Introduction

In the past several years, the United States Supreme Court has taken an unprecedented interest in intellectual property law. This year is no different with the Court having already granting certiorari in six cases and maybe more. The impact of these Supreme Court cases as well as additional upcoming Federal Circuit decisions will undoubtedly change the way we advise our clients on intellectual property matters. This article highlights cases we are monitoring that present, in our view, significant issues relating to various aspects of intellectual property law. Most of these cases are pending appeal at some level, and each has the potential for considerable impact on the landscape of U.S. intellectual property law. We will also take a look at key intellectual property related legislation.

Cases to Watch in 2016

In the following cases, the Supreme Court has already heard oral arguments and we anticipate a decision shortly.

A. Enhanced Damages under 35 U.S.C. § 284

In February, the Supreme Court heard oral arguments in two related cases dealing with enhanced damages under 35 U.S.C. § 284: Stryker Corporation, et al. v. Zimmer, Inc., No. 14-1520, and Halo Electronics, Inc. v. Pulse Electronics, Inc., No. 14-1513. Together, the two cases (consolidated) deal with the appropriate standard to apply when deciding to award enhanced damages under 35 U.S.C. § 284. Section 284 provides that the trial judge in a patent case, after damages have been determined, “may increase the damages up to three times the amount found or assessed.” However, the statute fails to provide any guidance on the proper criteria for enhancing damages.

The Supreme Court granted Stryker’s petition on the following question:

Has the Federal Circuit improperly abrogated the plain meaning of 35 U.S.C. § 284 by forbidding any award of enhanced damages unless there is a finding of willfulness under a rigid, two-part test, when this Court recently rejected an analogous framework imposed on 35 U.S.C. § 285, the statute providing for attorneys’ fee awards in exceptional cases?
The Supreme Court also granted Halo’s petition on the following question:

Did the Federal Circuit err by applying a rigid, two-part test for enhancing patent infringement damages under 35 U.S.C. § 284, that is the same as the rigid, two-part test this Court rejected last term in Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014) for imposing attorney fees under the similarly-worded 35 U.S.C. § 285?

In each case, the petitioners, Stryker and Halo, respectively, own patents that were found to be infringed by the defendants. In both cases, the Federal Circuit held that enhanced damages were not available, relying on its 2007 decision in In re Seagate Technology, LLC, in which the Federal Circuit sitting en banc held that “an award of enhanced damages requires a showing of willful infringement.” 497 F.3d 1360, 1368 (Fed. Cir. 2007) (en banc). To find willfulness, the Federal Circuit articulated a rigid and more stringent test that no longer considered the totality of the circumstances. Id. Under the Seagate test, willfulness (and thus entitlement to seek enhanced damages) must be proven by first establishing with clear and convincing evidence that “the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” Id. at 1371.

Stryker and Halo argued that this case is analogous to Octane Fitness, LLC v. ICON Health & Fitness, 134 S. Ct. 1749 (2014), in which the Court considered the standard for awarding attorney’s fees to a prevailing party under 35 U.S.C. § 285 for exceptional cases. Section 285 states that a “court in exceptional cases may award reasonable attorney fees[.]” and the petitioners argued Section 285 was worded in general terms like Section 284. As with Section 284, the Federal Circuit had imposed on Section 285 a standard almost identical to the standard at issue here: requiring clear and convincing evidence of conduct that was both objectively and subjectively reprehensible before the court could find a case exceptional or award attorney’s fees. On review in Octane, the Supreme Court dismissed the Federal Circuit jurisprudence out of hand, characterizing its narrow “inflexible framework” as ill-suited for such an “inherently flexible” statute and mandating a fact-specific discretionary determination for each case. Id. at 1756.

In short, Stryker and Halo argued that (1) Section 284 reads just like Section 285; (2) the Federal Circuit has read both statutes the same way; and (3) the Court already has rejected that Federal Circuit framework in Octane concerning Section 285, in favor of an open-ended flexible analysis. Therefore, Stryker and Halo contend that the Court should similarly reject the Federal Circuit’s rigid test and reject the Seagate two-part test.

On the other hand, the defendants Pulse and Zimmer argued that Section 284 and 285 are not analogous. They argued that the attorney’s fees awarded under Section 285 are compensatory in nature, whereas enhanced damages under Section 284 are punitive. And for more than a century, punitive or enhanced damages have required willful infringement. See, e.g., Seymour v. McCormick, 57 U.S. 480, 488–89 (1853).

During oral arguments, the Court appeared divided, and the Justices did not seem particularly satisfied with either the standard that the Federal Circuit has articulated or anything the parties offered. Should the Supreme Court change the Federal Circuit’s rigid two-part test, it may subject defending parties to larger damage awards, likely increasing settlements but also may encourage plaintiffs to file lawsuits they may not have considered previously. Moreover, it may resurrect the need to engage opinions of counsel to rebut charges of willfulness.
B. PTAB: Claim Construction and Jurisdiction

The Supreme Court heard oral arguments in Cuozzo Speed Technologies, LLC v. Lee, No. 15-446, on April 25, 2016. This case relates to two important questions associated with inter partes review (IPR) proceedings: (1) whether the Patent Trial and Appeal Board (“the Board”) may construe the claims of an issued patent according to their broadest reasonable interpretation (“BRI”) rather than their plain and ordinary meaning, and (2) whether the Federal Circuit erred in holding that, even if the Board exceeds its statutory authority in instituting an IPR proceeding, the Board’s decision whether to institute an IPR proceeding is judicially unreviewable.

As background, Garmin International, Inc. and Garmin USA, Inc. (collectively, “Garmin”) petitioned the Board requesting institution of an IPR with respect to certain claims of the U.S. Patent No. 6,778,074 patent, which is owned by Cuozzo Speed Technologies (“Cuozzo”). Ultimately, the Board issued a final decision finding those claims were obvious.

Cuozzo appealed the Board’s decision to the Federal Circuit and raised two issues. First, Cuozzo argued that the IPR was improperly instituted by the Board because with respect to two of the claims, the basis for granting the petition to institute the IPR was certain prior art not raised by the petitioner. According to Cuozzo, the Board may only institute a petition based on grounds identified in the petition because “[t]he Director may not authorize an inter partes review to be instituted unless the Director determines that the information presented in the petition . . . and any response . . . shows that there is a reasonable likelihood that the petitioner would prevail[.]” 35 U.S.C. § 314(a).

Second, Cuozzo argued that the Board applied the incorrect standard when evaluating the scope of the claim. Specifically, despite the longstanding practice of the Patent Office using the broadest reasonable interpretation of claim terms, Cuozzo believes that the plain and ordinary meaning as used by the federal district courts during litigation was the proper construction. Although the America Invents Act (“AIA”) created IPRs, the statute on its face is silent on the issue as to which standard is appropriate for construing claim terms. The statute does however provide rulemaking authority to the PTO under 35 U.S.C. § 316(a)(2), (a)(4), which provides that “[t]he Director shall prescribe regulations,” such as “setting forth the standards for the showing of sufficient grounds to institute . . . review,” and “establishing and governing inter partes review . . . and the relationship of such review to other proceedings . . . .” Pursuant to this authority, the PTO promulgated 37 C.F.R. § 42.100(b), which provides that “[a] claim in an unexpired patent shall be given its broadest reasonable construction in light of the specification of the patent in which it appears.” 37 C.F.R. § 42.100(b). Cuozzo argued that the PTO lacked authority to promulgate § 42.100(b) and that the broadest reasonable interpretation standard is inappropriate in an adjudicatory IPR proceeding. The PTO disagreed and argued that 35 U.S.C. § 316 provides the necessary authority to the PTO to promulgate § 42.100(b) and that the broadest reasonable interpretation is appropriately applied in the IPR context.

The three-judge panel at the Federal Circuit upheld the Board’s decision, finding that the PTO has used the BRI claim construction standard for more than a century, and held that the Board’s decision to institute AIA proceedings, like IPRs, could not be challenged on appeal. Cuozzo petitioned for en banc review, but a sharply divided Federal Circuit voted 6 to 5 declining en banc review.

As mentioned by commentators and referenced by the Justices during oral arguments before the Supreme Court, Congress failed to provide any clarity as to the proper standard for claim construction—whether the Board was supposed to use BRI as the PTO applies prior to the issuance of
patent, or the plain ordinary meaning construction applied by courts during litigation. At this point, it is unclear which standard the Court will go with, but the opinion may have strong implications for patent owners and defendants as well as providing much needed clarity to such Patent Office proceedings.

C. Attorney’s Fees in Copyright Cases

On April 25, 2016, the Supreme Court heard oral arguments in *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375. The case may ultimately affect the situations in which attorney’s fees are awarded to prevailing parties in copyright infringement cases.

As background, John Wiley & Sons ("Wiley") had previously brought suit against Kirtsaeng for copyright infringement. Kirtsaeng purchased Wiley’s textbooks overseas and then imported them into the United States for resale. Both the district court and the appeals court found in Wiley’s favor, but the Supreme Court reversed the decision, holding that Kirtsaeng’s actions were permitted by the "first sale" provision of the Copyright Act. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). Kirtsaeng then filed a motion that Wiley be required to pay attorney’s fees and litigation expenses.

The district court stated that the "touchstone of attorney’s fees under § 505 [of the Copyright Act] is whether imposition of attorney’s fees will further the interests of the Copyright Act." The court cited *Fogarty v. Fantasy, Inc.*, which held that there are four factors a court should consider in determining whether to award attorneys’ fees: (1) frivolousness, (2) motivation, (3) objective unreasonableness (both in the factual and in the legal components of the case), and (4) the need in particular circumstances to advance considerations of compensation and deterrence.

The district court held the claim was not objectively unreasonable because it represented "the legitimate attempt of a copyright holder to enforce its rights against the unauthorized importation of low-priced, foreign-made copies of its copyrighted works." It held for these same reasons that the claim could not be frivolous. Additionally, it held that Wiley’s motivation was not inappropriate and that considerations of compensation and deterrence did not weigh in favor of a fee award. The district court’s decision was affirmed by the Second Circuit on May 27, 2015. On January 15, 2016, the Supreme Court granted certiorari.

On April 25, 2016, the Supreme Court heard oral arguments in *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375. During oral arguments, Justice Ginsberg expressed concern about whether rewarding fees to Kirtsaeng would be fair. Justices Sotomayor, Breyer, and Kagan expressed similar concerns. Later in the arguments, Justice Ginsberg stated "[Kirtsaeng’s] rule is if David faces Goliath and David wins, David gets fees no matter how reasonable Goliath’s position was." A decision is expected soon.

**In the following cases, the Supreme Court has granted certiorari. The parties will brief the issue and then oral arguments will be heard later in the year.**

D. Damages for Design Patents

The Supreme Court has granted certiorari in *Samsung v. Apple*, No. 15-777, on the issue of the measure of damages in the case of infringement of a design patent. 35 U.S.C. § 289 provides for “[a]dditional remedy for infringement of design patent” wherein “[w]hoever 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.” (emphasis added).

Specifically, the Court granted the petition for a writ of certiorari limited to the second question presented, namely, “Where a design patent is applied to only a component of a product, should an award of infringer’s profits be limited to those profits attributable to the component?”

In 2012, a jury awarded Apple more than $1 billion in damages in a patent infringement case against Samsung for infringement of Apple’s utility and design patents—Samsung argued that this amount was “ridiculous,” contending that it was ordered to pay 100 percent of its profits for several phones even though the features covered by Apple’s design patents were only a small contribution. Samsung’s petition to the Supreme Court was supported by an amicus brief submitted by large tech companies such as Dell, eBay, Facebook and Google. Samsung contends that Section 289 of the Patent Act is being misapplied to complex products such as a smartphone, and that the Act only envisages awards of an infringer’s total profits on “relatively simple products.” The companies state that “[t]he 1886 Congress did not have complex, multicomponent products in mind—much less products incorporating modern technologies.” Apple, on the other hand, argues that Samsung was an egregious infringer and refers to the decision of the appeals court that found that Section 289 “explicitly authorizes the award of total profit.”

In December 2015, as part of a joint agreement, Samsung paid Apple $548 million but preserved its right to one final appeal. On March 21, the Supreme Court agreed to hear the appeal from Samsung. It will be the first time in over a century that the Court has heard a design patent case. Samsung now has the opportunity to recover as much as $399 million of the $548 million it paid to Apple. More importantly, the Court’s decision is expected to clarify the measure of damages a design patentee may recoup when the patent covers a single component of a larger product.

E. Laches in Patent Cases

Laches serves as an equitable defense to patent infringement when a patentee delays bringing an infringement suit. To establish a laches defense, an accused infringer must show that the patentee unreasonably delayed filing the infringement suit and that the accused infringer suffered material prejudice because of the delay.

On May 2, 2016, the Supreme Court granted certiorari in SCA Hygiene v. First Quality Baby Products, No. 15-927, on the question of “whether and to what extent the defense of laches may bar a claim for patent infringement brought within the Patent Act’s six-year statutory limitations period, 35 U.S.C. § 286.”

In SCA, the Federal Circuit evaluated the applicability of a laches defense to patent cases in the wake of the Supreme Court’s decision in Petrella v. Metro-Goldwyn-Mayer, Inc. In Petrella, the Supreme Court ruled that laches is not a defense to copyright infringement because copyright actions have a statute of limitations. The Court stated, “in the face of a statute of limitations enacted by Congress, laches cannot be invoked to bar legal relief.” Petrella v. Metro-Goldwyn-Mayer, Inc., 134 S.Ct. 1962 (2014).

The Federal Circuit in SCA differentiated patent actions from copyright actions by noting that Congress codified a laches defense in patent actions in 35 U.S.C. § 282(b)(1), which provides that noninfringement, absence of liability for infringement, or unenforceability are all defenses to infringement. The SCA court noted that contemporaneous commentary and legislative history indicate
that laches was to be included in these defenses. Because the SCA court believed that Congress codified a laches defense in patent infringement suits, it declined to apply Petrella. Rather, the SCA court found that laches is available as a legal defense. The court also asked whether laches could bar prospective relief in a patent infringement action, and it cited the four factors outlined in eBay Inc. v. MercExchange, L.L.C., for issuing an injunction. To secure an injunction, the plaintiff must demonstrate (1) that it has suffered irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. According to Petrella, in determining appropriate injunctive relief, the court may also take into account the plaintiff’s delay in commencing suit. The court in SCA directed that “district courts should consider all material facts, including those giving rise to laches, in exercising its discretion under eBay to grant or deny an injunction.” However, the court held that—unlike equitable estoppel—a laches defense, absent egregious circumstances, does not forfeit a patentee’s entitlement to future royalties.

The Supreme Court will consider whether a laches defense is available in patent cases in light of its holding in Petrella. Notable is the current makeup of the Court given the passing of Justice Antonin Scalia, who voted in favor of the Court’s holding in Petrella. If SCA is decided with eight justices and the Court splits 4-4, the Federal Circuit’s decision will control.

F. Functionality Doctrine in Copyright Law

Federal copyright law provides that a useful article, such as a piece of furniture or clothing, is ineligible for copyright protection. 17 U.S.C. § 101. However, a component of the design could still represent a creative design worthy of copyright protection. Circuit courts, the Copyright Office, and academics have proposed at least ten different tests for analyzing the separability issue. In Star Athletica, LLC v. Varsity Brands, Inc., No. 15-866, the Supreme Court recently agreed to consider the question of “[w]hat is the appropriate test to determine when a feature of a useful article is protectable under § 101 of the Copyright Act?”

Varsity Brands has for years dominated the market for cheerleader uniforms and warm-up clothing, and had earlier failed to get its designs approved for copyright, although it later prevailed. However, when Star Athletica entered the sports uniform business, Varsity sued for infringement of the copyrights it had finally won. A federal district court judge rejected Varsity’s claim, finding that the copyright was for such design features as chevrons, stripes, and patterns, but those could not be separated from a cheerleader uniform, because such an item of sportswear was indistinguishable from its design elements.

The U.S. Court of Appeals for the Sixth Circuit disagreed, instead finding that Varsity’s designs were entitled to copyright. The court of appeals chose to defer to the fact that the company had a copyright from the Copyright Office. In doing so, the Sixth Circuit rejected nine other tests, fashioned by other courts of appeals, on how to separate designs from the useful article of which they are a part.

The Supreme Court’s decision on this issue will provide much needed clarity in this segment of copyright law.
In the following cases, a petition for writ of certiorari with the Supreme Court has been filed and we await the Court’s ruling on whether or not to grant the petition.

G. § 101 Patentable Subject Matter: Laws of Nature

Courts have long held that “laws of nature, natural phenomena, and abstract ideas” are not patentable. *Diamond v. Diehr*, 450 U.S. 175, 185 (1981). However, “an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.” *Id.* at 187. However, one must do more than simply state the law of nature while adding the words “apply it.” *Id.*

In 1996, two doctors discovered cell-free fetal DNA (“cffDNA”) in maternal plasma and serum, the portion of maternal blood samples that other researchers had previously discarded as medical waste. cffDNA is non-cellular fetal DNA that circulates freely in the bloodstream of a pregnant woman. Applying a combination of known laboratory techniques to their discovery, the doctors implemented a method for detecting the small fraction of paternally inherited cffDNA in maternal plasma or serum to determine fetal characteristics, such as gender. The invention, commercialized by Sequenom, created an alternative for prenatal diagnosis of fetal DNA that avoids health risks to the baby. The parties agree that the patent does not claim cffDNA or paternally inherited cffDNA, but instead to certain methods of using cffDNA.

The Federal Circuit agreed that this invention “combined and utilized man-made tools of biotechnology in a new way that revolutionized prenatal care,” but still held that *Mayo Collaborative Servs. v. Prometheus Labs.*, 132 S. Ct. 1289 (2012), makes all such inventions patent-ineligible as a matter of law if their new combination involves only a “natural phenomenon” and techniques that were “routine” or “conventional” on their own. *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1378–79 (Fed. Cir. 2015).

Sequenom’s petition for *en banc* review by the Federal Circuit was denied, with the Federal Circuit agreeing almost unanimously in concluding that Sequenom’s invention is not patent-eligible under the *Mayo* precedent (only Judge Newman disagreed). However, there was substantial disagreement about whether the Supreme Court was correct in its *Mayo* analysis.

In April, Sequenom filed a petition for writ of certiorari with the Supreme Court, *Sequenom, Inc. v. Ariosa Diagnostics, Inc.*, No. 15-1182, requesting that the Supreme Court consider the question of “[w]hether a novel method is patent-eligible where: (1) a researcher is the first to discover a natural phenomenon; (2) that unique knowledge motivates him to apply a new combination of known techniques to that discovery; and (3) he thereby achieves a previously impossible result without preempting other uses of the discovery?”

If the Supreme Court takes this case, the Court will reconsider the overwhelming breadth and scope of the prior ruling in *Mayo Collaborative Servs. v. Prometheus Labs*. However, the chances that the Supreme Court will grant the petition are likely low. In its prior *Mayo* holding, the Supreme Court indicated its understanding that the case would interfere significantly in the field of diagnostic research. It expressly called on Congress to “craft[] more finely tailored rules where necessary” and to make, from a policy perspective, the decision as to whether increased protection for discoveries of diagnostic laws of nature is desirable. *Mayo Collaborative Servs. v. Prometheus Labs.*, Inc., 132 S. Ct. 1289, 1305 (2012). The Court will decide shortly whether or not to grant review.
H. Scope of CBM Review

In response to the Board’s invalidation of its pricing patent under the America Invents Act’s covered business method review program (CBM review), Versata has urged the U.S. Supreme Court to review the Board’s decision in **Versata v. SAP**, No. 15-1145. Versata noted in its filing that the PTAB has invalidated 85 of 88 patents reviewed under CBM review and argued that too many patents have been reviewed and invalidated.

SAP America, Inc. was found to infringe Versata’s patent on a product pricing method and ordered to pay $391 million in damages. SAP challenged the patent under the CBM review program. Although SAP and Versata reached a settlement in 2014, Versata has continued with the process of appealing the PTAB’s decision invalidating the patent.

Versata’s petition asks the Supreme Court to clarify its 2014 decision in **Alice Corp. v. CLS Bank Int’l**, which prohibits patents on abstract ideas implemented using a computer—the case the PTAB relied upon in invalidating Versata’s patent. It raises four questions stemming from the CBM review of its patent:

- Whether the phrase “covered business method patent”—and “financial product or service”—encompasses any patent claim that is “incidental to” or “complementary to a financial activity and relates to monetary matters.”
- Whether the Federal Circuit’s standard for identifying patents falling within the “technological inventions” exception departs from statutory text by looking to whether the patent is valid, as opposed to whether it is “technological.”
- Whether a software-related invention that improves the performance of computer operations is patent eligible subject matter.
- Whether, as this Court will decide in **Cuozzo Speed Technologies, LLC v. Lee**, No. 15-446, the Patent Trial and Appeal Board should give claim terms their broadest reasonable construction in post-grant adjudicatory proceedings, or should instead give them their best construction.

Versata argues that an “absurdly broad” definition of ‘covered business method patent’ has been adopted. The AIA provides that CBM review is for patents used in the practice or management of a “financial product or service.” The PTAB and the Federal Circuit have taken that to mean that CBM review is appropriate for any patent involving “monetary matters.” This has resulted in patents seemingly unrelated to financial services, for example one providing nutritional information, being subject to CBM review.

Versata also argues that the Court in **Alice** found that technological improvements, including software, should be patent-eligible. It argues that while the Supreme Court did not hold that an innovation must be a technological improvement to be patent-eligible, an innovation that is a technological improvement is patent-eligible.

Versata alternatively requested that the case be held pending the Court’s decision in **Cuozzo**, which (as discussed above) will decide whether, “in IPR proceedings, the [PTAB] may construe claims in an issued patent according to their broadest reasonable interpretation rather than their plain and ordinary meaning.”
I. Induced Infringement under 271(f)

Induced infringement is codified in 35 U.S.C. § 271(f)(1), which provides: “[w]hoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention... in such a manner as to actively induce the combination of such components outside of the United States... shall be liable as an infringer.”

Promega sued Life Tech under 35 U.S.C. § 271(f)(1), claiming that Life Tech sold kits that allegedly infringed, with one of the components being made in the United States and then shipped abroad for assembly. Life Tech v. Promega, No. 13-1011 (Fed. Cir. Dec. 14, 2014). At issue in Life Tech v. Promega is whether: (1) with respect to infringement under § 271(f)(1), one party must actively induce another party to infringe, and (2) whether one component supplied from the United States satisfies the “substantial portion of the components” language of the statutory provision.

The Federal Circuit concluded that “to actively induce the combination” of components does not require the involvement of a third party. The Court held that it is unlikely that Congress, in writing the statute, intended to hold companies liable for shipping components overseas to a separate entity, but not to hold them liable for shipping components overseas to themselves or foreign subsidiaries.

The Federal Circuit also concluded that there are circumstances in which a party may be liable for providing or causing to be supplied a single component for combination outside the United States. The Court said that there is nothing in the meaning of the word “portion” that suggests it necessarily requires “a certain quantity or that a single component cannot be a [substantial] ‘portion’ of a multi-component invention.” The Court concluded that there was sufficient evidence to support the jury’s conclusion that the kit component supplied by Life Tech to its foreign facility is a “substantial component” of the testing kits because without it the testing kits would be inoperable.

Life Tech filed a petition for certiorari, which remains pending before the Supreme Court. Life Technologies Corp. v. Promega Corp., No. 14-1538. As it currently stands, the Federal Circuit’s opinion may have the effect of expanding the theories upon which future plaintiffs may allege inducement, specifically permitting the alleged inducer and the direct infringer to be the same party.

J. “Disparaging” Trademarks

Section 2(a) of the Lanham Act permits the rejection of marks that “may disparage” an identifiable group of Americans. In 2011, Simon Shiao Tam, front man for Asian-American rock band “The Slants,” filed an application with the USPTO to register the service mark “THE SLANTS” for “Entertainment in the nature of live performances by a musical band.” Tam said that the band was trying to “reclaim” and “take ownership” of Asian stereotypes. The examiner rejected Tam’s application under Section 2(a), stating that “even though Tam may have chosen the mark to ‘reappropriate the disparaging term,’ a substantial composite of persons of Asian descent would find the term offensive.” The Trademark Trial and Appeal Board affirmed the examiner’s finding, and Tam appealed to the Federal Circuit. A three-judge panel of the Federal Circuit affirmed the TTAB’s ruling, and a week later, the Federal Circuit sua sponte vacated the decision and decided to reconsider the case en banc.

The en banc Federal Circuit determined that the disparagement provision of Section 2(a) is unconstitutional. In re: Simon Shiao Tam, 808 F.3d 1321 (Fed. Cir. 2015). First, the Federal Circuit rejected the government’s argument that the provision is viewpoint-neutral, and therefore subjected it to strict scrutiny. It also rejected the government’s argument that Section 2(a) regulates “commercial speech,” instead finding that the provision regulates expressive aspects of the mark. Third, the
Federal Circuit rejected the argument that the First Amendment isn’t implicated at all because Section 2(a) doesn’t prohibit speech, it just denies trademark registration. The Court cited numerous examples of cases holding that a denial of benefits is in effect a penalty or censorship of speech.

Fourth, the Court rejected the argument that trademark registration is actually government speech not protected by the First Amendment. The Court distinguished a case involving license plates on the ground that license plates are owned by the government and required by law to be displayed, whereas a trademark registrant is free to decide whether or not to use the registration symbol. Fifth, the Federal Circuit rejected the government’s argument that Section 2(a) was the equivalent of a government subsidy program which permits restrictive regulations on speech. The Court stated that unlike subsidy programs, trademark registration “does not implicate Congress’s power to spend or to control use of government property.”

Finally, the Court found that even if it were to apply the intermediate scrutiny standard for commercial speech, Section 2(a) would still be unconstitutional. For a commercial speech regulation to be constitutional, the commercial speech must first concern lawful activity and must not be misleading. The Federal Circuit deemed that this prong was met. Second, a substantial government interest must justify the regulation. The Federal Circuit found that “disapproval is not a legitimate government interest where there is no plausible basis for treating the speech as government speech or reasonably attributed to the government by the public.”

The USPTO is waiting until all appeals are exhausted before complying with the Federal Circuit’s decision. On March 30, 2016, the Federal Circuit denied a writ of mandamus filed by The Slants that would have ordered the USPTO to immediately comply with the landmark ruling. The Court held that such an order “is available only in extraordinary situations to correct a clear abuse of discretion or usurpation of judicial power.”

On April 20, 2016, the USPTO filed a petition for certiorari with the Supreme Court requesting that the Federal Circuit’s opinion be reversed. Specifically, the question presented by the USPTO is:

Whether the disparagement provision in 15 U.S.C. 1052(a) is facially invalid under the Free Speech Clause of the First Amendment.

If the Supreme Court takes up the case and reverses the Federal Circuit, the USPTO will retain its ability to quash disparaging trademarks. This case will be of great importance for other owners of controversial trademarks, such as the Washington Redskins.

**Finally, in the next few cases, we believe there is a likely chance that a petition for writ of certiorari will be filed with the Supreme Court because of the intellectual property issue in play.**

**K. § 101 Patentable Subject Matter: Software Post-Bilski**

Section 101 of the Patent Act provides that any new and useful “process, machine, manufacture, or composition of matter” may be patented. While the machine-or-transformation test remains the presumptive starting point in any analysis, following Bilski, the Federal Circuit has increasingly looked to whether the processes claimed in a disputed patent are too “manifestly abstract” to be patentable.

In *CLS Bank v. Alice Corp.*, the Supreme Court reiterated the broad test described in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U. S. ___ (2012):
First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts. Id., at ___ (slip op., at 8). If so, we then ask, "[w]hat else is there in the claims before us?" Id., at ___ (slip op., at 9). To answer that question, we consider the elements of each claim both individually and "as an ordered combination" to determine whether the additional elements "transform the nature of the claim" into a patent-eligible application. Id., at ___ (slip op., at 10, 9). We have described step two of this analysis as a search for an " 'inventive concept'"—i.e., an element or combination of elements that is "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.”

Alice Corp. Pty. Ltd. v. CLS Bank Int’l, 134 S. Ct. 2347, 2355 (U.S. 2014). Recently, in Enfish, LLC v. Microsoft Corp., 2016 WL 2756255 (Fed. Cir. May 12, 2016), the Federal Circuit reversed a district court’s judgment of invalidity, finding that the court analyzed the claims at too high a level of abstraction and finding the patent claims eligible under the Alice test. This was the court’s first reversal of a Section 101 decision after Alice.7

On December 11, 2015, the Federal Circuit heard oral arguments in McRo Inc. v. Bandai Namco Games America Inc., a case that has the potential to further clarify what is an abstract idea and what is a patent-eligible invention under Alice Corp. v. CLS Bank. The case involves technology developed by McRO for automatically animating lip synchronization and facial expressions of animated characters, which is a technique often used in video game development. McRO brought suit against various developers in December 2012 after they allegedly used the technology without paying a licensing fee.

The defendants argued that the patents simply claim the application of "rules" for automatic 3D lip-synchronization, and that they don’t specify what the rules are. Judge Wu stated “A consideration of the prior art recited in the patents shows that the point of novelty here is the idea of using rules, including timing rules, to automate the process of generating keyframes.” Ruling on Defendants’ Motion for Judgment on the Pleadings Based on Unpatentability Under 35 U.S.C. § 101 at 17, McRO Inc. v. Namco Bandai Games America, Inc., No. CV 12-10337-GW (FFMx) (C.D. Cal. Sep 22, 2014). Judge Wu held that once the tangible aspects already existing in the prior art were stripped away, the inventive feature of the patent claims were directed to an abstract idea. He concluded that the Section 101 analysis must take into account the prior art.

Federal Circuit Judges Reyna, Taranto, and Stoll heard early arguments late last year. During oral arguments, the panel questioned whether Judge Wu had injected a third step into the two-part Mayo test. The panel seemed to feel that by only considering the elements within the claim that did not exist in the prior art, Judge Wu erred by only evaluating whether a portion of the claim was directed to an abstract idea, rather than evaluating the claim as a whole.

It is anticipated that the Federal Circuit will soon issue additional guidance on how district courts are to determine whether the claim is directed to an abstract idea.

L. ITC’s Jurisdiction over Electronic Data

On March 31, 2016, the Federal Circuit denied Align’s petition for a rehearing en banc of the Federal Circuit’s prior decision in ClearCorrect Operating, LLC v. International Trade Commission, No. 14-1527 (Fed. Cir. Nov. 10, 2015). In its decision, the three-judge panel held that "digital data" is not an "article" within the meaning of 19 U.S.C. § 1337 and, therefore, the U.S. International Trade Commission’s (ITC) does not have jurisdiction to block the importation of digital data that infringe U.S. patents. The Federal Circuit’s denial included a detailed rejection, as well
as a lengthy dissent from Judge Newman. As it stands, the Federal Circuit’s decision limits the ITC’s scope of jurisdiction, particularly as the marketplace increasingly shifts towards electronic transmission of digital data.

The Federal Circuit's ClearCorrect decision stemmed from Inv. No. 337-TA-833 brought by Align against two Respondents—ClearCorrect Operating, LLC (ClearCorrect U.S.) and Clear Correct Pakistan (Private), Ltd. (ClearCorrect Pakistan). Align alleged that the ClearCorrect entities worked in unison to infringe various patents relating to clear dental aligners and methods of producing digital data sets used to fabricate the aligners. ClearCorrect U.S. would create a digital scan of a patient’s teeth and send the image to ClearCorrect Pakistan. ClearCorrect Pakistan would then process the initial data to generate various iterations of the movement of the patient’s teeth with aligners used to slowly straighten the teeth. ClearCorrect Pakistan transmitted the digital data sets back to ClearCorrect U.S., which would fabricate aligners based on the data. Those aligners were used to straighten a patient’s teeth.

The main question on appeal was whether digital data constitutes an “article” over which the ITC had jurisdiction under Section 337. After reviewing numerous dictionaries, the use of the term “article” in Section 337, the term as part of the statutory scheme, and legislative history, a majority of the panel ruled that Congress intended “article” to mean “material things” and concluded that that, under this interpretation, an “article” does not include digital data. Therefore, the Federal Circuit determined the ITC does not have jurisdiction over electronic transmission of digital data.

At this point, it is not clear if the ITC will seek to appeal the Federal Circuit’s decision to the Supreme Court, or alternatively, seek to clarify the scope of its jurisdiction via legislation.

Patent Legislation to Watch in 2016

A. Federal Trade Secret Act Legislation

On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act (DTSA). The legislation had overwhelming support in Congress, passing the House of Representatives with a vote of 410-2 and unanimously passing in the Senate with a vote of 87-0. The DTSA adds a federal private cause of action to the Economic Espionage Act (“EEA”). Prior to enactment of the DTSA, victims of trade secret theft had to rely on state law for relief, or on the Attorney General to bring a civil action to enjoin violations of trade secret theft.

While trade secret law is roughly equivalent across most states (most states have enacted the Uniform Trade Secrets Act, “USTA”), state courts have interpreted the law differently in each state and no state’s law is controlling over another state. Therefore, under identical facts, one state may protect a company’s trade secrets and another will not. The DTSA will eventually create a nationwide body of law and provide certainty to companies. It will not, however, preempt state law, so companies will still be able to bring suit under state law if that state provides a broader definition of trade secrets or provides a broader remedy.

The DTSA also authorizes ex parte seizure orders, which allow a court to have federal law enforcement officers intervene to prevent the destruction or dissemination of a trade secret. However, the DTSA has restricted the ability of a court to issue a seizure order. Such orders must be the “narrowest” necessary to achieve the purpose of the order. Additionally, substantial proof will be required to obtain an order.
B. Trans-Atlantic Data Privacy Compacy

After two years of talks, U.S. and European officials agreed on February 2, 2016 upon the Privacy Shield pact, which would facilitate $260 billion worth of online business by giving companies a way to move users’ data from Europe to the United States. The previous EU-U.S. data pact, known as Safe Harbor, was quashed last year after revelations of extensive U.S. internet spying in 2013 caused political outrage in Europe. The Privacy Shield pact is intended to safeguard the privacy of EU citizens when their personal information is exported to the U.S. However, on April 13, 2016, the European Union Article 29 Working Party (Article 29) rejected the Privacy Shield pact, stating that although it was a “great step forward,” there were many areas of concern. The Article 29 group contended that the pact would permit the U.S. to carry out “massive and indiscriminate” bulk surveillance of EU citizens. The Article 29 group’s decision, however, is advisory in nature. The European Commission is still waiting to hear from another group, known as the Article 31 Committee (comprised of representatives from each of the EU member states), to render its opinion before making a final decision. A decision from the Article 31 Committee is expected early-to-mid summer.

C. ITC Troll Legislation

On March 22, 2016, Reps. Tony Cardenas (D-Calif.) and Blake Farenthold (R-Texas) reintroduced the “Trade Protection Not Troll Protection Act,” H.R. 4829. The bill describes pointed modifications to the trade statute, specifically 19 U.S.C § 1337, that governs the disposition of cases at the International Trade Commission (“ITC”). Decisions made under this statute are intended to protect domestic industry in the United States by preventing unfair importation of infringing products. The bill proposes to modify 19 U.S.C § 1337(a)(3)(C), which allows a complainant to allege domestic industry by a showing of its investment in licensing activities of the intellectual property at issue. As it stands now, Patent Assertion Entities (“PAEs”) have utilized this method of showing domestic industry to exploit the intent of Section 337 at the ITC and use the threat of securing an injunction in their litigation strategies against other U.S. companies.

A few highlights of the proposed legislative changes include a clarification of 19 U.S.C § 1337(a)(3)(C): that investment in licensing must both be substantial and must further lead to the adoption and development of articles that incorporate the intellectual property at issue. Essentially, unless the license is leading to the production of some article that incorporates the intellectual property, it should not be used to establish domestic industry by complainants. The bill also codifies a 100-day pilot project to allow for expedited fact-finding and an abbreviated hearing if the Commission identifies domestic industry as a dispositive question. The administrative law judge will hold an early evidentiary hearing and issue an initial determination within 100 days after the investigation is instituted. Further, the bill seeks to modify the determination and review process by enabling the Commission to make its public interest determinations earlier in the case. The Commission may make decisions such as whether the licensees can meet market demand for protected articles at the start of the case rather than at the end as is customary.

These modifications, if implemented, aim to provide the ITC with new tools with which to conduct investigations to further protect genuine domestic industries and safeguard public interest.

Conclusion

We expect the remainder of 2016 to bring significant developments in the intellectual property arena. Both the courts and practitioners will continue to grapple with the bounds of intellectual property law and on issues that will have far-reaching impact on how companies choose to pursue, litigate, and
invest in intellectual property. In 2016—either by the hand of the Supreme Court or Congress—we will likely see significant law and policy changes that will inform the way innovators enforce their rights in years to come, and how we advise our clients.
If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings Washington D.C. lawyers:

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3 The Court declined to take the first question presented related to non-ornamental features and if design patents could cover such features.