of infections. CDC, *Multistate Outbreak of E. Coli O157:H7 Infections Linked to Romaine Lettuce* (June 28, 2018), <https://www.cdc.gov/ecoli/2018/o157h7-04-18/index.html>.

At the beginning of the most recent E. coli outbreak, the Centers for Disease Control and Prevention (CDC) published an initial announcement warning that E. coli already had reached multiple states and infected at least seventeen individuals. *Id*. Days later, investigators suggested that romaine lettuce from the Yuma, Arizona, growing region could be the cause. *Id*. However, investigators could not pinpoint a particular farm in the region as the source, nor a particular stop along the supply chain where all the contaminated romaine would have converged before continuing on to restaurants and grocery stores. Maya Springhawk Robnett, *5 Dead, 197 Ill with E. Coli from Romaine Lettuce Grown in Yuma Region; FDA Still Investigating*, KAWC (Apr. 24, 2018), <http://kawc.org/post/5-dead-197-ill-e-coli-romaine-lettuce-grown-yuma-region-fda-still-investigating>.

With growing concerns about how far the outbreak was reaching, the FDA published a "traceback" diagram that showed why it was so difficult to determine the specific source or sources of the outbreak. *See* FDA, *FDA Update on Traceback Related to the E. Coli O157:H7 Outbreak Linked to Romaine Lettuce* (May 31, 2018), <https://blogs.fda.gov/fdavoice/index.php/2018/05/fda-

update-on-traceback-related-to-the-e-coli-o157h7-outbreak-linked-to-romaine-lettuce/>. In total, romaine in the Yuma region came from 33 fields at 19 ranches, was harvested and processed by six companies, went through nine distribution facilities, and was sold at 15 different businesses. *Id*. However, there was no single spot on the diagram where all the romaine came into contact. *Id.* To make matters even more complicated, the romaine growing season had ended more than a month prior to most of the investigation meaning much of the on-the-ground evidence was gone. Robnett, *supra.*

By June 1, 2018, the CDC was certain the infected romaine was out of the supply chain because it has a short "shelf life." *See FDA Update on Traceback Related to the E. Coli O157:H7 Outbreak Linked to Romaine Lettuce*, *supra*. However, at that point, the contaminated romaine had infected nearly 200 people across 35 states. *Id*. More severely, 89 individuals were hospitalized and five died. *Id*. Despite these illnesses, the FDA never issued a mandatory recall because it could not determine the specific source of the contaminated romaine. Sean Rossman, *People Are Throwing Out Romaine Lettuce, But Why Hasn't There Been A Recall?*, USA Today (April 24, 2018), *available at* <https://www.usatoday.com/story/news/nation-now/2018/04/24/people-throwing-out-romaine-lettuce-but-why-hasnt-there-been-recall/545979002/>.

One possible solution to the traceback problems that occurred in the E. coli outbreak is for companies to utilize blockchain technology throughout their supply chains, which some argue will provide better farm to table data. Merve Unuvar, *The Food Industry Gets an Upgrade with Blockchain,* IBM (June 15, 2017), <https://www.ibm.com/blogs/blockchain/2017/06/the-food-industry-gets-an-upgrade-with-blockchain/>.

B. Blockchain Technology – How Does It Work?

To understand how blockchain technology could increase food safety, one must understand how blockchain technology works.

Blockchain consists primarily of three components working together to form a chain of blocks, which one can also describe as the unalterable history of a data set. First, there is a distributed ledger. *See* Michele D'Aliessi, *How Does the Blockchain Work?*, Medium (June 1, 2016), *available at* <https://medium.com/@micheledaliessi/how-does-the-blockchain-work-98c8cd01d2ae>. This ledger tracks any updates blockchain users make to its contents. *Id*. However, unlike a ledger at a bank, for example, it is not stored on a central server. *Id*. Instead, it is distributed across a network of computers that each contain copies of the ledger. *Id*. These computers are called nodes and are the second component. *Id*. The third component is the block. *Id*. A new block forms every time a user updates the ledger, and that new block is chained to the preceding block. *Id.*

It is how these three components work together that makes blockchain such a unique technology. First, the entire system is encrypted and members can access it only if they provide their unique, private identification codes. *Id*. Second, members cannot make any changes they want to the ledger. *See id*. When a member accesses his or her version of the ledger, he or she will initiate a change that travels through the network to the other nodes for approval. *Id*. The other nodes will approve the change only if it complies with the pre-established rules of that blockchain. *Id*. If the change does not comply, the nodes reject it, and the ledger remains the same. *See id*. If the change does comply, a new block forms with the updated ledger, which is then chained in chronological order to the preceding blocks. *Id*. This allows members to see how this block is different from the previous block, when the change occurred, and who initiated the change.

Because changes require network-wide approval and private keys control access, many experts consider blockchain one of the safest methods of storing data and completing transactions. *Id*. And, while blockchain use has been most notably popularized by the Bitcoin cryptocurrency, technology experts predict many industries will find ways to utilize blockchain to their advantage. *Id*.

C. Blockchain and the Food Supply Chain – The Walmart-IBM Experiment

One of the biggest problems food supply chains face is the amount of paperwork each link in the chain produces and sends downstream. Unuvar, *supra.* Oftentimes, the information is incomplete or an upstream link produces it in such a way that downstream links have to undergo manual review processes that are time-consuming and inefficient due to the nonstandard formatting. *Id*. Furthermore, the supply chain might have enough links across the globe that information goes missing, and the ultimate retailer cannot verify where the food originated. *Id*. This becomes problematic when consumers want proof of a product's country of origin, organic status, or non-GMO claims. *Id.*

Industry insiders and analysts recognize that missing information costs money and drives away wary customers. *See* Crossey*, supra*; Unuvar, *supra*; Jessica McKenzie, *Why Blockchain Won't Fix Food Safety—Yet*, New Food Economy (Feb. 4, 2018), <https://newfoodeconomy.org/blockchain-food-traceability-walmart-ibm/>; Food Logistics, *Could Blockchain Have Prevented the Romaine Lettuce E. Coli Outbreak* (May 30, 2018), <https://www.foodlogistics.com/technology/news/21007165/could-blockchain-have-prevented-the-romaine-lettuce-e-coli-outbreak>. However, many in the industry are confident that blockchain can solve these problems through faster, more accurate tracking of how food moves from farm to table. *See* Crossey, *supra*; Unuvar, *supra*; McKenzie, *supra*; Food Logistics, *supra*. For starters, blockchain could eliminate the need for paper records as the goods make their way downstream from the farm. *Id*. And, as every link in the supply chain would submit information, the blockchain would track movement of the goods on a granular level and provide information in a uniform format. *Id*. Finally, by making this information available to consumers, companies can verify their packaging claims, labeling requirements, and certification marks, which will build consumer trust and loyalty and bolster regulatory compliance. *Id.* Many

insiders also suggest that blockchain will help eliminate food fraud because companies can build the system with strict approval rules that make it difficult for bad actors to commit fraud. *Id.*

One example of a food supply chain with blockchain technology comes from Walmart's partnership with IBM. *See* McKenzie, *supra*. Prior to using blockchain technology, Frank Yiannis, Walmart's vice president of food safety, asked his team to trace a shipment of mangoes back to its source. *Id*. To do so, the team manually reviewed paperwork from multiple farms, packing houses, brokers, import warehouses, and a processing facility, which was very similar in size to the Yuma region romaine lettuce supply chain. *Id*. It took six days, 18 hours, and 26 minutes for the team to accomplish. *Id*. Then, Walmart used blockchain software along the same supply chain for 30 days, building up the route's data set. *Id*. When Yiannis' team traced back the next shipment of mangoes, it took 2.2 seconds to find exactly where that shipment of mangoes originated. *Id.*

Despite those types of successes, both Yiannis and others familiar with the technology understand that blockchain has limitations. *See id*.; Crossey, *supra*. One such limitation is blockchain's ability to address the food industry's long history of adulterated products. Laura Schumm, *Food Fraud: A Brief History of the Adulteration of Food,* History.com (Aug. 1, 2014), <https://www.history.com/news/food-fraud-a-brief-history-of-the-adulteration-of-food>. Well-known instances of adulteration include people watering down milk, adding chalk to bulk up flour, mixing lead into wine and beer, and mixing dirt into coffee grounds, all of which were a method of maximizing profitability. *Id.*

COMMENT

Blockchain depends on the trustworthiness of those who put information into the system for its effectiveness. So long as humans are the ones updating the distributed ledger, there will be opportunities for fraudulent activities like those previously mentioned. Indeed, on two different occasions, the users controlling a blockchain were able to alter its data or rules. Steve Gold, *Annual Report on the Food and Beverage Industry: Recent Trends and Outlook,* McGuire Woods (Apr. 24, 2018), <https://www.mcguirewoods.com/Client-Resources/Alerts/2018/4/Annual-Report-Food-Beverage-Industry-Recent-Trends-Outlook.aspx>. While those users made the changes to fix problems and improve the system, it opens up the possibility that individuals could make fraudulent changes. *Id.* Prior to the ability to alter stored information, hacking is a constant risk to computer systems, and users could submit misleading or false information into the ledger as the food progresses along the supply chain.

D. Patent Landscape

The number of patent applications involving blockchain technology has increased dramatically in the past few years with average yearly applications numbering between 200 and 500 for 2014 to 2017. *See* Johan Stahlberg & Isabel Cantallops Fiol, *Analysing Blockchain Patent Trends,* MANAGING INTELLECTUAL PROPERTY (Apr. 24, 2018), <http://www.managingip.com/IssueArticle/3802483/Supplements/Analysing-blockchain-patent-trends.html?supplementListId=99116&utm_source=newsletter&utm_medium=email&utm_campaign=MIP%20Europe%20Focus>. Unsurprisingly, the majority of applications come from technology companies, like IBM, and those companies currently hold most of the patents. *See id.*; Henry Chiu, *An Overview of the Blockchain Patent Landscape,* CLARIVATE (Nov. 8, 2017), <https://clarivate.com/blog/overview-blockchain-patent-landscape/>. Currently, the top patent assignees are Security First Corporation (64 patents), Microsoft (40 patents), and IBM (25 patents) with 27 other companies holding six or more patents each. Chiu, *supra.*

The current list of top patent assignees shows that blockchain is a global phenomenon cutting across numerous industries. *Id.* The majority of applicants file in the United States, but combined Chinese and European applications outnumber U.S. applications. *Id*. Given the demand for accuracy in tracking of goods, product labeling and transparency, blockchain is a likely candidate for IP protection in the food and beverage industry. *See e.g.*, *In re KIND LLC "Healthy & All Natural" Litig.*, 287 F. Supp. 3d 457 (S.D.N.Y. 2018). Current blockchain applicants are split in the focus of their work with U.S. applicants focusing on data identifiers, email systems, and energy-related high-performance optimization services while Chinese applicants focus on memory, block connections, and applications based on blockchain technology. Chiu, *supra.*

While many of these more recent applications target information technology and financial industries, in view of the granularity offered by blockchain and the desire to fend against fake goods, secondary uses in the food industry could be possible. *See e.g*., *Seeing Double: The Rise of Patents in Alcohol 20-22*, WORLD INTELLECTUAL PROPERTY REV. (Nov. 28, 2017). Likely of high interest to those in the food industry given its history of fraud, 9.3 percent of applications addressed blockchain user issues, 13.1 percent security, and 8.5 percent distribution. Chiu, *supra*. For example, one pending application seeks to verify provenance through product association with anti-counterfeiting and product identity devices that track the good through source, transformation, and transportation phases. U.S. Patent Application No. 20170262862. Another patent uses blockchain technology to capture user identity information on a remote device after the user scans an identification card. U.S. Patent Application No. 20160328713A1.

PRACTICE TIP

The granularity of tracking goods offered by blockchain could open avenues for discovery in contentious situations. Blockchain could be used to prove patent infringement in product claims, and depending on whether details on a product's processing are captured in blockchain, could be used to prove infringement of method claims, which are historically difficult to prove. Patenting innovations in blockchain in the FBR industry will of course need to be directed to inventions that are subject matter eligible to avoid claims being rejected under 35 U.S.C. § 101.

§ 11.6 CONCLUSION

Consumers demand transparency from the food, beverage, and restaurant industry. While terms like "natural," "local," and "non-GMO" may be attractive from a marketing standpoint, using these terms in slogans, product names, and brand names must be coupled with stringent advertising review to avoid false advertising litigation. In addition to grappling with unsettled labels, the food, beverage, and restaurant industries face rapid technological integration. New tech platforms give consumers more ways to buy and receive products and make consistent brand architecture across platforms and licensing agreements that define these relationships more important than ever. Finally, blockchain technology has the capability to change how the FBR industry responds to crises like E. coli outbreaks, and how the industry interacts with consumers who demand more information about their food.

Key IP Legal Trends 2017–18 in Brief – Biotechnology, Medical Devices, and Digital Health

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§ 12.1 INTRODUCTION

Over the past year, Federal Circuit jurisprudence and technological innovation have driven patent law trends in the biotechnology and health industries. This chapter will explore how the Federal Circuit has assessed patent-eligibility of biotech patents in the wake of the Supreme Court's *Alice* decision. The chapter will also discuss biotechnology companies' use of IPRs to challenge biologics patents, and provide a summary and update on patent disputes related to groundbreaking CRISPR technology.

§ 12.2 PATENT-ELIGIBILITY OF LIFE SCIENCES CLAIMS AFTER *ALICE*

Patent eligibility has been a fluid and often volatile area of the law for life sciences patents over the past several years. In the wake of the Supreme Court's *Alice* decision, the Federal Circuit has

trended toward invalidating patents covering scientific "discoveries" or laws of nature, while some patents covering diagnostic methods have survived by virtue of claiming strategies.

A. Supreme Court Decisions Concerning Patent Eligibility

Under 35 U.S.C. § 101, "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor…." Courts have identified three concepts that are not eligible for patent protection: (1) abstract ideas; (2) laws of nature; and (3) natural phenomena. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354 (2014). As the Supreme Court has explained, "[l]aws of nature, natural phenomena, and abstract ideas are the basic tools of scientific and technological work. Monopolization of those tools through the grant of a patent might tend to impede innovation more than it would tend to promote it, thereby thwarting the primary object of the patent laws." *Id.*

B. Post-*Alice* Life Sciences Cases

Since *Alice*, the Federal Circuit has considered several life sciences cases with varying outcomes. In two earlier decisions from 2016 and 2017, *Genetic Technologies Ltd. v. Merial L.L.C.*, 818 F.3d 1369 (Fed. Cir. 2016) and *Cleveland Clinic Foundation v. True Health Diagnostics LLC*, 859 F.3d 1352 (Fed. Cir. 2017), respectively, the Federal Circuit indicated a reluctance to uphold claims covering diagnostic methods based on laws of nature. But in two recent decisions, *Vanda v. West-Ward,* 887 F.3d 1117 (Fed. Cir. 2018) and *Exergen Corp. v. Kaz USA Inc*., 725 F. App'x 959 (Fed. Cir. 2018), the Federal Circuit confirmed that diagnostics patents can survive if carefully claimed.

In contrast to *Merial* and *Cleveland Clinic*, in *Vanda*, the Federal Circuit held that method claims involving the use of iloperidone (Fanapt®) to treat schizophrenia were directed to patent-eligible subject matter. Vanda's method claims describe, to paraphrase, a method of treating a schizophrenia patient comprising: (1) determining whether the patient is a CYP2D6 poor metabolizer by testing the patient's genotype; and (2) administering ≤12 mg/day iloperidone if the patient has a CYP2D6 poor metabolizer genotype, and administering >12 – 24 mg/day if the patient is not a poor metabolizer. The claims explain that this dosing regimen reduces the risk of serious cardiac problems. *Vanda*, 887 F.3d at 1121.

Exemplary claim 1 of U.S. Patent No. 8,586,610 reads as follows:

> A method for treating a patient with iloperidone, wherein the patient is suffering from schizophrenia, the method comprising the steps of:
>
> determining whether the patient is a CYP2D6 poor metabolizer by:
>
> obtaining or having obtained a biological sample from the patient;

> and
>
> performing or having performed a genotyping assay on the biological sample to determine if the patient has a CYP2D6 poor metabolizer genotype; and
>
> if the patient has a CYP2D6 poor metabolizer genotype, then internally administering iloperidone to the patient in an amount of 12 mg/day or less, and
>
> if the patient does not have a CYP2D6 poor metabolizer genotype, then internally administering iloperidone to the patient in an amount that is greater than 12 mg/day, up to 24 mg/day, wherein a risk of QTc prolongation for a patient having a CYP2D6 poor metabolizer genotype is lower following the internal administration of 12 mg/day or less than it would be if the iloperidone were administered in an amount of greater than 12 mg/day, up to 24 mg/day.

Defendant West-Ward argued that, like the claims in *Mayo*, the challenged claims were directed to the natural relationship between levels of a drug in the blood and the safety and efficacy of that drug, and added nothing inventive to these natural laws. *Id.* at 1133. The court disagreed, finding the claims were not "directed to patent-ineligible subject matter" under step one of *Alice*. "First, the claims in *Mayo* were not directed to a novel method of treating a disease. Instead, the claims were directed to a diagnostic method…. Although the representative claim in *Mayo* recited administering a thiopurine drug to a patient, the claim as a whole was not directed to the application of a drug to treat a particular disease." *Id.* at 1134. In contrast, Vanda's claims "are directed to a method of using iloperidone to treat schizophrenia. The inventors recognized the relationships between iloperidone, CYP2D6 metabolism, and [the risk of cardiac problems], but that is not what they claimed. They claimed an application of that relationship." *Id.* at 1135. In particular, the claims require a doctor to administer a specific amount of iloperidone based on the result of the genotyping assay. In contrast, "[t]he claim in *Mayo* did not go beyond recognizing (i.e., 'indicates') a need to increase or decrease a dose," without prescribing a specific dosing regimen. *Id.* The court noted that the claims of *Mayo* effectively preempted a practitioner's course of action, whether or not she adjusted dose.

The Federal Circuit found also the claims in *Exergen Corp. v. Kaz USA Inc.*, 725 F. App'x 959 (Fed. Cir. 2018), to be directed to patent-eligible subject matter. The claims covered a body temperature detector that calculates a person's core temperature by detecting the temperature of the forehead directly above the superficial temporal artery. The Federal Circuit found that the claims were directed to the patent-ineligible natural phenomenon governing core body temperature.

Exemplary claim 48 of U.S. Patent No. 8,586,610 reads as follows:

> 48. A body temperature detector comprising:

> a radiation detector; and
>
> electronics that measure radiation from at least three readings per second of the radiation detector as a target skin surface over an artery is viewed, the artery having a relatively constant blood flow, and that process the measured radiation to provide a body temperature approximation, distinct from skin surface temperature, based on detected radiation.

Turning to step two of *Alice*, the district court determined that the claim elements were not well-understood, routine, and conventional. The Federal Circuit found no clear error in this factual determination. In its brief analysis, the Federal Circuit reasoned:

> This case is not like either *Mayo* or *Ariosa*, where well-known, existing methods were utilized to determine the existence of a natural phenomenon. … This case is different. Here, the patent is directed to the measurement of a natural phenomenon (core body temperature). Even if the concept of such measurement is directed to a natural phenomenon and is abstract at step one, the measurement method here was not conventional, routine, and well-understood. Following years and millions of dollars of testing and development, the inventor determined for the first time the coefficient representing the relationship between temporal-arterial temperature and core body temperature and incorporated that discovery into an unconventional method of temperature measurement. As a result, the method is patent eligible….

Exergen, 725 F. App'x at 966. Thus, the court concluded the inventor had transformed the process into an inventive application of the formula because the steps would never have been performed in the claimed manner prior to the discovery of this natural phenomenon.

C. Hope for Diagnostic Method Claims in a Post-*Alice* World

Vanda and *Exergen* offer guidance on how to craft claims that satisfy the *Alice* two-step inquiry. In *Vanda*, the Federal Circuit emphasized the claiming of particularized treatment steps. In contrast to *Mayo* where the results of the claimed "administering" and "determining" steps merely "indicated" a need to modify treatment, the claims in *Vanda* recited affirmative treatment steps. According to the Federal Circuit, these claims did not preempt a doctor's subsequent treatment decisions as in *Mayo*. Thus, expressly claiming treatment steps with specific dosing regimens may save an otherwise patent-ineligible diagnostic method claim.

COMMENT

- Chief Judge Prost's dissent in *Vanda* examined the *Mayo* and *Vanda* claims side-by-side and concluded the majority's "efforts to distinguish *Mayo* cannot withstand scrutiny." *Vanda*, 887 F.3d 1142. The differences in Vanda's claims, if any, reflect "drafting efforts designed to monopolize the law of nature itself," and the "patent simply discloses the natural law that a known side effect of the existing treatment could be reduced by administering a lower dose to CYP2D6 poor-metabolizers." *Id*.
- The U.S. District Court for the District of Delaware recently followed this precise reasoning in upholding claims as patent eligible. In *Pernix Ireland Pain DAC v. Alvogen Malta Operations, Ltd.*, No. 16-139-WCB, 2018 U.S. Dist. LEXIS 81419, at *3–4 (D. Del. May 15, 2018), the claims at issue covered methods of using formulations of extended release hydrocodone with release profiles such that the same starting dose could be administered to both healthy and hepatically impaired patients. The court found the claims "indistinguishable from the representative claim discussed in *Vanda*" because they taught a specific dosing regimen of treating a patient with a specific extended release formulation and release profile. *Pernix*, 2018 U.S. Dist. LEXIS 81419, at *70–71.

In *Exergen*, the claims involved the measurement of variables directly relevant to a natural phenomenon, failing *Alice* step one. But the claims required the performance of novel steps that were not conventional. That is, none of the claimed measurement steps was known to be used for the detection of core body temperature. While this approach seems to bleed into an obviousness analysis under section 103, it indicates the Federal Circuit's willingness to uphold claims directed to patent-ineligible concepts where a method comprises simple steps adapted to a new method based on discovery of a natural phenomenon under step two of *Alice.*

COMMENT

A recent district court decision applied this reasoning, but found the claimed method patent-eligible under *Alice* step one. In *Kaneka Corp. v. Zhejiang Medical Co.*, No. CV 11-02389 SJO (SHSx), 2018 U.S. Dist. LEXIS 82023 (C.D. Cal. Apr. 5, 2018), Kaneka's patent covered processes for producing on an industrial scale coenzyme Q10, which assists ATP production and is sold as a dietary supplement. A representative claim included steps of culturing coenzyme Q10 producing microorganism, disrupting the microbial cells to obtain reduced Q10, oxidizing Q10, and extracting the oxidized Q10. *Kaneka*, 2018 U.S. Dist. LEXIS 82023, at *4. The court found that under step one of *Alice*, the claims were directed to a superior method of producing a certain end product: efficiently creating oxidized Q10 on an industrial scale. *Id*. at *50. Under step two, the claimed process for culturing microorganisms to produce Q10 and then oxidizing it was unconventional. *Id*. at *55.

§ 12.3 BIOSIMILAR COMPANIES LEVERAGING IPRs TO CLEAR PATH TO MARKET

An uptick in the number of inter partes reviews (IPRs) filed by companies against biologic drug patents contributed to a record number of drug patent challenges at the Patent Trial and Appeal Board (PTAB) in 2017. Biosimilar companies often file IPRs long before submitting a marketing application to the U.S. Food and Drug Administration (FDA) because biosimilar development is a capital-intensive endeavor and Article III standing—while required to launch a declaratory judgment action—is not required to file an IPR. However, a case pending before the Federal Circuit may chill this trend: *Momenta v. Bristol-Myers Squibb* should determine when a biosimilar company has Article III standing to appeal a PTAB decision to the Federal Circuit.

A. Federal Circuit's *Momenta v. Bristol-Myers Squibb* Will Clarify When Biosimilar Companies Have Standing to Appeal

The Federal Circuit analyzed Article III standing for biosimilar companies in the context of a declaratory judgment action in *Sandoz Inc. v. Amgen*, 773 F.3d 1274 (Fed. Cir. 2014). There, Sandoz sought a declaratory judgment that its biosimilar product would not infringe Amgen's patents covering Enbrel®. *Sandoz*, 773 F.3d at 1275. At the time Sandoz filed its action, it had not yet filed its application for FDA approval of its biosimilar product and had only just begun certain

tests required for its FDA filing. *Id.* The Federal Circuit found that Sandoz lacked Article III standing because Sandoz had not alleged an injury of sufficient immediacy and reality to create subject matter jurisdiction. The court reasoned that the only activity that would create exposure to potential infringement liability was an application for marketing approval with the FDA, an activity that was not imminent. *Id.* at 1279–82. Accordingly, under *Sandoz*, a biosimilar maker that has significant work to do before filing a marketing application cannot establish injury-in-fact for declaratory judgment jurisdiction. *Id.* at 1281–82.

The Federal Circuit is now considering whether a biosimilar company has Article III standing to appeal a PTAB decision in *Momenta Pharmaceuticals, Inc. v. Bristol-Myers Squibb Co.*, Brief for Appellant, 2017 U.S. Fed. Cir. Briefs LEXIS 78 (Fed. Cir. July 10, 2017). Momenta filed an IPR challenging Bristol-Meyers Squibb's (BMS) patent covering its rheumatoid arthritis biologic, Orencia®, and appealed the PTAB's decision upholding the patent's validity. Benjamin Jackson & Jordan Engelhardt, *Fed. Circ. Case May Change Biosimilar IPR Strategy*, Law360 (Apr. 12, 2018), *available at* <https://www.law360.com/articles/1032699/fed-circ-case-may-change-biosimilar-ipr-strategy>.

On appeal, Momenta argues that *Sandoz*'s holding requiring that a biosimilar company must have already filed a marketing application in order to establish an injury of sufficient immediacy and reality to support jurisdiction is narrowly applicable to declaratory judgment actions. *Id.* Momenta further argues that it has standing to appeal because, "[a]fter investing millions in a competing product, Momenta faces likely infringement litigation and must consider costly and slower alternative plans—which BMS will almost certainly still assert infringe. This harm is all the more acute because of the IPR estoppel provision, which kicks in now to preclude Momenta from later re-raising the patentability questions at issue here." Momenta Brief, 2017 U.S. Fed. Cir. Briefs LEXIS 78, at *58–59.

For its part, BMS argues that a biosimilar application is required to support jurisdiction and that Momenta's claims of potential future economic injury are insufficient. *Momenta Pharms., Inc. v. Bristol-Myers Squibb Co.*, Corrected Initial Brief for Appellee, 2017 U.S. Fed. Cir. Briefs LEXIS 79, at *30–47 (Fed. Cir. Sept. 12, 2017). In particular, BMS argued that "Momenta has no current product implicating the subject-matter of the [patent at issue], no application on file for such a product, has not even begun its final clinical trials to support a biosimilar application, and concedes it may pursue a formulation outside the ambit of the [patent at issue]." *Id.* at *24. BMS emphasized that Momenta had yet to file a marketing application with the FDA, "which Congress has delimited as the critical step to maintain a pre-approval patent challenge, and thus lacks standing to pursue judicial relief in an Article III Court." *Id.* That is, Congress provided for biologics patent holders to file suit on the basis of the filing of a marketing application with the FDA, codified as 35 U.S.C. § 271(e)(2)(C). *See Sandoz*, 773 F.3d at 1281.

COMMENT

The outcome of *Momenta* could significantly sway the extent to which biosimilar companies choose to initiate IPR challenges well in advance of marketing applications. If, like in *Sandoz*, the Federal Circuit determines that a marketing application is required in order to confer Article III standing, biosimilar developers may wait until later in the development process to file IPR petitions. On the other hand, requiring a marketing application before appeal may have little impact on the current trend in light of the Federal Circuit's high affirmance rate of appeals from the PTAB. Jackson & Engelhardt, *supra*.

§ 12.4 THE CRISPR PATENT DISPUTE RAGES ON BEFORE THE FEDERAL CIRCUIT

The ongoing patent dispute between the Regents of the University of California (UC) and the Broad Institute over rights to Clustered Regularly Interspaced Short Palindromic Repeats (CRISPR) gene editing technology may be one step closer to resolution following recent arguments at the Federal Circuit in *University of California v. Broad Institute,* No. 2017-1907 (argued Apr. 30, 2018). However, uncertainty over availability of the technology is likely to persist for prospective licensees even after resolution of that matter.

CRISPR is a molecular tool used to target and cut genetic material. It was first identified in the genomes of certain archaea and bacteria in the 1990s. Broad Institute, *Questions and Answers About CRISPR*, <https://www.broadinstitute.org/what-broad/areas-focus/project-spotlight/questions-and-answers-about-crispr>. CRISPR-associated protein 9 ("Cas9"), the subject of the dispute, is an enzyme that can be guided by RNA to targeted portions of DNA where it can cut and edit the molecule. CRISPR Cas9 is already being used in many fields and is likely to become increasingly valuable as it is further explored. Alex Keown, *CRISPR Patent Dispute Heats Up Again Today in U.S. Court of Appeals*, BioSpace (Apr. 30, 2018), <https://www.biospace.com/article/crispr-patent-dispute-heats-up-again-today-in-u-s-court-of-appeal/>.

Professors Jennifer Doudna and Emmanuelle Charpentier were the first to create a usable CRISPR system for gene editing in 2012 while working with the University of California at Berkeley (in collaboration with UC). Jon Cohen, *Federal Appeals Court Hears CRISPR Patent Dispute*, Science (Apr. 30, 2018), <http://www.sciencemag.org/news/2018/04/federal-appeals-court-hears-crispr-patent-dispute>. Feng Zhang of MIT and Harvard's Broad Institute were able to improve upon the work of Doudna and Charpentier by creating a CRISPR Cas9 system usable in Eukaryotic

cells in 2013. *Id*. Both UC and Broad Institute filed patent applications on their respective technologies, but Broad Institute was the first to be granted a patent in 2014, with others following. Broad Institute's claims focus on use of the technology in Eukaryotic cells. *See* U.S. Patent No. 8,697,359 (filed Dec. 12, 2010). UC is pursuing claims broadly directed to use of CRISPR technology, without regard to cell type. *See* U.S. Patent. App. No. 2014068797 (filed Mar. 15, 2013).

Upon learning of Broad Institute's patent application, UC initiated an interference proceeding before the United States Patent and Trademark Office (USPTO). *Broad Institute, Inc. v. Regents of the University of California*, Pat. Interference No. 106,048 (Notice to Declare Interference, U.S.P.T.O. Jan. 11, 2016). UC argued that it was obvious to apply their teachings to experiments on mammalian cells, and thus Broad Institute's claims were not patentably distinct from UC's. *The Broad Inst., Inc., Massachusetts Inst. of Tech. & President & Fellows of Harvard Coll.*, (Patents 8,697,359; 8,771,945; 8,795,965; 8,865,406; 8,871,445; 8,889,356; 8,895,308; 8,906,616; 8,932,814; 8,945,839; 8,993,233; 8,999,641 & Application 14/704,551, Junior Party, PATENT INTERFERENCE, 2017 WL 657415 (Feb. 15, 2017). In 2017, the USPTO ruled in favor of Broad Institute, deciding that research into mammalian cells would not have been obvious in view of UC's findings, such that Broad Institute's claims were not directed to the same invention as UC's. Without an interference-in-fact as required by 37 C.F.R. § 41.203(a), the USPTO dissolved the interference without deciding priority. *Id.* UC appealed this decision to the Federal Circuit.

The Federal Circuit heard oral arguments on the matter in April 2018. UC argued that the USPTO made legal errors, including ignoring evidence and misinterpreting obviousness. *Id.* UC was confident it could persuade the court that Broad Institute's claims are obvious because Broad Institute merely used "conventional, off-the-shelf tools" to derive a CRISPR system operable in Eukaryotic cells based on UC's discoveries. *Id.* Other institutions have had similar success by combining UC's teachings with conventional techniques. Cohen, *supra*. Broad Institute maintained that the USPTO's analysis of obviousness was proper given the unpredictability of the art at the time. Richard Torczon & Adam Burrowbridge, *Federal Circuit Hears Argument in CRISPR Patent Priority Dispute*, WSGR Alert (Apr. 30, 2018) <https://www.wsgr.com/WSGR/Display.aspx?SectionName=publications/PDFSearch/wsgralert-CRISPR.htm#3>.

Until the Federal Circuit decides *UC v. Broad*, prospective licensees of UC or Broad Institute should be aware of the risk that the patent landscape could change with the decision. Further complicating matters, various other parties have launched or threatened challenges to UC and Broad Institute's CRISPR portfolios. For example, an anonymous party requested an ex parte re-examination of one of Broad Institute's other U.S. patents covering CRISPR-Cas9 systems and their use. Order – Suspension of Reexamination, at 2, *Broad Inst., Inc. v. Regents of Univ. of Cal.*, No. 106,048 (P.T.A.B. May 12, 2016), *available at* <https://acts.uspto.gov/ifiling/PublicView.jsp?identifier=106048&identifier2=null&tabSel=4&action=filecontent&replyTo=PublicView.jsp> (Doc. No.

49). ToolGen, another CRISPR player, has requested interference with five of Broad Institute's patents. Michael Stramiello, *Surveying the CRISPR Patent War*, LAW360 (May 3, 2018), *available at* <https://www.law360.com/articles/1039825/surveying-the-crispr-patent-war> (citing preliminary amendments in U.S. Patent Application Nos. 14/685,568 and 14/685,510, dated Apr. 13, 2015). It is also likely that the allowed U.S. patents will be subjected to post-grant or IPR challenges. *Id*.

Disputes over rights to CRISPR technology are not confined to the United States. In Europe, Broad Institute's EP2771468 patent, directed to Cas9, was invalidated during an interference proceeding. Dana A. Elfin, *European Patent Office Revokes Broad's Gene-Editing Patent*, BLOOMBERG LAW (Jan. 19, 2018), <https://www.bna.com/european-patent-office-n73014474373/>. The European Patent Office denied Broad Institute's claim of priority to a U.S. provisional application due to defective inventorship. As a result of that determination, the patent was invalid over intervening prior art. Rockefeller, *Broad Settle CRISPR IP Dispute; EPO Denies Broad European Patent*, GENOMEWEB (Jan. 17, 2018), <https://www.genomeweb.com/gene-silencinggene-editing/rockefeller-broad-settle-crispr-ip-dispute-epo-denies-broad-european#.WzKM6DpKjb0>. Broad Institute appealed the decision to the EPO Technical Boards of Appeal, requesting accelerated review due to the possible implications of the decision on other patents it holds. Stramiello, *supra*. Broad Institute's EP3009511 patent, directed to CRISPR-Cpf1, will also be opposed, but does not appear to have the same defective priority chain as the '468 patent. *Id.* UC may also face oppositions to its European patents covering Cas9 systems for gene editing and regulation. *Id.*

Key IP Legal Trends 2018–19 in Brief – Digital Technologies

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§ 13.1 INTRODUCTION

Developers of software, mobile device apps, and "Internet of Things" devices (collectively referred to as digital technologies) have long realized that obtaining intellectual property protection for their innovations is not an easy, straight-forward task. For example, while almost everyone agrees that computer software is protectable under U.S. copyright law, commentators have long bemoaned this protection. Even appellate judges tasked with determining the scope of copyright protection in software-related cases have indicated a belief that computer software is better protected under patent law, with its test for novelty and non-obviousness, rather than under the instant protection of copyright. *See*, *e.g.*, *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807, 820 (1st Cir. 1995) ("[T]he substance [of computer programs] probably has more to do with problems presented in patent law…. Applying copyright law to computer programs is like assembling a jigsaw puzzle whose pieces do not quite fit."). Perhaps due to this judicial reluctance, software copyright enforcement is relatively

rare, and every appellate decision seems like another chance to whittle away at the copyright protection still remaining for software and other digital technologies. Meanwhile, patent protection for these digital technologies is also under attack, with the repercussions of the *Alice* decision still not being fully understood. In fact, patent commentators frequently suggest that patent protection just is not a good fit for digital technology—that software is better protected under the limited protection of copyright law than under the patent system and its monopolistic rights. *See*, *e.g.*, *Gottschalk v. Benson*, 409 U.S. 63, 72 (1972).

In this manner, digital technology is frequently treated as the odd man out of intellectual property, with no one really wanting to include the technology as something that is fully protected under any particular legal regime. Nonetheless, digital technology is legally protected under existing U.S. law, under both copyright and patent legal regimes. In fact, this last year has shown that appellate courts remain willing to enforce strong, valuable intellectual property rights for digital technology, whether under copyright law, trade secret law, utility patents, or even for software design patents.

§ 13.2 COPYRIGHT AND DIGITAL TECHNOLOGIES

A. Copyright in User Interfaces

In 1980, the Copyright Act was explicitly amended to include "computer programs" within the scope of the copyright protection granted to literary works. At the same time, section 102 of the Copyright Act (17 U.S.C. § 102) explicitly excludes copyright protection from applying "to any idea, procedure, process, system, method of operation, concept, principle, or discovery." Since almost all software could be considered a procedure, a process, or a method of operation, there is clearly some inherent conflict within the Copyright Act when applying copyright protection to digital technologies.

A seminal case in dealing with this struggle is the 1995 *Lotus* decision from the First Circuit. In this case, the court was attempting to determine whether the command-based user interface of the Lotus 1-2-3 software is protectable under U.S. copyright law, or whether Borland was free to copy this interface in competing software. The First Circuit held that the interface with which the user controls the software was an unprotectable "method of operation" excluded from copyright protection under 17 U.S.C. § 102. *Lotus*, 49 F.3d at 816. The court felt that its decision was especially important when one considers the desirability of inter-program compatibility. They found it "absurd" that a user using multiple programs would have to learn different methods of operation to perform the same function in the different programs. *Id*. at 818. Although a reasonable interpretation of the *Lotus* decision is that end-user interfaces (and even computer-to-computer interfaces) in software programs are not protectable under copyright law, it is important to remember that not all circuits followed the logic of the First Circuit.

B. *Oracle America, Inc. v. Google Inc.*, 750 F.3d 1339 (Fed. Cir. 2014) – Section 102 and Fair Use Reapplied to User Interfaces

The Federal Circuit had a chance to expand the scope of the *Lotus* decision in its *Oracle America, Inc. v. Google Inc*., 750 F.3d 1339 (Fed. Cir. 2014) (hereinafter referred to as *Oracle I*) decision, but it refused to do so. This case relates to Google's Android operating system for mobile devices, and more particularly, to the application programming interfaces (APIs) that programmers use when creating new programs for the operating system. Google had originally considered using Java as one of the bases from which it would build Android. When Google approached Sun (the owner of the copyright in Java), Sun insisted that any modifications that Google made to the Java code be consistent with its "write once run anywhere" policy. Under this policy, any program written in the Java language must be able to run on any hardware system running the Java virtual machine. Google refused to abide by this policy, which meant that Google and Sun were not able to come to any agreement on licensing Java. Google had been attempting to create its own structure for the Android operating system, including its own APIs and programming interfaces, but it was unable to do so successfully. Even though it was unable to obtain a license from Sun, Google decided to "[d]o Java anyway and defend [its] decision, perhaps making enemies along the way." *Oracle Am., Inc. v. Google LLC*, 886 F.3d 1179, 1187 (Fed. Cir. 2018) (hereinafter referred to as *Oracle II*). The primary benefit to using the Java APIs was to ensure that Java programmers could easily write programs for this new operating system. Although the implementing code for these interfaces was written from scratch by Google, the declaring code from 37 Java API packages was copied verbatim into Android. These 37 packages included 600 classes with over 6,000 methods.

Oracle (which had acquired Sun) sued Google for copyright infringement. The trial court found in 2012 that the declaring code from the API packages constituted a "method of operation," and therefore was not entitled to copyright protection under section 102, following the logic of *Lotus*. Because of some secondary patent issues, the Federal Circuit had jurisdiction on the appeal of this decision. The Federal Circuit began its analysis by noting that the Ninth Circuit (whose law governed this dispute) had never adopted the *Lotus* decision. Under the law of the Ninth Circuit, the abstraction-filtration-comparison test governed the analysis, and consequently creative expression can be protected under copyright law even if it is embodied in a method of operation. *Oracle I*, 750 F.3d at 1365–66. Given the district court's factual findings that the structure, sequence, and organization of the packages are original and creative, and that the declaring code could have been written and organized in any number of ways and still have achieved the same functions, the court concluded that these elements are entitled to copyright protection.

In addition to arguing section 102, Google also argued that copyright protection should not be granted to the API packages because of the need to allow for interoperability in software programs. The Federal Circuit rejected this argument as irrelevant to the question as to whether the

APIs are protectable expression—such arguments were relevant only to a defense of fair use. *Id*. at 1369. In the original trial, the jury hung on the fair use defense, and the trial judge had declined to grant a new trial given its conclusion that the Java API packages were not entitled to copyright protection under section 102. Given the factual components of the fair use analysis, the Federal Circuit remanded for a new trial on the issue of fair use. *Id*. at 1376.

On remand to address the fair use issue, a new jury considered these factual components and found that Google's use of the Java interface was a fair use. Oracle appealed this determination back to the Federal Circuit. Despite the factual aspects of the fair use inquiry, the Federal Circuit overturned the jury verdict and ruled in March 2018 that Google's use was not fair as a matter of law. *Oracle II*, 886 F.3d at 1191. The court considered the deference that needed to be given to the jury's findings and found that "jury findings relating to fair use other than its implied findings of historical fact must, under governing Supreme Court and Ninth Circuit case law, be viewed as advisory only." *Id*. at 1196. The court then considered the four fair use factors anew. The court's analysis was as noted below.

1. Purpose and Character of the Use

The court considered two aspects of this first factor, namely whether the use of the infringing party was commercial, and whether the use was transformative. As for the commercial nature of the use, the Federal Circuit found that Google's use was "overwhelmingly commercial." *Id*. at 1197. This is true because, even though the Android operating system is given away for free, Google makes "billions" of dollars based on the wide acceptance of Android. As for the transformative nature of the use, the court found none. In the opinion of the Federal Circuit, there is no "new expression, meaning, or message" in Google's use, and therefore nothing transformative about it. *Id.* at 1200–02. The appellate court explicitly rejected the trial court's "fresh context" argument, which had found that the application of the same material in a fresh context could be considered transformative. The Federal Circuit argued that a mere change in format from desktop to smartphone is insufficient as a matter of law to be considered transformative. This factor, therefore, was considered to weigh heavily in favor of no fair use.

2. Nature of Original Work

The original works in this case were the APIs of an operating system for mobile devices. The clearly functional nature of this work means that this fair use factor leans toward a finding of fair use.

3. Amount of Copying

Google admitted to copying 11,500 lines of code, of which 170 lines were considered necessary to implement Java language. Of course, the parties had conflicting views on what was "necessary" in this context. The trial judge originally found that Google took no more than was necessary to maintain "inter-system consistency," which was a very small amount compared to the 2.8 million lines of code in the Java libraries. The Federal Circuit noted that Google was not actually trying to achieve "inter-system consistency," as Android was purposefully created so that Android programs would not operate on Java virtual machines. *Id*. at 1206. Google's purpose was only to speed the training of Java programmers. But there was no right to copy for that purpose, and the importance of the copied lines of code to the success of Android indicate that the amount copied could be considered substantial. Consequently, this factor is at best neutral, and may weigh against a finding of fair use.

4. Effect on Potential Market

While this factor is "undoubtedly the single most important element of fair use," the Federal Circuit confirmed that this factor is to be weighed along with the other three factors. *Id*. at 1207. The court noted that before Android, the Java operating system (in the form of Java SE) was already being marketed for use on cellular phones and tablet devices. Android competed directly with Java SE in the market for mobile devices. In addition, the Federal Circuit explained that this factor must consider the impact of the copying on *potential*, and not just existing, markets. Consequently, the court concluded that Google's use has a substantial, adverse impact on the potential market for Java in the realm of smart phones and tablet computers.

Because factors one and four weighed heavily against fair use, and factor three was at best neutral, the Federal Circuit found that there was no fair use as a matter of law. The case was remanded again on the issue of damages. Oracle is seeking $8.8 billion in damages. Richard Nieva, *Google Copyright Battle with Oracle could Cost $8.8 billion*, cNET (Mar. 27, 2018), <https://www.cnet.com/news/google-copyright-battle-with-oracle-could-cost-8-8-billion/>.

In its petition for rehearing en banc, Google noted that in the over 300 fair use verdicts that it researched, only once before has a jury verdict of fair use been overturned, and that case is still on appeal. Because of the importance of this decision in determining the scope of copyright infringement for digital technology, it is likely that the decision will be heard by the Federal Circuit en banc, or even by the U.S. Supreme Court.

C. *Arista v. Cisco* – Scènes à Faire

Arista Networks, Inc. v. Cisco Systems Inc., No. 14-cv-05344 (N.D. Cal.) is quite similar to the *Oracle I* case in that the copyrightability of APIs is at the center of the dispute. Cisco is alleging that Arista has copied over 500 multi-word commands for its ethernet switching devices from the command-line interface that Cisco uses on its own devices. Arista has advertised that its use of this interface makes it easier for Cisco's customers to switch to Arista's devices. In December 2016, a jury determined that Arista had copied commands from Cisco's interface and that such copying was not a fair use. The jury also rejected Arista's merger arguments. However, the jury did find in favor of Arista in its scènes à faire defense. This defense means that the jury believed that the selection and arrangement of the copied commands were basically rudimentary and predictable, or arose naturally from the particular setting in which they were found. The Federal Circuit had rejected a similar argument in its *Oracle I* decision. This case is currently on appeal to the Federal Circuit.

§ 13.3 COPYRIGHT ON AI/SOFTWARE-GENERATED WORKS

Perhaps the best place to begin a discussion of copyright ownership in *computer-generated* works is with a discussion of *monkey-generated* works. In 2011, a macaque monkey in Indonesia named Naruto took control of a photographer's camera and began snapping photographs while looking into the camera lens. These "monkey-selfies" were very endearing images, and soon became a sensation around the world. Because of their popularity, the photographer, David Slater, attempted to control their publication and to otherwise profit from the copyright in the images. Although the images were not created in the United States, PETA sued David Slater in the United States on behalf of the monkey Naruto for copyright infringement, claiming that Naruto was the actual copyright owner of the images.

The district court in the Northern District of California was tasked with determining who was the author of the photographs. *Naruto v. Slater*, No. 15-cv-04324, 2016 U.S. Dist. LEXIS 11041 (N.D. Cal. Jan. 28, 2016). In examining the issue of copyright ownership, one looks to the creator of any originality in the photograph, which may include any of the following elements:

- subject matter and placement;
- camera angle and position;
- filter/film;
- lighting;
- timing of photograph;

- exposure;
- selection of background; and
- after image alterations

While some of this originality may have come from Naruto, the district court dismissed the lawsuit by holding that the U.S. Copyright Act requires a *human* author. For support, the court looked to the Compendium of U.S. Copyright Office Practices, which states in section 312.2 that "to qualify as a work of 'authorship' a work must be created by a human being." *Id*. at *10. Although the case settled with Slater agreeing to give a portion of his profits to protect monkeys in Indonesia, the Ninth Circuit refused to dismiss the already filed appeal. Instead, the appellate court issued an opinion which agreed that the Copyright Act does not grant standing to monkeys to sue for copyright infringement. *Naruto v. Slater*, 888 F.3d 418 (9th Cir. 2018). The case may not yet be over, however, as the Ninth Circuit has requested briefing on whether or not the appeal should be heard en banc. *Naruto v. Slater*, No. 16-15469, 2018 U.S. App. LEXIS 13937 (9th Cir. May 25, 2018).

This holding should be of interest to those working with digital technologies. Computerized and robotic camera systems have developed greatly in the last few years, with cameras now being able to automatically track and take photographs of individual subjects even within a crowd of other people. Some of these systems follow tags worn by the photographic subject, while others use facial recognition to identify a single individual to photograph. To the extent that U.S. copyright law requires a human author, one may think that the images taken by such automated systems are not copyrightable. But recent decisions indicate that another legal standard may be developing that may one day grant copyright ownership of such images to the copyright owner of the underlying software.

In the ongoing litigation of *Rearden LLC v. Walt Disney Co.*, No. 3:17-cv-04006 (N.D. Cal.), Rearden is the copyright owner of software known as MOVA Contour. This software is used with a particular configuration of cameras in order to create a "mesh" that tracks the facial movement of an actor. The mesh output by the software is then used by other systems to create a computer-generated character. Rearden argues that a competitor copied their software in violation of the Copyright Act, and the stolen software was then used to create characters in the *Guardians of the Galaxy* and *Beauty and the Beast* movies. Rearden sued Disney, arguing that the output of Rearden's program is a copyrightable work, and that such output is owned by Rearden. In its complaint, Rearden argued that its Contour program "performs substantially all of the operations required to produce" the output files, and therefore the copyright owners in the software should be considered the copyright owners of the output files. *Rearden*, Complaint for Copyright, Patent, and Trademark Infringement (July 17, 2017).

The district court dismissed the complaint, holding that Rearden's complaint did not recite sufficient facts to claim ownership in the output files. *Rearden*, Order Granting in Part and Denying

in Part Defendants' Motions to Dismiss, Feb. 21, 2018. The court was guided by the 2017 Ninth Circuit decision in *Design Data Corp. v. Unigate Enterprises, Inc.*, 847 F.3d 1169 (9th Cir. 2017). In *Design Data*, 847 F.3d at 1173, the Ninth Circuit noted that some authorities have suggested "that the copyright protection afforded a computer program may extend to the program's output if the program 'does the lion's share of the work' in creating the output and the user's role is so 'marginal' that the output reflects the program's contents." As was the case in *Design Data*, the district court in *Rearden* held that the plaintiff did not allege facts sufficient to meet this standard. However, if this standard becomes law, one can imagine many scenarios where software does meet this standard, and the generated work might well become the intellectual property of the software developer as opposed to the software user.

§ 13.4 TRADE SECRET/NDA ISSUES

A. *Waymo v. Uber*

Waymo, Google's self-driving car subsidiary, sued Uber for trade secret misappropriation after Uber hired former Waymo engineer Anthony Levandowski. *See Waymo LLC v. Uber Technologies, Inc.*, 319 F.R.D. 284 (N.D. Cal. 2017). According to the allegations, Levandowski downloaded 14,000 documents onto his laptop immediately before leaving Waymo, and then copied the documents onto other disks. The lawsuit began in February 2017, but was settled soon after the trial began. Although Waymo was originally requesting at least $1 billion in cash to settle the case before the trial began, Waymo will receive about $245 million in Uber stock under the settlement. *Uber to Pay $245 Million to Settle Waymo's Theft Allegations*, U.S. News & World Report, Feb. 9, 2018, <https://www.usnews.com/news/business/articles/2018-02-09/uber-waymo-settled-trade-secrets-clash>. The settlement occurred before Levandowski took the witness stand, with some commentators suggesting that he was going to "take the Fifth" if forced to testify at the trial. *Id*.

B. *Jawbone v. Fitbit*

In May 2015, Jawbone sued rival wearables manufacturer Fitbit for misappropriation of trade secrets in a California state court. The accusation centered around the hiring of Jawbone employees and the information that those employees may have brought with them to Fitbit. During the lawsuit, Jawbone struggled in the marketplace and stopped manufacturing all devices in July of 2017. The lawsuit itself was settled in December 2017 prior to trial, but that did not end this matter. In June 2018, a federal grand jury returned a criminal indictment against six former Jawbone employees, accusing them of taking trade secrets from Jawbone with them to Fitbit. The indictment accuses the individuals of violating the Economic Espionage Act of 1996. *United States v. Mogal*, No. 18-cr-00259 (N.D. Cal. June 14, 2018).

C. *ZeniMax v. Oculus* and *ZeniMax v. Samsung*

In February 2017, ZeniMax received a jury verdict of over $500 million against Oculus and its new owner Facebook for intellectual property infringement relating to virtual reality (VR). *ZeniMax Media Inc. et al v. Oculus VR Inc.*, No. 14-cv-01849 (N.D. Tex. Feb. 1, 2017). The dispute centers around John Carmack, who worked on developing VR technologies for ZeniMax and its id Software subsidiary. One of Oculus's founders, Luckey, had signed a non-disclosure agreement (NDA) with id Software, and ZeniMax argued that Oculus was a party to that NDA because, in part, Oculus was a mere continuation of Luckey's prior business. Oculus and id Software worked together to modify Oculus's Rift technology to work with the latest version of id Software's DOOM game. ZeniMax and Oculus continued to work together, although no agreement other than the original NDA was ever signed. Eventually, when no agreement was ever reached, their cooperation ended. Soon thereafter, Carmack left id Software and two months later he joined Oculus as its CTO. Before leaving, Carmack downloaded and brought to Oculus thousands of work emails including ZeniMax-owned computer code.

The jury was not persuaded by ZeniMax's allegations that its trade secrets were misappropriated, but it did award $50,000,000 in damages for copyright infringement. The alleged infringement was non-literal infringement, analyzed under the abstraction-filtration-comparison test. The jury found that Oculus was bound by the NDA agreement, and its use of information obtained under the NDA violated its terms. The total damages awarded for breach of the NDA was $200,000,000. Finally, ZeniMax convinced the jury that Oculus and its principals infringed on ZeniMax's trademarks, and awarded $250,000,000 in damages. *Id*. While the post-trial motions in this case play themselves out, ZeniMax has brought an additional lawsuit against Samsung arguing that Samsung's Gear VR is also infringing on ZeniMax's IP by using code provided by Oculus.

§ 13.5 CONTRACTUAL LIMITATIONS ON THIRD-PARTY SUPPORT OF SOFTWARE

The distribution and use of software is almost always governed through software licenses. Consequently, the enforcement and interpretation of these licenses is a key element in controlling the intellectual property found in the software. In one of the biggest software licensing cases of the last year, the Ninth Circuit considered the extent to which a third-party support provider had the ability to create testing environments or "sandboxes" based on the licenses of their customers. *Oracle USA, Inc. v. Rimini Street, Inc.*, 879 F.3d 948 (9th Cir. 2018). The defendant in this case, Rimini, provided support services to licensees of Oracle's J.D. Edwards, Siebel, and PeopleSoft software products. As part of this support, Rimini created development environments to test improvements and modifications made to its customers' environments, and to create ancillary products that could be resold to existing and future customers. The Ninth Circuit agreed with the jury that Rimini's use

of Oracle's software exceeded any rights that Rimini may have had based on the licenses held by Rimini's customers.

The analysis used by the Ninth Circuit depended on the language of the software license involved. In some circumstances, the licenses permitted licensees to create a reasonable number of copies of the program for archive, backup, disaster recovery, and testing purposes. The court agreed that this license permitted licensees to use third-party vendors to support and test the software, and those third-parties were allowed to create sandboxes in order to provide this support. However, the license did not grant Rimini the ability to use those development environments to support non-licensees or create products for future licensees. Consequently, Rimini's actions exceeded the scope of any rights granted under the license.

Another of the software licenses was more restrictive, in that it only allowed licensees to use the software on the "Licensee's internal data processing operations at its facilities." The Ninth Circuit agreed with Oracle that Rimini's use of the software on Rimini's own servers outside the control of licensees exceeded the scope of the license.

§ 13.6 UTILITY PATENTS: SUBJECT MATTER ELIGIBILITY UNDER SECTION 101

A. Recap of the *Alice* Test

In the good old days of the late 1990s and the 2000s, almost all software that produced useful, real-world results was eligible for patent protection. The decision in *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998) provided a safe harbor for software patents that was large and deep. While software inventions still had to be new and non-obvious, there was little concern as to whether the software was the right type of invention to be patentable subject matter under section 101 of the Patent Act (35 U.S.C. § 101). Things began to change with *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), and the safe harbor of the *State Street Bank* decision completely dried up after the Supreme Court's decisions of *Bilski v. Kappos*, 561 U.S. 593 (2010), *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), and *Alice Corp. Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014). In place of the broad acceptance of software patents under *State Street Bank*, digital technology inventions now must pass a two-step "test" for subject matter eligibility under section 101, known as the *Alice* test.

The *Alice* test has become an issue for almost all software and app developers hoping to obtain utility patent protection on their inventions. The test is made up of two steps, the first of which is to determine whether the overall concept being claimed in a patent or patent application is "directed to" an abstract idea. While no court has provided a definition of an abstract idea, it is known that the phrase covers fundamental economic practices (such as hedging and intermediated settlement) and

mathematics. In order to determine whether a claim is directed to an abstract idea under step one, the character of the claimed invention must first be identified. If this character (the "claimed concept") relates to an improvement to the computer system itself or to some other technology, step one is passed and the claim is subject-matter eligible. If the claimed concept instead simply uses the computer as a tool to implement a business method or some other abstract process, then step two must be analyzed to determine whether the invention is patent-eligible. Step two of the *Alice* test determines whether the claim contains an "inventive concept" that represents something more than the claimed abstract idea. What constitutes an inventive concept is unclear, but it is known that "well-understood, routine, and conventional activity" is not enough.

Within the last year, a great deal has been learned from the Federal Circuit on how to analyze this *Alice* test in the context of digital technology. While the test is still filled with uncertainties and ambiguities, there are some clearer pathways for proving that software inventions contain the right type of stuff to be eligible for patent protection under section 101.

B. Result Claiming Versus Specific Implementation Claiming

An analysis of last year's Federal Circuit cases relating to subject-matter eligibility shows the development of a "shadow test" for determining step one of the *Alice* test. Step one requires a determination of whether a claim is "directed to" an abstract idea (if it is, the claim does not pass the first step and must be analyzed under step two) or whether the claim merely "involves" an abstract idea and is directed to a patentable application of that abstract idea (which means the claim is patent-eligible). The shadow test suggests that this determination might be made by examining whether the claims are written so as to only claim the desired results or whether the claims specify a specific means or method for producing that result. Claims that only set forth the desired results of the invention will be considered to be directed to an abstract idea under step one, while claims that specifically explain how the result is achieved should pass step one and be patent-eligible. This is a "shadow" test because, while the Federal Circuit has not acknowledged the test as a replacement for step one, the Federal Circuit has frequently and consistently used this distinction in its step one analysis. In fact, *SAP America, Inc. v. InvestPic, LLC*, 890 F.3d 1016 (Fed. Cir. 2018) has finally acknowledged that this distinction is "reflected repeatedly in our cases" citing eight different Federal Circuit decisions from the last three years. This is good news for digital technology inventions because it provides a potential pathway through non-patentable subject-matter rejections under section 101. Results-oriented claiming should therefore be avoided, with longer, step-specific claims being used in their stead.

C. *Berkheimer* and *Aatrix*

One of the biggest changes in the *Alice* test occurred in the Federal Circuit's February 2018 decisions of *Berkheimer v. HP Inc.*, 881 F.3d 1360 (Fed. Cir. 2018) and *Aatrix Software v. Green*

Shades Software, 882 F.3d 1121 (Fed. Cir. 2018). At first blush, the conclusions reached in these cases seem straight-forward. Both cases stand for the proposition that, even though the determination of subject-matter eligibility under section 101 is a question of law, the determination of whether something is well-understood, routine, and conventional under step two of the *Alice* test is a question of fact. In *Berkheimer*, the Federal Circuit used this conclusion to reject a summary judgment of patent invalidity, because the determination as to whether elements of the claim were well-understood and routine under step two involved an unresolved factual determination that made summary judgment inappropriate. In *Aatrix*, the Federal Circuit rejected a Federal Rule of Civil Procedure 12(b)(6) determination of invalidity under section 101 because a proposed amended complaint raised factual issues about whether claim elements were well-understood, routine, and conventional.

The Federal Circuit apparently believes these holdings are not a significant change in the law, rejecting a request to rehear these cases en banc with only one dissenting judge. *Berkheimer v. HP Inc.*, 890 F.3d 1369 (Fed. Cir. 2018) and *Aatrix Software v. Green Shades Software*, 890 F.3d 1354 (Fed. Cir. 2018). In the written opinions rejecting the rehearing, the majority indicated that these cases were "unremarkable," while Judge Reyna, in dissent, believes the cases to "alter the § 101 analysis in a significant and fundamental manner," having the "effect of reducing the entire step two inquiry into what is routine and conventional." *Aatrix Software*, 890 F.3d at 1362. To a certain degree, the U.S. Patent and Trademark Office (USPTO) agrees with Judge Reyna as it reacted to the *Berkheimer* decision by revising its examination policy. Under the new policy, the USPTO states that the determination of whether a claim element is well-understood, routine, or conventional is "the same as the analysis under section 112(a) as to whether an element is so well-known that it need not be described in detail in the patent specification." *Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (Berkheimer v. HP, Inc.)*, Memorandum from Robert W. Bahr to the Patent Examining Corps., Apr. 19, 2018, *available at* <https://www.uspto.gov/sites/default/files/documents/memo-berkheimer-20180419.PDF>. Under this new policy, it will be more difficult for patent examiners to meet this level of proof, especially in light of the policy's admission that the mere fact that the prior art teaches a certain element does not make the element "well-known" or "routine" for purposes of the *Alice* test. Based on this change in policy at the USPTO, the net result of the *Berkheimer* and *Aatrix* decisions is that it should become easier for digital technology patent owners to defend their patents in court and to obtain patents from the USPTO by arguing that there is no factual proof that the additional elements in a claim are well-understood, routine, or conventional.

D. Scope of Step-Two Inquiry

One of the many issues on section 101 that is yet to be determined is where one can look to find the "inventive concept" under step two of the *Alice* test. The orders rejecting en banc rehearing in *Berkheimer* and *Aatrix* clarified that the inventive concept cannot be the abstract idea itself,

but what exactly does that mean? To reach step two of the *Alice* test, a digital technology patent or application must have claims that are directed toward an abstract idea. But this abstract idea might be broadly defined, and the claims may include software components that define a specific implementation of that abstract idea. Can one look to these specific software implementation steps to find the inventive concept, or should all implementation details that related to the general abstract idea be ignored? Alternatively, when analyzing a digital technology invention, should the law require that the inventive concept be found only in the hardware components included in the claim and not in any of the software elements?

At the present time, the courts have been inconsistent in analyzing this issue. For example, in the well-known *BASCOM Global Internet Services v. AT&T Mobility*, 827 F.3d 1341 (Fed. Cir. 2016) case, the Federal Circuit found that the claims at issue were directed to the abstract idea of filtering content on the Internet. Although the claims did not pass step one of the *Alice* test, they were found to be patent-eligible under step two because the claims included a unique and nonconventional method for performing that content filtering. In particular, the claims described a process through which the filtering tool was located remote from end users. Although the filtering tool was obviously used to implement a specific technique for filtering content on the Internet, the court found this software limitation to be unconventional and therefore constituted an inventive concept that made the invention patent-eligible. Construing this case broadly, it could be read to state that the software elements that include novel implementation details relating to the abstract idea can be examined for the inventive concept under step two of the *Alice* test. If this were to become the standard for applying step two of the *Alice* test, it would greatly expand utility patent protection for digital technologies. In effect, inventors would merely have to show that the specific implementation of the abstract concept being claimed includes unconventional elements that provide an improvement over the prior art. This argument would be very similar to arguments required under 35 U.S.C. § 103 that an invention is a non-obvious improvement over the prior art.

In contrast to *BASCOM*, other cases instruct us to ignore claim elements that serve to implement the underlying abstract idea of the claim. The invention being considered in *SAP America, Inc. v. InvestPic, LLC*, 890 F.3d 1016 (Fed. Cir. 2018) related to analyzing financial investments on a website pursuant to a new mathematic model. The claim was considered directed to the abstract idea of "collecting information, analyzing it, and displaying certain results of the collection and analysis" under step one of the *Alice* test. Under step two, the Federal Circuit rejected software limitations that narrowed the type of analysis being done because they "add[ed] nothing outside the abstract realm." *SAP Am*., 890 F.3d at 1023. Although these claim elements might have been a unique method of implementation of the abstract idea, they were not available for analysis under step two because they were still part of that abstract concept. Only limitations relating to databases and processors were analyzed under step two of the *Alice* test. In limiting the analysis under step two to these elements, the Federal Circuit emphasized that these elements were "in the physical realm of things." *Id*. These

physical elements were not enough to make the invention patentable, however, because they were routine and conventional. If future cases definitively hold that the inventive concept under step two of the *Alice* test cannot be found in software and can only be found in non-conventional hardware components, it will become much more difficult for these types of inventions to survive under the *Alice* test.

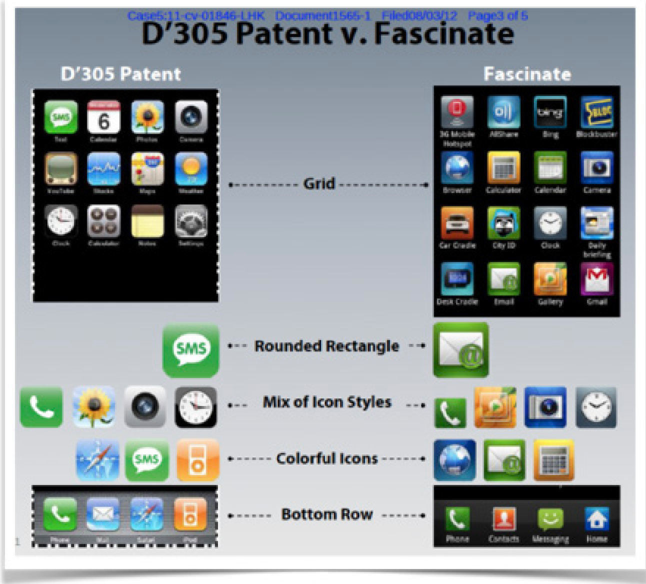
§ 13.7 DESIGN PATENTS – DETERMINING THE ARTICLE OF MANUFACTURE

A. A Software Design Patent that Was Apple's Most Valuable IP in Fighting Samsung

When the Apple iPhone was introduced to the world at the Macworld Expo in January 2007, it was immediately recognized as a revolutionary change in the design and user interface of smart phones. It was not long before other smartphone manufacturers followed Apple's lead and changed their designs to more closely resemble those from Apple. For example, in Apple's litigation with Samsung, Apple produced the following graphics showing Samsung's smartphone designs before and after the iPhone introduction:

In this lawsuit, Apple relied heavily on seven different design patents covering not only the iPhone's physical construction, but also the operating system's user interface. The jury examined Apple's allegations, and determined that Samsung had infringed on three of the design patents, in-

cluding patent number D604,305 (D'305). Apple argued that this D'305 design patent was infringed by Samsung's "Fascinate" user interface, relying in part on the following graphic:



The jury obviously agreed, and even after a retrial on damages, the jury awarded Apple a total of $399 million in damages for infringement of these three design patents.

In instructing the jury on damages, the trial judge allowed the jury to award Apple the entire profit that Samsung made on the infringing smartphones, which seems reasonable since 35 U.S.C. § 289 clearly provides for awarding the "total profit" earned on any device that infringes on a design patent. Samsung challenged this jury instruction at the Federal Circuit in 2015, arguing that the infringing device in this case should not be the entire smartphone, but only those components specifically covered in the design patent. The Federal Circuit was asked to determine whether the "total profit" referred to in section 289 must be the total profit for the entire article *that is provided for sale to consumers*, or whether the reference to "article" in this section might refer to only a *patented subcomponent in a multicomponent product*. The Federal Circuit concluded that the statute cares only for those articles of manufacture that are sold to ordinary purchasers. *Apple Inc. v. Samsung Elecs. Co., Ltd.*, 786 F.3d 983 (Fed. Cir. 2015). Samsung appealed this decision to the Supreme Court, where the Court (not surprisingly) reversed the Federal Circuit. The U.S. Supreme Court held that while section 289 clearly requires that the total profit on the article of manufacture be awarded for infringement of a design patent, this article may constitute only a subcomponent of a multicomponent product. *Apple Inc. v. Samsung Elecs. Co., Ltd.*, 137 S. Ct. 429 (2016). However, the Supreme Court refused to set forth any test for identifying the relevant article of manufacture when evaluating

damages under section 289 and even refused to identify the appropriate article of manufacture in the design patents at issue in this specific litigation. Instead, the issue was remanded back to the trial court. *Id.*

On remand, the trial court held a jury trial on damages, and asked the jury to consider four factors when determining whether the patented component for the design patents was a subcomponent or the entire smartphone. The four factors came originally from an amicus brief for the United States submitted as part of the Supreme Court's deliberation. In particular, the jury was to consider:

1. *The scope of the design claimed in the patent (including the drawing and written description).* The patent may explicitly identify the particular product or product component that is covered, but the factfinder should not treat the patent's designation as conclusive.

2. *The relative prominence of the design within the product as a whole should be considered.* If the design is a "minor component" like a latch on a refrigerator, or one component in a many component product, the article should be considered to constitute only that component which embodies the design. In contrast, if the design is a significant attribute of the entire product, affecting the appearance of the product as a whole, then the whole product should be the article of manufacture.

3. *The degree to which the design is conceptually distinct from the overall product.* The one example given is a book binding and the literary work contained within the work—these "respond to different concepts; they are different articles." If the product contains other components that "embody conceptually distinct innovations," then it may be appropriate that the component be considered the relevant article.

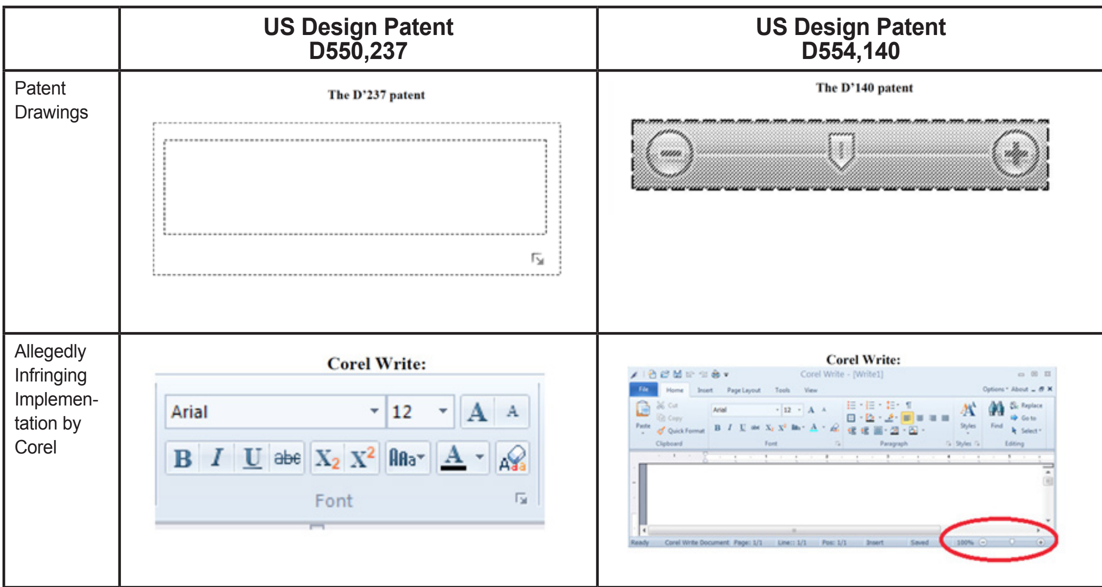
4. *Consider the "physical relationship" between the patented design and the rest of the product*. If the design pertains to a component that can be physically separated from the product as a whole, the design is likely to be applied to the component alone and not the complete product.

In May 2018, the jury considered these four factors and decided that the patented component for the software/user interface patent D'305 was the entire smartphone. Interestingly, the jury did not believe this was the case for the design patents that were directed to the front face and bevel of the physical phone. Because the patented component for *the user interface design patent* was the entire phone, the jury awarded all of Samsung's profit on the phone for damages on the design patents, which this jury determined to be $533 million. The same jury awarded damages on two

infringed utility patents, and these damages were only a little over $5 million. *Id*. Not surprisingly, Samsung has already asked the judge to throw out the jury verdict as excessive. Looking back over the course of the litigation, even though Apple sued Samsung for eight utility patents, seven design patents (most of which covered physical aspects of the phone), and six allegations of trade dress infringement, the vast majority of Apple's $540 million award was based on a single software design patent.

B. *Microsoft v. Corel* – Is Software an Article of Manufacture?

Microsoft, like Apple, has filed for numerous design patents on user interface elements used in its software products. In 2015, Microsoft sued Corel alleging that Corel's WordPerfect software includes Microsoft Word and Microsoft Excel simulations that infringed five utility patents and four design patents. In particular, Microsoft alleged infringement of U.S. Design Patent Nos. D550,237 and D554,140, parts of which are shown in comparison with Corel's product in the following table:



	US Design Patent D550,237	US Design Patent D554,140
Patent Drawings	The D'237 patent	The D'140 patent
Allegedly Infringing Implementation by Corel	Corel Write:	Corel Write:

Corel had previously denied infringement of the design patents, but Corel amended its answer to admit infringement to leave only the issues of damages to remain. Corel then argued that Microsoft was not entitled to recover its total profits under section 289 because Corel had not applied the patent designs to an "article of manufacture." In other words, Corel argued that the design patent can only be infringed when the patent design is applied to an article of manufacture, which in this case is "a user interface for a portion of a display screen." Corel never sold any display screens, and the instructions within the software that creates the patented design do not by themselves constitute an article of manufacture. The district court rejected this argument, finding that software is

an article of manufacture. Consequently, the court upheld the jury's decision to award $287,000 in damages (there was no pre-suit notice of the patents). Note that the court's conclusion that software is an article of manufacture may be in conflict with the USPTO's position that a design on a GUI element is patentable only when it is shown on a "computer screen, monitor, or other display panel." MPEP § 1504.01(a) ("Since a patentable design is inseparable from the object to which it is applied and cannot exist alone merely as a scheme of surface ornamentation, a computer-generated icon must be embodied in a computer screen, monitor, other display panel, or portion thereof, to satisfy [35 U.S.C. § 171]."). Note that the district court's decision also seems to conflict with the finding in *Apple*, which indicated that the relevant "article of manufacture" for Apple's GUI interface is the smartphone itself, not the software which produces the interface on the smartphone hardware.

§ 13.8 CONCLUSION

Over the past year, the Federal Circuit has taken a guiding role in determining the scope of intellectual property protection that is available for computer software. In *Oracle v. Borland*, the court has not only affirmed the copyrightability of program interfaces, but has further rejected a fair use defense for the commercial copying of those interfaces. Under the Federal Circuit's rationale, the goal of software inter-operability will not overcome the protection provided by copyright when an owner/author does not wish their interface to become universal. The same court is also struggling with the scope of the *Alice* decision in determining what types of computer software may be protected under a U.S. patent. While the last year has provided some guidance, fundamental questions as to the scope of patent protection for software remain unanswered. One thing is certain—both of these issues will be further refined in the coming year. Stay tuned.

Key IP Legal Trends 2018–19 in Brief – Manufacturing

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§ 14.1 INTRODUCTION

The manufacturing industry is holding steady in the United States and, contrary to outdated assumptions, is no longer driven by sweat-of-the-brow factory work, assembly lines, and heavy machinery. A primary reason is the industry's embrace of technology. For the past 20 years, the manufacturing industry has been at the forefront of technological advancements in digital technologies, organizational automation, and global logistics. Hal Sirkin et al., *An Innovation-Led Boost for US Manufacturing*, BCG (Apr. 17, 2017), <https://www.bcg.com/publications/2017/lean-innovation-led-boost-us-manufacturing.aspx>. Developing and leveraging these technologies has allowed the manufacturing industry to increase output while using less. Martin Neil Baily & Barry P. Bosworth, *US Manufacturing: Understanding Its Past and Its Potential Future*, 28 J. Econ. Persp. 3, 3–4 (2014). As the McKinsey Global Institute recently stated, the next 10 years will "reshape global manufacturing" as "technology unlocks productivity gains." Sree Ramaswamy et al., *Making*

It in America: Revitalizing US Manufacturing, McKinsey Global Inst. (Nov. 2017), <https://www.mckinsey.com/featured-insights/americas/making-it-in-america-revitalizing-us-manufacturing>.

And, indeed, those technological advancements give rise to a myriad of intellectual property issues. This chapter focuses on a subset of intellectual property issues that have developed or changed over the last year. The intent of this chapter is to identify key intellectual property issues that all attorneys counseling manufacturing companies should be aware of to generate further thought and analysis.

§ 14.2 PATENTS

Patents historically have been heavily emphasized by technology companies. Although recent events have raised the prominence of other issues like trade secrets and cybersecurity, discussed below, patents remain a critical part of the manufacturing industry.

A. Design Patents

This year confirmed that manufacturing companies should take design patents seriously for both offensive and defensive reasons. After several years of litigation and having a prior $399 million verdict overturned by the Supreme Court in 2016, Apple hit payday this year based on its iPhone design patent portfolio. *Apple Inc. v. Samsung Elecs. Co.*, No. 11-CV-01846-LHK, 2018 Jury Verdicts LEXIS 14088 (N.D. Cal. May 24, 2018). On May 24, 2018, a California jury found that Samsung owed Apple approximately $538.6 million for infringing both design and utility patents covering smartphone technology—with $533.3 million allocated to Samsung's infringement of three design patents. *Id.* This case is important not merely because Apple secured a multi-hundred-million-dollar judgment, but because it concerns what constitutes "an article of manufacture."

By way of background, the patent statute allows an inventor to obtain a patent on "any new, original and ornamental design for an article of manufacture." 35 U.S.C. § 171(a). It further states that whoever infringes a design patent "shall be liable to the owner to the extent of his total profit." 35 U.S.C. § 289. The trial court, during the parties' first trial, held that these statutes meant that Samsung must pay all of its profits from the entire infringing phones. *Apple Inc. v. Samsung Elecs. Co.*, No.: 11-CV-01846-LHK, 2014 U.S. Dist. LEXIS 29721 (N.D. Cal. Mar. 6, 2014). Samsung appealed the decision, arguing that "article of manufacture" referred to only the features covered by the design patent and not everything that comes inside (e.g., the hardware, chips, etc.).

After Apple secured an affirmance at the Federal Circuit, Samsung was victorious at the United States Supreme Court. *Apple Inc. v. Samsung Elecs. Co.*, 137 S. Ct. 429 (2016). In an 8-0 decision, the Supreme Court reversed the jury's $399 million award and instructed the Federal Circuit to determine the appropriate standard for what constitutes an "article of manufacture." *Id.* at 436.

The clear suggestion was that the article of manufacture was not the smartphone itself, but something less—perhaps only the case and screen. *Id.* at 435. The Federal Circuit remanded the case to the trial court to consider in the first instance the Supreme Court's instruction. *Apple Inc. v. Samsung Elecs. Co.*, 678 F. App'x 1012, 1014 (Fed. Cir. 2017).

The district court judge adopted a four-factor test to determine what constitutes an "article of manufacture" for purposes of determining damages from the infringement of a design patent. *Apple Inc. v. Samsung Elecs. Co.*, No. 11-CV-01846-LHK, 2017 U.S. Dist. LEXIS 177199 (N.D. Cal. Oct. 22, 2017). The final jury instruction was as follows:

> The scope of the design claimed in Apple's patent, including the drawing and written description;
>
> The relative prominence of the design within the product as a whole;
>
> Whether the design is conceptually distinct from the product as a whole; and
>
> The physical relationship between the patented design and the rest of the product, including whether the design pertains to a component that a user or seller can physically separate from the product as a whole, and whether the design is embodied in a component that is manufactured separately from the rest of the product, or if the component can be sold separately.

Id. at *111. The jury returned with the ultimate damage figure—allocating $533 million to Apple's design patents.

Unfortunately, the jury verdict provides little help to practitioners to determine how damages in patent design cases should be determined. The verdict form itself did not require the jury to identify the "article of manufacture" or otherwise set forth its particular analysis of the four-factor test. *See id.* So, only the jurors know how they reached the ultimate damage amount. Nevertheless, if the judgment withstands post-trial challenges and appeal, this decision should lead to the increased use of design patents as a means to defend a party's intellectual property rights.

PRACTICE TIP

For now, attorneys should appreciate that design patents are potentially valuable additions to an intellectual property portfolio and should be specifically considered during routine patent-mining sessions. Additionally, attorneys should be careful not to disregard design patents when conducting freedom to operate analysis.

B. The On-Sale Bar

In 2017 to 2018, the on-sale bar to patentability has taken on increasing prominence as a means for invalidating manufacturers' patents. Two decisions from the Federal Circuit highlight how manufacturers' early attempts to commercialize their products can put their patent rights at risk.

First, in *Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.*, 855 F.3d 1356 (Fed. Cir. 2017), a Federal Circuit panel found that the manufacturer, Helsinn, had forfeited its patent rights by entering a supply and purchase agreement with a distributor more than a year before it filed its patent application. This case restated the law that "application of the on-sale bar requires that (1) 'the product must be the subject of a commercial offer for sale' and (2) 'the invention must be ready for patenting.'" *Helsinn Healthcare*, 855 F.3d at 1363 (quoting *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998)). The court went on to explain that whether the product was subject to a "commercial offer for sale" was to be decided under the "law of contracts as generally understood." *Id.* at 1364.

The Federal Circuit found that the supply and purchase agreement between Helsinn and its distributor constituted a commercial offer for sale because the agreement obligated the distributor to purchase exclusively from Helsinn and obligated Helsinn to supply the distributor's requirements of the finished, patented product. *Id.* The court noted that the agreement included specific terms such as "price, method of payment, and method of delivery." *Id.* at 1365.

The court rejected Helsinn's argument that the America Invents Act (AIA) changed the law so that Helsinn's agreement was not invalidating. *Id.* at 1371. Specifically, Helsinn argued that the law changed under the AIA because of the changed language of 35 U.S.C. § 102 from "in public use or on sale" before the AIA to "in public use, on sale, *or otherwise available to the public*" under the AIA. *Id.* at 1367–68 (emphasis added). Helsinn contended that under the new statutory language, a sale was not invalidating if it did not make the invention "available to the public." *Id.* at 1368. This argument relied on floor statements from members of Congress. *Id.* The Federal Circuit rejected this argument as it related to the specific facts of that case, holding the on-sale bar applied because the existence of the purchase agreement itself was made available to the public, even though the public

disclosure did not include the details of the patented invention. *Id.* at 1371. The court did not reach the issue of whether a truly "secret" sale would be invalidating under the AIA. *Id.* at 1368–69.

The en banc Federal Circuit refused to hear the case, and Helsinn has petitioned the Supreme Court for a writ of certiorari. *Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, No. 2016-1284, 2018 WL 1583031 (Fed. Cir. Jan. 16, 2018); *Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, No. 17 1229, 2018 U.S. S. Ct. Briefs LEXIS 853 (filed Feb. 28, 2018). This petition was supported by a number of amici, including lead AIA sponsor Representative Lamar Smith. *See Helsinn v. Teva Pharm. USA, Inc.*, No. 17-1229, 2018 U.S. S. Ct. Briefs LEXIS 1248 (filed Mar. 16, 2018); *see*, *e.g.*, *Helsinn v. Teva Pharm. USA, Inc.*, No. 17-1229, 2018 U.S. S. Ct. Briefs LEXIS 1357 (filed Mar. 30, 2018). On June 25, 2018, the Supreme Court granted certiorari. *Helsinn Helathcare S.A. v. Teva Pharm. USA, Inc.*, 138 S. Ct. 2678 (2018). It will likely decide whether confidential offers for sale constitute prior art under the AIA sometime in 2019.

Additionally, the Federal Circuit recently found that another distribution agreement may invalidate a manufacturer's patent. In *Medicines Co. v. Hospira*, 881 F.3d 1347, 1353 (Fed. Cir. 2018), the court found that a distribution agreement entered into by the manufacturer, the Medicines Company, was a commercial offer for sale, and remanded to the district court to determine whether the agreement covered the patented product. Under the distribution agreement, the Medicines Company agreed to sell its product to a distributor and the distributor acknowledged it "desire[d] to purchase and distribute the Product." *Meds. Co.*, 881 F.3d at 1349 (alteration in original). In this case, the Federal Circuit highlighted that the distribution agreement included: (1) the price of the product; (2) the purchase schedule; and (3) the passage of title from the Medicines Company to the distributor. *Id.* at 1351.

PRACTICE TIP

These recent cases illustrate the importance of considering patent rights when manufacturers enter into agreements with distributors. Ideally, manufacturers should make sure to file their patent applications within one year of initiating any commercial activity related to an invention. If manufacturers believe that time period may not be feasible, they should attempt to style their distribution contracts as contracts for services rather than for the sale of products.

C. The STRONGER Patents Act of 2017 – 35 U.S.C. § 271(f)

Although there is no indication an amendment to the Patent Act is imminent, a bill has been introduced in both the House and the Senate that would significantly impact the Patent Act. One proposed change in both bills would particularly affect U.S. manufacturers as it would allow a patentee to hold a person liable for infringement under 35 U.S.C. § 271(f) for merely supplying a *design* for a patented product even if the product is made outside the United States. The proposed change states:

> (3)(A) Whoever, without authority, supplies or causes to be supplied in or from the United States a design for a product embodying a patented invention in such manner as to actively induce the making of that product outside the United States in a manner that would infringe the patent if made in the United States, shall be liable as an infringer.
>
> (B) Whoever, without authority, supplies or causes to be supplied in or from the United States a specification for performing a patented process or method in such manner as to actively induce the performance of that process or method outside the United States in a manner that would infringe the patent if performed in the United States, shall be liable as an infringer.

H.R. 5340, 115th Cong. § 108 (2018); S. 1390, 115th Cong. § 108 (2017). At this time, the likelihood of this bill becoming law is unclear.

PRACTICE TIP

Manufacturers should be aware of this bill as it proceeds through Congress. If a manufacturer currently conducts research and development in the United States, but manufactures and sells goods outside the United States, it should be aware that under the bill—as currently proposed—its activities could make it subject to patent liability in the future.

§ 14.3 TRADE SECRET – THE FEDERAL DEFEND TRADE SECRETS ACT

Trade secrets have long been an important tool for manufacturers. Roughly two years ago, the Defend Trade Secrets Act of 2016 (DTSA) was signed into law. The DTSA creates a federal civil cause of action for trade secret misappropriation whereby "[a]n owner of a trade secret that is misappropriated may bring a civil action … if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce." 18 U.S.C. § 1836(b)(1). According to Lex Machina, over 1,300 cases have been filed under the DTSA since enactment, with over 700

currently pending. The volume of cases alone shows litigants—including those in the manufacturing industry—view the DTSA as a meaningful tool to protect intellectual property. The substantive takeaways, however, remain limited because few cases have reached finality.

A. The Inevitable Disclosure Theory

One recent case, *Molon Motor & Coil Corp. v. Nidec Motor Corp.*, No. 16 C 03545, 2017 U.S. Dist. LEXIS 71700 (N.D. Ill. May 11, 2017), opens the possibility for trade secret owners to allege a trade secret claim under the DTSA using the doctrine of inevitable disclosure. The inevitable disclosure doctrine allows a trade secret owner to "prove a claim of trade secret misappropriation by demonstrating that [the] defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995). So, a trade secret owner need not allege any facts showing actual misappropriation. Facts supporting a reasonable inference that the disclosure would be inevitable is sufficient. For trade secret owners who, at times, have employees recruited away by head-to-head competitors, this may be a critical tool that allows for a viable claim to proceed to discovery.

The reason this case stands out is because the terms of the DTSA, particularly with respect to remedies, arguably rejected the federal inevitable disclosure doctrine. Although the DTSA expressly states that it is not intended to preempt state law (and several states recognize the inevitable disclosure doctrine), the DTSA expressly forbids restricting employees from accepting new positions at a competitor and further requires that any "conditions placed on such employment" "be based on evidence of threatened misappropriation and not merely on the information the person knows." 18 U.S.C. § 1836(b)(3)(A)(i)(I)–(II). It is this latter phrase, in particular, that calls into question whether the DTSA eliminates the inevitable disclosure doctrine under federal law.

In *Molon Motor*, the plaintiff was a custom gear motor manufacturer who sued its head-to-head competitor, Nidec, under the DTSA and the Illinois Trade Secrets Act (ITSA). Molon Motor alleged that its head of quality control copied confidential data concerning design and production of motors prior to leaving Molon Motor and accepting a similar position at Nidec. *Molon Motor*, 2017 U.S. Dist. LEXIS 71700, at *3. Absent from Molon Motor's pleading, however, were any specific or direct facts showing that Nidec either used or obtained Molon Motor's trade secrets. Molon Motor merely alleged, "[w]ithout identifying specific instances," that its former employee "unlawfully disclosed" the trade secrets he took to Nidec and that "Nidec used and continues to use that information." *Id*. at *4.

In response, Nidec filed a motion to dismiss on the basis that Molon Motor's DTSA claim should fail because "there was nothing unlawful about [the former employee] copying the files while he was still a Molon Motor employee and that there is no plausible allegation that Nidec has used the trade secrets contained on the thumb drive." *Id*. at *2. Nidec argued that there was no justified

basis for "inferring that it accessed or used any of the information" copied by Molon Motor's former employee. *Id*. at *4.

Noting that the "closest question in the case" concerned whether Molon Motor "adequately allege[d] that Nidec acquired or used" the trade secrets, the court denied Nidec's motion. *Id*. at *12. The court applied the inevitable disclosure analysis to the DTSA claim, focusing on three factors: (1) the level of competition between Molon Motor and Nidec; (2) the extent to which the former employee's prior position is comparable to his new position; and (3) the actions taken by Nidec to prevent the former employee from using or disclosing Molon Motor's trade secrets. *Id*. at *13 (quoting *Saban v. Caremark Rx, L.L.C.*, 780 F. Supp. 2d 700, 734–35 (N.D. Ill. 2011)). The court found that Molon Motor adequately pleaded a DTSA claim because (1) Nidec was a "serious competitor;" and (2) the former employee's new position at Nidec was "similar" to his former position at Molon Motor. *Id*. at *13–14. The court concluded that the allegations "trigger[ed] the circumstantial inference that the trade secrets inevitably would be disclosed" to Nidec even though Molon Motor alleged no facts relevant to factor (3) above. *Id*. at *16–17.

PRACTICE TIP

The primary takeaway from this case, at least at this time, is that the inevitable disclosure doctrine presents a way for an employer to allege a viable claim against a competitor that poaches an employee even without concrete knowledge of any improper use. The key for attorneys who want the option to rely on the inevitable disclosure doctrine is to ensure that the complaint expressly sets forth allegations about the head-to-head competition between the two companies, and the similarity of responsibilities for the former employee at his or her new job. Based on this case, a litigant has a plausible chance to withstand a Federal Rule of Civil Procedure12(b) motion and obtain discovery; however, it is important to note that ultimately, the employer must establish that the former employee used or disclosed the trade secrets to his or her new employer to prevail.

COMMENT

Whether other federal court cases apply the inevitable disclosure doctrine under the DTSA the same as the Northern District of Illinois will be interesting to watch. *See also Mickey's Linen v. Fischer*, No. 17 C 2154, 2017 U.S. Dist. LEXIS 145513, at *39–45 (N.D. Ill. Sept. 8, 2017). For Minnesota practitioners, it bears noting that the recent case, *Mid-America Business Systems v. Sanderson*, No. 17-3876 (JRT/DTS), 2017 U.S. Dist. LEXIS 166463, at *21 (D. Minn. Oct. 6, 2017) (denying a temporary restraining order request, but suggesting in dicta that inevitable disclosure applies under the DTSA), suggests the answer will be in the affirmative.

B. Necessary Protections from Disclosures

Although no final decision has issued, *Trinity Graphic USA, Inc. v. Tervis Tumbler Company*, No. 8:18-cv-230 (M.D. Fla.), shows the importance of manufacturing companies employing multiple levels of protections for their trade secrets. The DTSA limits federal trade secret protection to confidential information where, among other things, "the owner thereof has taken reasonable measures to keep such information secret[.]" 18 U.S.C. § 1839(3).

In *Trinity Graphic USA, Inc.,* Trinity Graphic USA alleged that it developed two trade secrets relating to its design and manufacturing of graphic inserts for Tervis Tumbler Company double-walled, insulated tumbler mugs, namely: (1) a technique that allows for a two-sided wrap-around print on a transparent material known as a substrate; and (2) a technique to significantly reduce the static electricity generated during the printing process, which was necessary to allow for a high resolution image on a transparent substrate. Amended Complaint & Demand for Jury Trial at ¶¶ 23–25, *Trinity Graphic, USA, Inc. v. Tervis Tumbler Co.*, No. 8:18-cv-00230-SCB-MAP (M.D. Fla. Apr. 13, 2018). Trinity's trade secrets, allegedly, resulted in defendant Tervis increasing its revenues by over $100 million. *Id.* ¶ 20–22, 42–44.

Trinity's allegations set forth a deliberate plot by Tervis—its business partner—to steal its trade secrets for the sake of its bottom line. Whether the allegations are true is presently unknown, but Trinity's complaint sets forth a baseline checklist to satisfy the "reasonable measures" requirement of the DTSA. Trinity alleged that it imposed the following protective measures: (1) limiting access to its production facility; (2) monitoring its production facility with security cameras; (3) requiring key-FOB entry to its production facility; (4) maintaining records of individuals who entered its production facility; (5) requiring its employees to sign confidentiality and non-disclosure

agreements; (6) holding staff meetings to reinforce the trade secret nature of its printing technique; (7) requiring third parties involved in its printing technique to execute non-disclosure agreements; (8) requiring Tervis to execute a confidentiality and non-disclosure agreement prior to disclosure of its trade secrets. *Id.* ¶ 37. Specifically with respect to Tervis, Trinity alleged that it intentionally hid or removed certain materials from the production facility during tours until Tervis was bound by a non-disclosure agreement. *Id.* ¶¶ 52–53. Trinity's complaint shows the importance of manufacturing companies employing early, comprehensive and consistent protections to ensure they may satisfy the "reasonable measures" requirement.

PRACTICE TIP

Manufacturing companies should employ routine trade secret audits to assess and document the protective measures employed for its trade secrets. A good place to start are the "reasonable measures" pleaded by Trinity. Additionally, attorneys performing a trade secret audit should determine what third parties may have access to trade secret information in the future and execute a non-disclosure agreement as soon as possible.

C. Protecting Trade Secrets from Foreign Manufacturers

U.S. companies, especially those in the American manufacturing industry, have been the target of global intellectual property theft. The *New York Times* estimates that intellectual property theft costs the United States up to $600 billion per year, with China accounting for most of that loss. Dennis C. Blair & Keith Alexander, *China's Intellectual Property Theft Must Stop*, N.Y. Times (Aug. 15, 2017), *available at* <https://www.nytimes.com/2017/08/15/opinion/china-us-intellectual-property-trump.html>. The U.S. government has been combating foreign intellectual property theft even prior to the enactment of the DTSA. For example, back in June 27, 2013, Sinovel Wind Group Co. Ltd., d/b/a Sinovel Wind Group (USA) Co. Ltd., the largest Chinese wind turbine manufacturer, was charged with conspiring to obtain copyrighted information and trade secrets of AMSC, a U.S. company, to produce wind turbines with AMSC technology, and without paying the $800 million it owed and promised to AMSC. United States Department of Justice, *Chinese Company Sinovel Wind Group Convicted of Theft of Trade Secrets* (Jan. 24, 2018), <https://www.justice.gov/opa/pr/chinese-company-sinovel-wind-group-convicted-theft-trade-secrets>. After years of enforcement efforts, in January 2018, a U.S. federal jury convicted Sinovel of conspiracy to commit trade secret theft, theft of trade secrets, and wire fraud. *Id.* Sinovel was found guilty of orchestrating the theft in a rare criminal trade secrets trial for stealing proprietary wind turbine technology from AMSC to make its own turbines. *Id.* Dejan Karabasevic, a former employee of AMSC, was convinced to leave AMSC

to join Sinovel and steal trade secrets from the AMSC computer system by secretly downloading the software code on March 7, 2011. *Id.* Sinovel, with this stolen intellectual property, commissioned several wind turbines and copied the stolen source code into the turbine software. *Id.* Following the theft, AMSC faced more than $1 billion in shareholder equity loss and lost over half of its global workforce. *Id.*

This recent criminal conviction could embolden U.S. efforts to take a tougher stand against foreign manufacturers in international trade matters. The Trump administration has targeted and imposed tariffs on Chinese products to combat China's "state-led, market-distorting forced technology transfers, intellectual property practices, and cyber intrusions of U.S. commercial networks," worrying many that two of the biggest world economies were on the verge of a trade war. United States Trade Representative, *Section 301 Fact Sheet* (Mar. 21, 2018), <https://ustr.gov/sites/default/files/USTR%20301%20Fact%20Sheet.pdf>; *Why the U.S.-China Trade Truce May Not Last,* Bloomberg (May 21, 2018), <https://www.bloomberg.com/news/articles/2018-05-20/u-s-china-trade-truce-may-prove-fleeting-without-serious-reform>.

PRACTICE TIP

Just like AMSC, failing to protect one's trade secret could be a costly mistake. While the U.S. government could pursue criminal actions against foreign manufacturers for intellectual property theft, prosecution could take years. American manufacturing companies must invest to protect their own trade secrets and conduct routine audits to ensure the protections are adequate.

§ 14.4 CYBERSECURITY

Cyberattacks pose a growing threat across industries. Although the motivations for cyberattacks and the implications of a data breach are more well-known in the financial and healthcare industries, the manufacturing industry is becoming increasingly susceptible to these attacks. In particular, the increased digitization in manufacturing and the increased prevalence of connected products have made cybersecurity concerns more prominent in the manufacturing industry. While there is no perfect way to protect any company from cyberattacks, there are steps that can be taken to decrease the risks associated with those attacks.

The primary reason cyberattacks are committed in the manufacturing industry is to steal trade secrets. *2018 Industry-Focused Data Breach Report*, ERPScan; *2018 Data Breach Investigations Report* 37–38 (2018), <https://www.verizonenterprise.com/resources/reports/rp_DBIR_2018_

Report_en_xg.pdf>. As stated above, the possibility of trade secret theft from foreign state-sponsored entities represents an important threat.

PRACTICE TIP

There are several things that companies can do to prevent or minimize the damage resulting from trade secret theft through cyberattacks. Although each case is unique, a basic approach all manufacturing companies should undertake is to limit the distribution and accessibility of their electronic trade secrets. Additionally, manufacturing companies should encrypt trade secret information so, if a breach occurs, access the valuable data is limited. *Cyber Risk in Advanced Manufacturing* 30–33, Deloitte (2016), <https://www2.deloitte.com/us/en/pages/manufacturing/articles/cyber-risk-in-advanced-manufacturing.html>.

A second growing cybersecurity risk for manufacturing companies is the potential of manufacturing downtime resulting from ransomware. This cyber threat perpetually blocks access to computer data until a ransom is paid. Given the importance of data in manufacturing, this can be a serious problem for manufacturers. For example, in 2017, Honda was forced to stop production at a plant near Tokyo when it was attacked by ransomware. Peter Lyon, *Cyber Attack at Honda Stops Production After WannaCry Worm Strikes*, Forbes (Jun. 22, 2017), <https://www.forbes.com/sites/peterlyon/2017/06/22/cyber-attack-at-honda-stops-production-after-wannacry-worm-strikes>.

PRACTICE TIP

The best ways to protect against downtime caused by a ransomware attack include maintaining up-to-date backup data, using a reputable antivirus software and firewall, scanning inbound emails, and using a virtual private network (VPN) whenever accessing public wi-fi. Symantec Corporation, *7 Tips to Prevent Ransomware*, <https://us.norton.com/internetsecurity-malware-7-tips-to-prevent-ransomware.html>.

A third and final example of cyberattacks in the manufacturing industry is the theft of customer data. This is an especially important concern for manufacturers of connected products. For example, in 2017, it was discovered that the customer data for more than half a million people who used CloudPets stuffed toys—a teddy bear that allows parents to record a voice message for

their child—had been compromised. Alex Hern, *CloudPets Stuffed Toys Leak Details of Half a Million Users*, The Guardian (Feb. 28, 2017), <https://www.theguardian.com/technology/2017/feb/28/cloudpets-data-breach-leaks-details-of-500000-children-and-adults>. CloudPets had this data in an unsecured location. The outcome of this sort of breach may be devastating. As of July 2018, all 50 states have specific statutory laws in force that require companies to notify their customers if their personal data is exposed. Hunton Andrews Kurth Privacy Blog, *Alabama Becomes Final State to Enact Data Breach Notification Law* (Apr. 3, 2018), <https://www.huntonprivacyblog.com/2018/04/03/alabama-becomes-final-state-enact-data-breach-notification-law/>; Hunton Andrews Kurth Privacy Blog, *South Dakota Enacts Breach Notification Law* (Mar. 23, 2018), <https://www.huntonprivacyblog.com/2018/03/23/south-dakota-enacts-breach-notification-law/>. Each of these statutes includes its own definition of what types of entities are covered, what constitutes a breach that requires notification, and the timing in which customers (and, in some cases, state attorneys general) must be notified.

PRACTICE TIP

Manufacturing companies that collect customer data should take measures to ensure that this data is secure. In the event of a breach that exposes personal data, a company needs to ensure that they comply with the patchwork of state notification laws. Prudent companies will enlist an attorney to prepare data breach response plans and conduct "data breach drills" to practice responding to a breach.