

# Notable Intellectual Property Decisions of 2016, and a Look Ahead to 2017

February 16, 2017

U.S. courts issued important decisions in every field of intellectual property during 2016. Rulings concerning awards of attorneys' fees and the proper calculation of damages were a particular focus across all disciplines. Following on the Supreme Court's recent decision in *Octane Fitness*—which relaxed the standard for awarding attorney's fees to the winning party in patent infringement suits—during 2016 the Supreme Court determined the appropriate standard for shifting attorneys' fees to the losing party in copyright infringement cases. And other courts, including the Ninth Circuit, extended *Octane Fitness* to trademark infringement cases. The Supreme Court also relaxed the standard for awarding enhanced damages in patent infringement cases and clarified the scope of damages for infringement of design patents.

Another area of attention was the protection of intellectual property in cross-border contexts. Notably, the International Trade Commission issued a broad exclusion order banning all infringing imports of a popular brand of footwear, and the Fourth Circuit ruled that the owner of a foreign trademark had standing to pursue false advertising claims against the owner of the same trademark in the U.S. Cross-border enforcement of intellectual property rights will continue to be a focus during 2017, as the Supreme Court is set to address whether the authorized sale of a patented product overseas serves to exhaust U.S. patent rights, and the scope of liability when portions of patented inventions are shipped overseas.

Finally, trade secret law drew attention last year with the enactment of the first federal statute to provide for civil claims for misappropriation of trade secrets.

We review these and other highlights of 2016 below, and then flag cases to watch in 2017.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors

## NEW YORK

**Lawrence B. Friedman**

+1 212 225 2840

[lfriedman@cgsh.com](mailto:lfriedman@cgsh.com)

**David H. Herrington**

+1 212 225 2266

[dherrington@cgsh.com](mailto:dherrington@cgsh.com)

**Arminda B. Bepko**

+1 212 225 2517

[abepko@cgsh.com](mailto:abepko@cgsh.com)

## NEW YORK

One Liberty Plaza

New York, NY 10006-1470

T: +1 212 225 2000

F: +1 212 225 3999



[clearygottlieb.com](http://clearygottlieb.com)

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**NOTABLE DECISIONS OF 2016****Patent**1. The Supreme Court Adopts A Flexible Standard For Awarding Enhanced Damages In Patent Disputes

In *Halo Elecs., Inc. v. Pulse Elecs., Inc.*,<sup>1</sup> the Supreme Court rejected the Federal Circuit's multi-part test for awarding enhanced damages in patent infringement suits, adopting in its place a far more relaxed standard that is expected to increase the availability of enhanced damages in patent litigation. Before *Halo*, prevailing plaintiffs had to demonstrate through clear and convincing evidence (1) that the infringer was objectively reckless, because there was not a "substantial question" as to the validity or non-infringement of the patent,<sup>2</sup> and (2) that the infringer acted with subjective intent, meaning the infringer knew the recklessness of its actions at the time.<sup>3</sup> The Supreme Court expressed concern that, under this standard, an intentional infringer could escape enhanced damages by offering an objectively reasonable defense at trial, regardless of whether that defense formed the basis of its infringing actions. This concern led the Court to reject the "objectively reckless" standard, concluding that an infringer's subjective bad faith alone could warrant the imposition of enhanced damages. This decision, however, has already been subject to the criticism that it may have opened the door to enhanced damages too wide, allowing them to be imposed in cases where the infringer had some knowledge of the infringed patent but also took some steps to ensure that its actions were non-infringing. There is also a concern that this decision may

embolden "patent trolls," entities that do not practice the patents they own and instead use the threat of filing an infringement lawsuit to extort lucrative licenses. The Court recognized these concerns, cautioning that enhanced damages should be reserved for truly egregious behavior and are not appropriate in "garden-variety cases."<sup>4</sup> Rulings that have applied *Halo* to date suggest that lower courts have heeded the Supreme Court's warning and remain skeptical of awarding enhanced damages, in part due to the lack of "egregious behavior" by the infringer.<sup>5</sup>

2. The Supreme Court Addresses The Calculation Of Damages For Infringement Of Design Patents

The Supreme Court recently decided another damages case addressing the appropriate scope of damages for infringement of design patents in *Samsung Elecs. Co. v. Apple Inc.*<sup>6</sup> Based on a finding that Samsung had infringed Apple's design patents for smartphones, the district court had awarded to Apple the total profits Samsung had generated from its infringing products, even though Samsung was found to have infringed only patents relating to the external appearance of

<sup>4</sup> *Id.* at 1935.

<sup>5</sup> See, e.g., *Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, No. 14-CV-2061-H (BGS), 2016 WL 4377096, at \*21 (S.D. Cal. Aug. 17, 2016) (denying enhanced damages award because defendant's willful infringement was not egregious, but rather part of a "garden-variety hard-fought patent infringement action...."); *Trs. of Bos. Univ. v. Everlight Elecs. Co.*, No. 12-11935 (PBS), 2016 WL 3976617, at \*4 (D. Mass. July 22, 2016) (denying enhanced damages award because the "defendants' conduct did not rise to the level of egregiousness meriting an award of enhanced damages."); *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 841 F.3d 1334, 1346 (Fed. Cir. 2016) (instructing lower court on remand to consider whether infringer's actions "constituted an 'egregious case[ ] of misconduct beyond typical infringement'" in deciding on enhanced damages); *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1364 (Fed. Cir. 2016) (same).

<sup>6</sup> 137 S. Ct. 429 (2016).

<sup>1</sup> 136 S. Ct. 1923 (2016).

<sup>2</sup> *Id.* at 1930 (quoting *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assoc., Inc.*, 776 F.3d 837, 844 (Fed. Cir. 2015)).

<sup>3</sup> *Id.* (citing *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007)).

its phones.<sup>7</sup> The Federal Circuit upheld the award, determining that it would be inappropriate to distinguish between Samsung's profits that were attributable to the infringement and its total profits.<sup>8</sup> A unanimous Supreme Court disagreed, holding that, when one or more ornamental elements of a multicomponent product infringe a design patent, damages may be calculated based on the value derived from the infringing component alone, rather than the product as a whole.<sup>9</sup> However, the Court declined to articulate a test for determining when damages should be based on the value derived from the infringing components rather than the entire device. Nor did it provide guidance for how to calculate the profits attributable to an infringing component, when the component is never sold separately from the end-product of which it is a part. On remand, the Federal Circuit also declined to address these outstanding issues, instead ruling that "the district court is better positioned to parse the record to evaluate the parties' competing arguments."<sup>10</sup>

### 3. Recent Cases Suggest A Small Shift Away From Invalidating Patents Under The Alice Framework

In 2016, the Federal Circuit further fleshed out the exacting patent eligibility test for abstract ideas that the Supreme Court articulated in 2014 in *Alice Corp. v. CLS Bank Int'l*.<sup>11</sup> *Alice* requires that, if a patent claim is directed at an abstract idea, the claim must also possess an "inventive concept" sufficient to "'transform the nature of the claim' into a

patent-eligible application."<sup>12</sup> Taking aim at software patents, the Court warned that "[s]tating an abstract idea while adding the words 'apply it with a computer'" does not suffice.<sup>13</sup>

In the two years since *Alice*, the Federal Circuit has invalidated patents for abstract ideas in the overwhelming majority of cases that have come before it. However, two decisions in 2016 may provide software designers a blueprint for protecting their inventions: *Amdocs (Isr.) Ltd. v. Openet Telecom, Inc.*<sup>14</sup> and *McRO, Inc. v. Bandai Namco Games Am. Inc.*<sup>15</sup> *Amdocs* involved a system designed to solve accounting and billing issues faced by network service providers.<sup>16</sup> The Federal Circuit determined that the patent claims satisfied the *Alice* test because they were (1) "tied to a specific structure of various components,"<sup>17</sup> (2) did not "broadly preempt[] related technologies,"<sup>18</sup> and (3) "purposefully arrange[d] the components . . . to achieve a technological solution to a technological problem specific to computer networks."<sup>19</sup> The court cited similar factors in sustaining the validity of computerized lip synchronization patents at issue in *McRO*, which involved technology that automated a 3-D animator's task of creating facial expressions made during speech.<sup>20</sup>

<sup>7</sup> *Samsung*, 137 S. Ct. at 433-34.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 435-36.

<sup>10</sup> *Apple Inc., v. Samsung Electronics Co., Ltd., et al.*, No. 2014-1335, 2017 WL 490419, at \*1-2 (Fed. Cir. Feb. 7, 2017).

<sup>11</sup> 134 S. Ct. 2347 (2014).

<sup>12</sup> *Id.* at 2355 (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294, 1297).

<sup>13</sup> *Id.* at 2358.

<sup>14</sup> 841 F.3d 1288 (Fed. Cir. 2016).

<sup>15</sup> 837 F.3d 1299 (Fed. Cir. 2016).

<sup>16</sup> *Id.* at 1291.

<sup>17</sup> *Id.* at 1303.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> 837 F.3d at 1301, 1315-16 (holding that (1) "the structure of the limited rules reflect[ed] a specific implementation" that included multiple other components, (2) the claims did not broadly preempt facial and lip synchronization technology as there were many other available methods to carry out the tasks, and (3) the rules and functions were

Going forward, patent applicants seeking to avoid invalidity under *Alice* should describe their inventions to bring them under the ambit of these precedents by including a novel structure with sufficient complexity, narrow claims that avoid preempting every method of carrying out a specific task and a purposeful arrangement of functions and components meant to solve a specific, novel issue. While these characteristics may not always be dispositive, the Federal Circuit has signaled that they are important in meeting the *Alice* standard.

## **Trademark**

### **1. The International Trade Commission Invalidates One Trademark Claim For A Popular Footwear Design, But Orders A General Ban On Imported “Knock-Offs” Based On Another Claim**

In June 2016, the U.S. International Trade Commission (“ITC”) decided a highly-publicized trademark case involving Converse’s infringement claims against Walmart, Skechers, New Balance and others over the import and sale of “knock-off” versions of Converse’s popular Chuck Taylor All Star style sneakers.<sup>21</sup> In a mixed decision, the ITC invalidated the most important of Converse’s trademarks—the rubber bumper on the side of the shoes and rubber toecap—thus rejecting Converse’s most significant claims against the alleged infringers.<sup>22</sup> However, the ITC issued a general exclusion order on imports of shoes with the Converse diamond-shaped pattern on the sole.<sup>23</sup> This decision is notable because the ban applies not only to named defendants in the case, but also to any company that might seek to import a sole

pattern similar to what appears on All Star sneakers.

Though the Commission’s ban may not be the final word in this dispute—the decision has been appealed to the Federal Circuit<sup>24</sup>—it demonstrates the power and potential advantage of seeking relief in the first instance before the ITC instead of a federal court. While the ITC cannot award monetary relief, it is capable of issuing broad exclusion orders, such as the one issued in this case. This form of relief may be attractive to owners of trademarks that are frequently fending off “look-alike” or “knock-off” competition.

### **2. An Owner Of A Foreign Trademark Can Bring Unfair Competition And False Advertising Claims Against The U.S. Owner Of The Same Mark**

In a decision addressing cross-border trademark rights, the Fourth Circuit ruled that the owner of a foreign trademark has standing to pursue unfair competition and false advertising claims against the owner of the same mark in the U.S.<sup>25</sup> The underlying controversy in *Belmora LLC v. Bayer Consumer Care AG* centered on Belmora’s registration of the trademark “FLANAX” in the U.S. for its brand of pain relievers, despite the fact that Bayer had been selling its popular U.S. product “ALEVE” under the name “FLANAX” in Mexico for more than 40 years.<sup>26</sup> The district court ruled that Bayer did not have standing to challenge Belmora’s registrations because Bayer does not have a registered U.S. trademark. In April 2016, the Fourth Circuit reversed, finding that, under the framework the Supreme Court articulated in *Lexmark Int’l, Inc. v. Static Control*

purposefully arranged to create a specific format that was then used to create the desired result).

<sup>21</sup> *In re Certain Footwear Prods.*, Inv. No. 337-TA-936 (June 23, 2016) (Final).

<sup>22</sup> *Id.* at 28-29.

<sup>23</sup> *Id.* at 29.

<sup>24</sup> *Converse, Inc. v. ITC*, No. 16-2497.

<sup>25</sup> *Belmora LLC v. Bayer Consumer Care AG*, 819 F.3d 697 (4th Cir. 2016).

<sup>26</sup> *Id.* at 702-04.

*Components, Inc.*,<sup>27</sup> Bayer satisfied the test for standing because (1) the Lanham Act does not expressly require that the plaintiff possess or have used a trademark in U.S. commerce as an element of a claim for false advertising or unfair competition, and (2) potential harm exists when cross-border customers purchase Belmora's FLANAX in the U.S., believing it to be the same as Bayer's product.<sup>28</sup> The Fourth Circuit placed particular emphasis on allegations that Belmora targeted the sale of its products to customers near the U.S.-Mexico border and intentionally suggested that Belmora's FLANAX was the same as Bayer's FLANAX.<sup>29</sup>

The Fourth Circuit's decision represents a significant expansion of the scope of potential claims under the Lanham Act, allowing a party that does not own or use a mark in the U.S. to bring a Lanham Act claim against a company that does use the mark in the U.S. To come within the *Belmora* framework, a non-U.S. plaintiff would need to demonstrate that the defendant is seeking to cause U.S. consumers to mistakenly believe that the defendant's products are the same as, or affiliated with, the plaintiff's products.

3. The *Octane Fitness* Standard For Attorneys' Fees Awards Extends To Trademark Cases

In 2016, several courts, including the Ninth Circuit, extended the Supreme Court's holding in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, which articulated the standard for awarding attorneys' fees in patent infringement cases, to trademark infringement suits brought under the Lanham Act.<sup>30</sup> The

Ninth Circuit's decision, in *SunEarth, Inc. v. Sun Earth Solar Power Co.*,<sup>31</sup> is one of several to apply the reasoning in *Octane Fitness* and to abandon the requirement that a prevailing party prove that its adversary is guilty of objective unreasonableness or subjective bad faith in order to receive an award of attorneys' fees, in favor of a more flexible standard that gives judges the power to shift fees based on the "totality of circumstances" in "exceptional" cases.

**Copyright**

1. The Supreme Court Clarifies The Standard For Awards Of Attorneys' Fees In Copyright Infringement Cases

In another case examining the standard for awarding attorneys' fees, the Supreme Court ruled that a finding that a non-prevailing party's conduct was objectively unreasonable should receive substantial weight in determining when an award of attorneys' fees against that party is appropriate in copyright infringement cases. In *Kirtsaeng v. John Wiley & Sons, Inc.*, the Supreme Court resolved a disagreement among lower courts regarding the correct standard to be applied in copyright cases, and instructed lower courts to give "substantial weight" to the "objective reasonableness" of the unsuccessful party's position while still considering other factors.<sup>32</sup> In reaching its decision, the Court noted that focusing on a party's objective reasonableness would encourage parties with strong legal positions to "stand on their rights," while deterring parties on less solid footing from pursuing frivolous litigation.<sup>33</sup>

The *Kirtsaeng* decision came just a few days after the Supreme Court criticized in

<sup>27</sup> 134 S. Ct. 1377 (2014).

<sup>28</sup> *Belmora*, 819 F.3d at 711-12.

<sup>29</sup> *Id.* at 713.

<sup>30</sup> See, e.g., *Baker v. DeShong*, 821 F.3d 620, 621-25 (5th Cir. 2016); *Georgia-Pacific Consumer Prods.*, 781 F.3d at 720-21; *Slep-Tone Entm't Corp. v. Karaoke Kandy Store, Inc.*, 782 F.3d 313, 317-18 (6th Cir. 2015); *Fair Wind*

*Sailing, Inc. v. Dempster*, 764 F.3d 303, 313-15 (3d Cir. 2014).

<sup>31</sup> 839 F.3d 1179 (9th Cir. 2016).

<sup>32</sup> 136 S. Ct. 1979 (2016).

<sup>33</sup> *Id.* at 1986.



*Halo* the application of this standard to awards of enhanced damages in patent infringement suits. While there is some tension between *Kirtsaeng* and *Halo*, a key difference is that the test the Supreme Court rejected for patent cases would, if satisfied by the losing party, provide that party with a complete safe haven against enhanced damages. Before *Halo*, the losing party in a patent case could establish that its litigation contentions were “objectively reasonable” and thereby escape enhanced damages, regardless of that party’s subjective bad faith; in contrast, the Court’s decision in *Kirtsaeng* emphasizes that “objective reasonableness can be only an important factor in assessing fee applications—not the controlling one.”<sup>34</sup> Furthermore, the decisions in *Halo* and *Kirtsaeng* both endorse flexible standards that allow for trial court discretion, while preventing enhanced damages or attorneys’ fee awards from becoming commonplace; in that sense, *Halo* and *Kirtsaeng* are consistent.

As with *Halo*, it is still too early to tell what effect *Kirtsaeng* will have on the frequency of fees awards in copyright cases. However, lower courts that have applied *Kirtsaeng* have demonstrated a willingness to shift fees to the losing party where there is evidence of litigation misconduct or bad faith motivations.<sup>35</sup>

<sup>34</sup> *Id.* at 1988.

<sup>35</sup> See, e.g., *Johnson v. Storix, Inc.*, No. 14-CV-1873-H (BLM), 2016 WL 4399317, at \*3, \*6-7 (S.D. Cal. Aug. 17, 2016) (emphasizing plaintiff’s bad faith motivation for bringing suit in awarding attorneys’ fees to defendants); *Schurr v. Molacek*, No. 15-CV-7135, 2016 WL 6680287, at \*8 (E.D. La. Nov. 14, 2016) (same); *Countryman Nev., LLC v. DOE*, No. 15-CV-433 (SI), 2016 WL 3437598, at \*7-8 (D. Or. June 17, 2016) (denying prevailing plaintiff’s motion for attorneys’ fees because of bad faith actions aimed at prolonging the litigation); *SAS Institute, Inc. v. World Programming Ltd.*, No. 10-CV-25 (FL), 2016 WL 3920203, at \*4 (E.D.N.C. July 15, 2016) (emphasizing prevailing defendant’s bad faith actions and a lack of bad faith by plaintiffs in denying defendant attorneys’ fees).

## Trade Secrets

### 1. The First Federal Law Is Enacted To Protect Against Trade Secret Misappropriation

Last year witnessed one of the most significant expansions of intellectual property law in recent years with the enactment of the Defend Trade Secrets Act (“DTSA”), which creates a federal civil claim for trade secret misappropriation, a subject that historically has been governed exclusively by state law.<sup>36</sup> This creation of federal jurisdiction is not intended to displace state trade secret law, and the DTSA expressly provides that “[n]othing in the amendments made by this section shall be construed to . . . preempt any other provision of law.”<sup>37</sup> Thus, as more suits are brought under the DTSA, federal courts will be faced with an interesting choice: how to pre-established state law jurisprudence or forge a new path based purely on interpretation of the federal statute.

The most controversial provision of the DTSA permits federal courts to issue orders providing for “the seizure of property necessary to prevent the propagation or dissemination of the trade secret” at issue based upon an *ex parte* application by the trade secret’s owner.<sup>38</sup> Despite the fact that this remedy is only available in “extraordinary circumstances,”<sup>39</sup> critics believe it is too broad, may violate due process and is ripe for abuse, particularly due to the *ex parte* nature of the seizure application.

<sup>36</sup> Defend Trade Secrets Act, S. 1890, 114th Congress § 2(a) (2016).

<sup>37</sup> *Id.* § 2(f)

<sup>38</sup> *Id.* § 2(a)

<sup>39</sup> *Id.*

## A LOOK AHEAD TO 2017

There are several important intellectual property cases to watch during 2017.

### Patent

#### 1. The Supreme Court Will Determine Whether Laches Is A Defense To Patent Infringement Claims

In 2017, the Supreme Court is expected to decide in *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*,<sup>40</sup> whether a defendant can use the equitable doctrine of laches to avoid paying damages in a patent infringement case by arguing the plaintiff waited too long to file suit, even where suit was filed within the six year statute of limitations. Two years ago, the Supreme Court declined to allow defendants to assert a laches defense in copyright infringement cases in *Petrella v. Metro-Goldwyn-Mayer, Inc.*,<sup>41</sup> holding that laches was not available despite the plaintiff's 18-year delay in bringing infringement claims over the rights to the film "Raging Bull."<sup>42</sup> The Court reasoned that a laches defense would allow parties to circumvent the statutory period of protection and damages (three years in copyright cases).<sup>43</sup> As a practical matter, this means that, regardless of when a plaintiff first learns of a defendant's copyright infringement, it can bring suit at any time within three years of an infringing act (typically a sale of the copyrighted work). The Patent Act similarly specifies that a plaintiff can seek damages for a period of six years preceding the date the suit is filed.<sup>44</sup> In *SCA Hygiene*, the plaintiff delayed seven years

from the time it first learned of the defendant's infringing acts before bringing suit to challenge patents for adult incontinence products.<sup>45</sup>

Based on the skepticism of some members of the Court during oral argument,<sup>46</sup> observers expect the Court will apply the same reasoning as in *Petrella* and will eliminate laches as a defense to a patent infringement claim. There are substantial policy considerations for not allowing plaintiffs in patent cases to sit on their rights. For example, without laches as a defense, there is concern that patent troll plaintiffs may be encouraged to wait to file suit until defendants have spent significant time and resources to develop products that are profitable.

#### 2. The Supreme Court Will Decide What Constitutes A "Substantial Portion" Of The Components Of A Patented Invention Sufficient To Trigger U.S. Infringement Liability For Goods Sold Overseas

The Patent Act provides that whoever manufactures "all or a substantial portion" of the components of a patented invention in the United States and ships them abroad to be assembled into an infringing device overseas is liable for patent infringement.<sup>47</sup> The Supreme Court will address in *Life Techs. Corp. v. Promega Corp.*<sup>48</sup> whether a single component can ever be considered a "substantial portion" and subject a defendant to liability in the U.S.

In 2014, the Federal Circuit reversed a district court ruling that two or more components are necessary to satisfy the "substantial portion" requirement, holding that

<sup>40</sup> 136 S. Ct. 1824 (2016).

<sup>41</sup> *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014).

<sup>42</sup> *Id.* at 1964.

<sup>43</sup> *Id.* at 1974-75.

<sup>44</sup> 35 U.S.C. 286.

<sup>45</sup> *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 807 F.3d 1311, 1315-16 (Fed. Cir. 2015).

<sup>46</sup> Oral Arg. Tr., *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 807 F.3d 1311 (Fed. Cir. 2015).

<sup>47</sup> 35 U.S.C. § 271(f)(1).

<sup>48</sup> 136 S. Ct. 2505 (2016).

a single component could be sufficient.<sup>49</sup> Based on statements the Court made during oral argument, it appears to be reluctant to establish a complicated test to determine the importance of components in order to meet the “substantial portion” requirement.<sup>50</sup> The Court also seems equally hesitant to adopt a rule that would “interpret American patent law so that it runs the world.”<sup>51</sup>

3. The Supreme Court Will Decide Whether Patent Owners Can Control Post-Sale Uses Of Their Inventions And Whether Licensed Sales Overseas Will Exhaust U.S. Patent Rights

The Supreme Court will review the long-standing rule that licensed sales outside the U.S. will serve to exhaust U.S. patent rights. In *Lexmark Int’l, Inc. v. Impression Prods., Inc.*,<sup>52</sup> the Federal Circuit held that post-sale restrictions on patented items within the U.S. are permissible and foreign sales will never exhaust U.S. patent rights. Lexmark argued that Impression Products infringed Lexmark’s ink cartridge patents by (1) selling patented used cartridges in the United States despite an explicit prohibition against such sales, and (2) importing Lexmark’s patented cartridges from buyers abroad.<sup>53</sup> The Federal Circuit, relying on Supreme Court precedent, reasoned that “a sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the ‘authority’ to engage in the use or resale that the restriction precludes.”<sup>54</sup>

The Federal Circuit also held that “there is no legal rule that U.S. rights are

waived, either conclusively or presumptively, simply by virtue of a foreign sale, either made or authorized by a U.S. patentee.”<sup>55</sup> That ruling is in tension with the Supreme Court ruling in *Kirtsaeng* that an authorized sale of a book outside the U.S. serves to exhaust rights under U.S. copyright law.<sup>56</sup> In distinguishing *Kirtsaeng*, the Federal Circuit noted that the Patent Act “gives patentees the reward available from American markets. A patentee cannot reasonably be treated as receiving that reward from sales in foreign markets, and exhaustion has long been keyed to the idea that the patentee has received its U.S. reward.”<sup>57</sup> The Federal Circuit cited many reasons for making such a distinction between domestic and foreign markets, including “policies on price regulation and, most particularly, policies on the availability and scope of patent protection.”<sup>58</sup>

4. The Supreme Court May Limit Forum Shopping By Plaintiffs In Patent Cases

Finally, the Supreme Court will hear an appeal from the Federal Circuit that could significantly impact venue law in patent cases. For years, the courts have allowed patent infringement suits to be brought wherever the defendant is alleged to have made infringing sales.<sup>59</sup> However, patent defendants have complained that such a broad reading of the governing venue statutes has led to forum shopping, in particular resulting in the filing of many patent infringement cases in the Eastern District of Texas, a venue widely regarded as patentee-friendly.

The case that is bringing this issue to the Supreme Court, *TC Heartland LLC v.*

<sup>49</sup> *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338, 1353 (Fed. Cir. 2014).

<sup>50</sup> Oral Arg. Tr. at 23-30, *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338, 1353 (Fed. Cir. 2014).

<sup>51</sup> *Id.* at 31.

<sup>52</sup> 816 F.3d 721 (Fed. Cir. 2016).

<sup>53</sup> *Id.* at 727-29.

<sup>54</sup> *Id.* at 735.

<sup>55</sup> *Id.* at 754.

<sup>56</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355-56 (2013).

<sup>57</sup> *Lexmark Int’l*, 816 F.3d at 760.

<sup>58</sup> *Id.* at 761.

<sup>59</sup> See, e.g., *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990).



*Kraft Food Brands Grp. LLC*, was not filed in the Eastern District of Texas, but could have an impact on the ability of plaintiffs to bring suit there. Kraft Food Brands sued TC Heartland for patent infringement in Delaware. TC Heartland moved to dismiss or transfer the action, arguing that, under the patent venue statute, the appropriate venue was the Southern District of Indiana, where TC Heartland resides.<sup>60</sup> Both the District Court and the Federal Circuit disagreed, and held that patent lawsuits may be brought wherever a federal court has personal jurisdiction over the defendant.<sup>61</sup>

In its petition to the Supreme Court for review, TC Heartland argued that the Federal Circuit's interpretation has "dramatically expanded venue in patent cases, producing a plague of forum shopping."<sup>62</sup> Numerous *amici*, including internet and software companies, financial institutions, retailers and academics, urged the Court to review the Federal Circuit's ruling.<sup>63</sup> The Court's agreement to do so signals its recognition of the importance of the issue.

## **Copyright**

### **1. The Supreme Court Will Consider The Scope Of Copyright Protection For Apparel Design**

During 2017, the Supreme Court is expected to clarify in *Star Athletica, LLC v. Varsity Brands, Inc.*<sup>64</sup> the test for determining what types of apparel can be protected by copyright. For decades, courts have struggled

to separate the utilitarian functions of clothing, which are not entitled to copyright protection, from the design features, which are entitled to protection. To date, courts and scholars have advanced no fewer than 10 different tests, and none has emerged as a clear winner.<sup>65</sup> In *Star Athletica*, the Supreme Court has taken up this question in the context of cheerleading uniforms, and will determine the appropriate level of protection to be afforded to the stripes, chevrons and other design elements commonly found on such uniforms.<sup>66</sup>

At oral argument, some Justices seemed to favor a more pragmatic approach, by asking about the practical impact of a ruling that broadens the protections of copyright for apparel. For example, Justice Sotomayor asked whether a finding for the plaintiff, Varsity Brands, Inc., would give the company a virtual monopoly on its designs.<sup>67</sup>

### **2. The Second Circuit Will Consider Whether A Searchable Video Clip Database Can Avoid Copyright Infringement Liability Based On A Fair Use Defense**

One year after Google won a Second Circuit ruling that Google's initiative to offer text searching of scanned books on the internet qualifies as fair use of copyrighted content,<sup>68</sup> the fair use defense is back in the spotlight in connection with a claim by Fox News Network against TVEyes, Inc. TVEyes is a for-profit media company that enables users to search for video clips from news broadcasts and websites through keywords or phrases, or by the date and time those clips aired. In 2015, Fox News Network sued TVEyes for copyright infringement in the Southern

<sup>60</sup> *In re TC Heartland LLC*, 821 F.3d 1338, 1340 (Fed. Cir. 2016).

<sup>61</sup> *Id.* at 1341.

<sup>62</sup> Pet. for a Writ of Certiorari at 8, *TC Heartland, LLC v. Kraft Foods Grp. Brands LLC*, No. 16-341, 2016 WL 4983136 (U.S. Sept. 12, 2016).

<sup>63</sup> See, e.g., Br. of Amici Curiae 32 Internet Companies, Retailers and Associations in Support of Pet. for a Writ of Certiorari, *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, No. 16-341, 2016 WL 5543364 (U.S. Sept. 27, 2016).

<sup>64</sup> 136 S. Ct. 1823 (2016).

<sup>65</sup> *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468, 487 (2015).

<sup>66</sup> *Star Athletica*, 136 S. Ct. 1823.

<sup>67</sup> Tr. of Oral Argument at 32-33, *Star Athletica, LLC v. Varsity Brands, Inc.*, 136 S. Ct. 1823 (2016).

<sup>68</sup> *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015).

District of New York, alleging that it was improperly appropriating Fox's content.

Drawing analogies to Google's permissible searchable database of scanned books, the District Court held that TVEyes's use of the clips was transformative and therefore did not infringe Fox's copyrights.<sup>69</sup> However, in a later opinion analyzing a number of TVEyes's supplemental functions, the District Court changed course, holding that functions allowing users to search for clips by date and time and permanently download clips were not transformative and instead threatened Fox's internet traffic and revenues.<sup>70</sup> Further, the District Court disapproved of a function that allowed for e-mail sharing of clips unless TVEyes could institute "reasonable and adequate protections" to "prevent indiscriminate sharing" of Fox's content.<sup>71</sup> An appeal will soon be argued to the Second Circuit, where Google's legacy will be reviewed and potentially refined.

## **Trademark**

### **1. The Supreme Court Will Determine Whether Trademark Protection Extends To Disparaging Speech**

The Supreme Court will decide this year the constitutionality of the Lanham Act provision that allows the U.S. Patent and Trademark Office ("PTO") to reject registration of trademarks that involve "matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute."<sup>72</sup> For the past several years, the Washington Redskins have been embroiled in a highly publicized controversy over this provision

before the Trademark Trial and Appeal Board ("TTAB") and in federal court arising from the "Redskins" team name registration, which has been criticized as disparaging of Native Americans.<sup>73</sup> The Supreme Court this year will address the same issue in a similar, less publicized controversy in *Lee v. Tam*, which concerns the rejection of an application to register as a trademark the name of an Asian-American rock band known as "The Slants."<sup>74</sup>

At issue is the tension between the Lanham Act and First Amendment principles of free speech, which "forbid[] government regulators to deny registration because they find the speech likely to offend others."<sup>75</sup> The Federal Circuit initially affirmed the TTAB's denial of an application to register "the Slants" as a trademark in light of Section 2(a) of the Lanham Act, but then, after a rehearing *en banc*, overturned its prior ruling and held that the disparagement clause in Section 2(a) unconstitutionally violates the First Amendment's free speech clause.<sup>76</sup> The Federal Circuit explained that the disparagement clause was not content- or viewpoint-neutral because it permits the government to reject marks that refer negatively to specific groups (e.g., "The Slants") but to register marks that refer positively to the same groups (e.g., "Celebrasians," "Asian Efficiency").<sup>77</sup> Furthermore, the Federal Circuit reasoned that the disparaging marks were being rejected based on their expressive, rather than commercial, nature.<sup>78</sup>

<sup>69</sup> *Fox News Network, LLC v. TVEyes, Inc.*, 124 F. Supp. 3d at 390-91, 400.

<sup>70</sup> *Id.* at 336-37 (S.D.N.Y. 2015).

<sup>71</sup> *Id.* at 335-36.

<sup>72</sup> 15 U.S.C. § 1052(a).

<sup>73</sup> See, e.g., *Pro-Football, Inc. v. Blackhorse*, 112 F. Supp. 3d 439 (E.D. Va. 2015); *Blackhorse v. Pro-Football, Inc.*, 111 U.S.P.Q.2d 1080 (T.T.A.B. June 18, 2014).

<sup>74</sup> See, e.g., *In re Tam*, 108 U.S.P.Q.2d 1305 (T.T.A.B. Sept. 26, 2013).

<sup>75</sup> *In re Tam*, 808 F.3d 1321, 1358 (Fed. Cir. 2015) (*en banc*).

<sup>76</sup> *In re Tam*, 808 F.3d at 1357.

<sup>77</sup> *Id.* at 1336.

<sup>78</sup> *Id.* at 1337-39.

During oral argument, some of the Justices seemed skeptical of the disparagement clause in the Lanham Act, expressing doubts about any law that appears to discriminate based on viewpoint.<sup>79</sup> For example, Justice Kagan appeared to be troubled about the content determinations made by the PTO that some trademarks are positive, and therefore warrant protection, while negative marks do not.<sup>80</sup>

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<sup>79</sup> Oral Arg. Tr. at 12-14, 19-23, *Lee v. Tam*, 137 S. Ct. 30 (2017).

<sup>80</sup> *Id.*