



**November 2016**

Patent Venue at the Supreme Court..... 1

*Cuozzo* Did Not Alter Federal Circuit’s Jurisdiction Over PTAB Appeals..... 5

Expanding Attorney Fees in IP Cases ..... 7

Patent Office Proposes Rule Changes Concerning Patent Agent and Foreign Patent Practitioner Privilege and Duty of Disclosure..... 9

*Lee v. Tam*: Disparaging Trademarks at the Supreme Court ..... 12

*Star Athletica v. Varsity Brands*: Supreme Court Evaluating Copyrights in Features of Useful Articles..... 13

**Patent Venue at the Supreme Court**



If TC Heartland has its way, patent venue law is about to fundamentally change.

***Factual Background***

Kraft sued TC Heartland, a limited liability company organized under Indiana law, in the United States District Court for the District of Delaware. Heartland is not registered to do business in Delaware and does not have any regular or established place of business there. However, a relatively small number of the allegedly infringing products (roughly 2% of Heartland’s total sales) were shipped into Delaware at the instruction of one of Heartland’s customers, a customer based in Arkansas.

Heartland moved to dismiss or transfer the action, arguing (among other things) that under 28 U.S.C. § 1400(b) (“the patent venue statute”) the District of Delaware was not “the judicial district where [Heartland] resides.”<sup>1</sup> Reading the patent venue statute alone, that argument plainly prevails—Heartland does not reside in Delaware, and (while it allegedly has committed acts of infringement in Delaware) it does not have a regular and established place of business there. But, in 1990, the United States Court of Appeals for the Federal Circuit held that the definition of residence found in “the general venue

---

<sup>1</sup> 28 U.S.C. § 1400 - Patents and copyrights, mask works, and designs

...

(b) Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

statute,” 28 U.S.C. § 1391—a more expansive venue provision—should be read to supplement the patent venue statute.<sup>2</sup> *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). Relying on the *VE Holding* decision, the district court denied Heartland’s motion.

Heartland then petitioned the Federal Circuit for a writ of *mandamus*, but was told in no uncertain terms that Congress, by its statutory amendments in 1988, inserted the general venue statute’s definition of where a defendant “resides” into the specific patent venue statute.<sup>3</sup>

Heartland’s petition to the Supreme Court for *certiorari* followed.

### ***Commentary on Heartland’s Petition for Certiorari***

Heartland’s briefing below seemed a rather scattershot approach. And, while Heartland now modestly streamlines its argument, the argument still retains a non-linearity that serves to dilute its impact. But, condensed to a more direct approach, it might be convincing enough for Supreme Court review.

#### *A Condensed Heartland Argument*

Heartland’s best, most straightforward explication of its facts and argument would be as follows:

First, prior to 1897, there was only a general venue statute.

Second, specifically to limit where patent suits may be brought, Congress enacted a statute limiting venue in a patent case to either (i) the district of which the defendant is an inhabitant or (ii) any district in which the defendant shall have committed acts of infringement and have a regular and established place of business.<sup>4</sup> The statute also authorized service of process in patent infringement cases in districts where the defendant is not an inhabitant, but only if the defendant has therein a regular and established place of business.

Third, in 1948, Congress codified this venue limitation as 28 U.S.C. § 1400(b) and this service of process authorization as 28 U.S.C. § 1694. In so doing, Congress inserted the words “resides” and “resident” for the word “inhabitant” in those sections. Congress also codified a new 28 U.S.C. § 1391, headed “Venue generally,” that states in subsection (c) that “A corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded as the residence of such corporation for venue purposes.”

Fourth, in 1955, in *Transmirra Prods. Corp. v. Fourco Glass Co.*,<sup>5</sup> the Court of Appeals for the Second Circuit reversed the Southern District of New York’s grant of Fourco’s motion to dismiss for improper venue, reasoning that the “plain meaning of

<sup>2</sup> 28 U.S.C. § 1391(c) Residency.—For all venue purposes—

...

(2) an entity with the capacity to sue and be sued in its common name under applicable law, whether or not incorporated, shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court’s personal jurisdiction with respect to the civil action in question and, if a plaintiff, only in the judicial district in which it maintains its principal place of business....

(emphasis added).

<sup>3</sup> *In re TC Heartland*, 821 F.3d 1338, 1341 (Fed. Cir. 2016) (“The arguments raised regarding venue have been firmly resolved by *VE Holding*, a settled precedent for over 25 years.”).

<sup>4</sup> Act of March 3, 1897, ch. 395, 29 Stat. 695 (1897).

<sup>5</sup> 233 F.2d 885 (2d Cir. 1956), *rev’d* 353 U.S. 222 (1957).

§ 1400(b) and § 1391(c)” requires that the definition of corporate residence be incorporated into § 1400(b) “just as that definition is properly to be incorporated into other sections of the venue chapter.”<sup>6</sup> The United States Supreme Court granted review to consider “whether 28 U.S.C. § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions, or whether that section is supplemented by 28 U.S.C. § 1391(c).”<sup>7</sup> The Court held the former because, *inter alia*, § 1400(b) stands alone as a specific venue statute that needs no supplementation from a more general statute.<sup>8</sup>

Fifth, in 1988, in one of a series amendments deemed by Congress to be “miscellaneous” and “minor,”<sup>9</sup> Congress amended § 1391(c) to read: “For purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.”<sup>10</sup> In effect, Congress moved the “for venue purposes” language to the front of the subsection and added the prepositional phrase “under this chapter.” District courts reacted by treating it as *Fourco* said to treat its predecessor version—as not supplementing the specific patent venue statute—and noted that no congressional intent was showing in the statute or the legislative history to make a major change in law.<sup>11</sup>

Sixth, the Federal Circuit then erred in 1990, in *VE Holding*, by holding that the 1988 amendments made the drastic change in law to allow patent infringement defendants to be sued anywhere they sell allegedly infringing goods. The Federal Circuit ignored that the statutory language and the legislative history indicated no Congressional intent to drastically change the law and actually argued the reverse, that—given that the words changed—Congress did not indicate intent *not* to change the statute.

### Venue Timeline

For clarity, the events above (and an additional 2011 Congressional amendment discussed below) are set forth in the following timeline:

Pre-1897	1897	1948	1955	1988	1990	2011	2016
One general venue statute	Congress enacts patent specific venue statute. Act of March 3, 1897, ch. 395, 29 Stat. 695 (1897).	Congress codifies 28 U.S.C. § 1400 (the patent specific venue statute) and §1391 (the general venue statute)	Supreme Court decides that 28 U.S.C. § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions. <i>Fourco Glass Co. v. Transmira Prods. Corp.</i> , 353 U.S. 222 (1957)	Congress amends § 1391(c): <div style="border: 1px solid black; padding: 2px; margin-top: 5px;"> <p>A corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded as the residence of such corporation <b>for venue purposes</b>.</p> <p><b>For purposes of venue under this chapter</b>, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.</p> </div>	The CAFC holds that § 1391(c) now governs the meaning of “resides” in § 1400(b). <i>VE Holding Corp. v. Johnson Gas Appliance Co.</i> , 917 F.2d 1574 (Fed. Cir. 1990).	Congress amends § 1391(c) from “for purposes of venue under this chapter” to “for all venue purposes” and altered subsection (a) “Applicability of section.—Except as otherwise provided by law . . . .”	TC Heartland petitions for certiorari

<sup>6</sup> *Id.* at 886.

<sup>7</sup> *Fourco Glass Co. v. Transmira Prods. Corp.*, 353 U.S. 222, 222 (1957).

<sup>8</sup> *Id.* at 229.

<sup>9</sup> H.R. REP. NO. 100-89, at 66 (1988).

<sup>10</sup> See Judicial Improvements and Access to Justice Act of 1988, Pub. L. No. 100-702, § 1013, 102 Stat. 4642, 4669 (1988).

<sup>11</sup> See, e.g., *Doelcher Prods. Inc. v. Hydrofoil Int'l, Inc.*, 735 F. Supp. 666, 668 (D. Md. 1989); accord *Joslyun Mfg. Co. v. Amerace Corp.*, 729 F. Supp. 1219, 1223 (N.D. Ill. 1990).

*Improving Heartland's Argument*

Heartland's briefing might have been more convincing had it not separated, and argued late in its petition for *certiorari*, an additional statutory interpretation oversight by the Federal Circuit in *VE Holding*. Specifically, § 1400(b), both in 1990 and now, uses the definite article "the" when describing the jurisdiction in which the defendant resides: "Any civil action for patent infringement may be brought in *the judicial district* where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."<sup>12</sup> Section 1391 does not provide a supplementation of "resides" that is appropriate here, as it was (and still is) not limited to a single jurisdiction ("any jurisdiction"). In fact, this difference begs the question as to why § 1400(b) limits venue to a single jurisdiction—and, the reason is telling. When the special patent venue statute was enacted in 1897, it was well-settled that "the domicile, the habitat, the residence, the citizenship of the corporation can only be *in the State by which it was created*, although it may do business in other States whose laws permit it."<sup>13</sup> In other words, *the* "inhabitant" or "resident" of the patent venue statute already had (and has) a definition—it did not (and does not) need one to be imported from § 1391.

Heartland also would have been better served by stating in a more straightforward manner that the Federal Circuit was simply wrong in *VE Holding*. Congress's addition of "under this chapter," without more, does not render void the Supreme Court's holding in *Fourco*. Part-and-parcel of this mis-step, Heartland argues that amendments to § 1391 by Congress in 2011 reversed Congress' 1988 amendments. Specifically, Congress added a new § 1391(a), headed "Applicability of Section" that begins "Except as otherwise provided by law... (1) this section shall govern the venue of all civil actions brought in district courts in the United States." Heartland's argument apparently is that "except as otherwise provided by law" should embrace the reading "except as otherwise provided by *Fourco*."

There are four problems with this argument. First, it undercuts the previous (and best) one—Congress worked no significant change in 1988. And, different from the bland Congressional statements accompanying the 1988 amendments, Congress indicated in 2011 that proposed subsection 1391(c) *is* intended to apply to other codified venue provisions: "Under section 202 of the bill, proposed subsection 1391(c) would apply to all venue statutes, including venue provisions that appear elsewhere in the United States Code."<sup>14</sup> Second, in the 2011 amendments, subsection (c) was also re-written with the heading "Residency—For all venue purposes—," to state "an entity with the capacity to sue and be sued in its common name under applicable law, whether or not incorporated, shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question"—a change which only serves to emphasize that this residency requirement was meant to apply throughout the chapter. And, Congress simultaneously folded former § 1391(d) (allowing suits against non-residents aliens in any judicial district) into this "residency" subsection. It has long been Supreme Court precedent that this subsection trumps (or is read into) § 1400(b).<sup>15</sup> Third, "law" in this context is generally considered to refer to statutory law, and not to judicial precedent. Last, even if legal precedent were "law," it is not so clear logically (and chronologically) that the "law" should be the pre-1988 amendment *Fourco* decision, as opposed to the post-1988 amendment *VE Holdings* decision.

Heartland could have used this statutory language in a different, and more effective way. For example, Heartland could have focused more specifically on the beginning of new § 1391—"Except as otherwise provided by law... (1) this section

---

<sup>12</sup> 28 U.S.C. § 1400(b) (emphasis added).

<sup>13</sup> *Shaw v. Quincy Mining Co.*, 145 U.S. 444, 450 (1892) (emphasis added).

<sup>14</sup> H.R. REP. NO. 112-10 at 20 (2011).

<sup>15</sup> See generally *Brunette Machine Works, Ltd., v. Kockum Indus., Inc.*, 406 U.S. 604 (1972).

shall govern the venue of all civil actions brought in district courts in the United States”—and argued that 1400(b) “governs the venue” of patent infringement actions “brought in district courts in the United States,” and therefore “otherwise provide[s].” Therefore, § 1391 itself (without need to resort to the Congressional record) tells the reader that it does not apply—as a whole—to patent actions.

Heartland concludes its argument with the interesting, but possibly obfuscating, observation that the original 1897 patent service of process limitation, now 28 U.S.C. § 1694, is not a venue statute, and is therefore not supplemented by § 1391(c). Therefore, argues Heartland, if *VE Holding* and the Federal Circuit on *mandamus* are correct, a defendant may properly be haled under federal law into court in a jurisdiction in which it is not a resident, but service of process on that non-resident can only be made in that defendant’s home jurisdiction, and only by relying on the long arm statute in the desired forum. Not entirely willing to give up one of its original complaints to the Federal Circuit, Heartland makes a bit of a hash of this observation, essentially arguing that this just seems too convoluted a procedure for it to have been Congress’ intention.

Heartland also makes one additional argument—in throw-away fashion—that might have been given more emphasis. In the Leahy-Smith America Invents Act of 2011, a note to 35 U.S.C. § 321 provides: “In an action for infringement... of a covered business method patent, an automated teller machine shall not be deemed to be a regular and established place of business for purposes of section 1400(b) of title 28, United States Code.”<sup>16</sup> This note would make no sense if *VE Holding* were correctly decided: a corporate owner of an ATM would be deemed to reside wherever the use or operation of the machine infringes a patent, and it would make no difference whether the machine were deemed to be “a regular and established place of business.”

## Conclusion

While Heartland faces an uphill battle—overturning *VE Holdings* twenty-five years on—it very well may raise enough interesting issues, including both contradictory legal holdings and a confusing congressional record, to warrant Supreme Court review.

## Cuozzo Did Not Alter Federal Circuit’s Lack of Jurisdiction Over PTAB Institution Decisions



Since the inception of post-grant review proceedings before the Patent Trial and Appeal Board (“Board”), the Federal Circuit has consistently held that it lacks jurisdiction over the Board’s decisions as to whether to institute proceedings and reconsideration thereof.<sup>17</sup>

Most recently, on October 20, 2016, in *Medtronic, Inc. v. Robert Bosch Healthcare Systems, Inc.*,<sup>18</sup> the Federal Circuit denied Medtronic’s petition for rehearing, and, in doing so, reaffirmed its prior decisions that reconsideration of *inter partes*

<sup>16</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29 § 18(c), 129 Stat. 284, 331 (2011).

<sup>17</sup> *E.g., Husky Injection Molding Sys. Ltd. v. Athena Automation Ltd.*, No. 15-1726, – F.3d –, 2016 WL 5335500 (Fed. Cir. Sept. 23, 2016) (no jurisdiction over *inter partes* review institution decision that assignor estoppel did not apply to Patent Office); *Wi-Fi One, LLC v. Broadcom Corp.*, No. 15-1944, – F.3d –, 2016 WL 4933298 (Fed. Cir. Sept. 16, 2016) (no jurisdiction over Board’s reconsideration post-institution of statutory time bar in *inter partes* review proceeding); *Harmonic Inc. v. Avid Tech., Inc.*, 815 F.3d 1356 (Fed. Cir. 2016) (no jurisdiction over *inter partes* review institution decision); *GTNX, Inc. v. INTTRA, Inc.*, 789 F.3d 1309 (Fed. Cir. 2015) (no jurisdiction over instituted-but-later-vacated-and-terminated covered business method review proceeding due to time bar).



review (“IPR”) institution decisions are “final and nonappealable” under 35 U.S.C. § 314(d), and that nothing in the Supreme Court’s *Cuozzo* decision changed this result.

In April 2013, Bosch sued Cardiocom for patent infringement in district court. Three months later—in July 2013—Cardiocom petitioned for IPR of two Bosch patents, identifying itself as the sole real party in interest (“RPI”). The following month, Medtronic announced it had acquired Cardiocom; and, in December 2013, Cardiocom filed a notice in the proceedings that it “acknowledges that Medtronic, Inc. should now be included as an additional real party in interest,” but Cardiocom “should remain as a real party in interest as well, as a wholly-owned subsidiary of Medtronic, Inc.”<sup>19</sup> Thereafter, the Board denied institution of both IPRs because Cardiocom failed to show a reasonable likelihood that any of the challenged claims were unpatentable on the asserted grounds.<sup>20</sup>

After the Board’s denials, Medtronic filed additional IPR petitions on the same patents, listing itself as the sole RPI. Cardiocom could not be listed as an RPI or else the newly filed petitions would have been time-barred under U.S.C. § 315(b).<sup>21</sup> In its pre-institution preliminary responses, Bosch argued that the petitions should be denied for failure to identify “all real parties in interest” under 35 U.S.C. § 312(a)(2) because Cardiocom is also an RPI.

Over Bosch’s objections, the Board instituted Medtronic’s petitions, holding that Bosch had not established that Cardiocom was an RPI. But, after institution, the Board granted-in-part Bosch’s motions for additional discovery regarding the RPI issue, and Bosch then moved to terminate the proceedings for failure to name all RPIs (namely, Cardiocom). Bosch’s argument rested on the following asserted facts: Cardiocom was the defendant in district court infringement suits concerning the two patents; Cardiocom had previously filed its own IPR petitions; Cardiocom’s senior executives communicated with Medtronic while the Medtronic petitions were being prepared; and Cardiocom paid a portion of the fees for preparing the Medtronic petitions. The Board was persuaded, vacated the institution decisions, and terminated the proceedings.

Medtronic appealed, and Bosch moved to dismiss for lack of jurisdiction. The original Federal Circuit panel agreed with Bosch, and dismissed for lack of jurisdiction. Medtronic petitioned for rehearing, and while it was pending, the Supreme Court issued its *Cuozzo* decision. In light of *Cuozzo*, the Federal Circuit recalled its mandate, and requested supplemental briefing to “address the question of what action this court should take on the issue of appealability in view of the Supreme Court’s decision in *Cuozzo*.”

The Supreme Court held in *Cuozzo* that Section 314(d) bars review in cases where the “grounds... consist of questions that are closely tied” or “closely related” to the “application and interpretation of statutes related to the Patent Office’s decision to initiate inter partes review.”<sup>22</sup> On rehearing, the Federal Circuit held in *Medtronic* that “under *Cuozzo* a decision whether to

---

<sup>18</sup> No. 15-1977, – F.3d –, 2016 WL 6123900 (Fed. Cir. Oct. 20, 2016).

<sup>19</sup> *Cardiocom, LLC v. Robert Bosch Healthcare Systems, Inc.*, IPR2013-00439, Paper 25; *Cardiocom, LLC v. Robert Bosch Healthcare Systems, Inc.*, IPR2013-00439, Paper 22.

<sup>20</sup> *Medtronic*, 2016 WL 6123900, at \*1.

<sup>21</sup> Section 315(b) provides that “[a]n 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.”

<sup>22</sup> *Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131, 2141–42 (2016). The Supreme Court left open the possibility that institution decisions may be reviewable “to ‘set aside agency action’ that is ‘contrary to constitutional right,’ ‘in excess of statutory jurisdiction,’ or ‘arbitrary [and] capricious.’” *Id.* at 2142. However, the Federal Circuit—as it did here—has generally rejected such challenges.

institute inter partes review proceedings pursuant to § 314(a) (the issue in *Cuozzo*) and a reconsideration of that decision (the situation here) are both barred from review by § 314(d).<sup>23</sup> The Federal Circuit reasoned that “[i]t is difficult to conceive of a case more ‘closely related’ to a decision to institute proceedings than a reconsideration of that very decision. It would be strange to hold that a decision to institute review would not be reviewable but a reconsideration of that decision would be reviewable.”<sup>24</sup>

With *Medtronic* and other recent decisions, the Federal Circuit continues effectively to limit appellate review to only the Board’s final written decisions, making it ever more important for petitioners to satisfy the Board that they have properly identified all RPIs and otherwise complied with the Section 312(a) requirements governing petitions for *inter partes* review.

## Expanding Attorney Fees in IP Cases



Starting in 2014, and continuing through recent months, both the courts and Congress have redefined the standard for awarding attorney fees in IP cases—wholly returning the discretionary nature to district courts for patent and trademark disputes, largely doing so for copyright actions, and providing, as part of the recently-enacted Defend Trade Secrets Act, attorney fees in trade secret cases limited by statute to bad faith or willful and malicious trade secret assertions or misappropriation.

### Patents

Section 285 of the Patent Act authorizes attorney fees in patent cases. It broadly provides district courts with discretionary power: “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.”<sup>25</sup> Despite this broadly-worded statute, the Federal Circuit had until recently greatly restricted district court discretion, holding in its 2005 *Brooks Furniture* decision that a case was exceptional “only if (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless,” proven by clear and convincing evidence.<sup>26</sup>

In 2014, in the *Octane Fitness* case, the Supreme Court unanimously rejected the *Brooks Furniture* test as “unduly rigid” and returned to district courts broad discretion to consider, on a “case-by-case basis,” the “totality of the circumstances:”

We hold, then, that an “exceptional” case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is “exceptional” in the case-by-case exercise of their discretion, considering the totality of the circumstances.<sup>27</sup>

<sup>23</sup> *Medtronic*, 2016 WL 6123900, at \*2.

<sup>24</sup> *Id.*

<sup>25</sup> 35 U.S.C. § 285.

<sup>26</sup> *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

<sup>27</sup> *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

In doing this, the Supreme Court also overruled the Federal Circuit's requirement that there be "clear and convincing evidence" before an award of fees, adopting instead a preponderance of the evidence standard. And, in the tandem *Highmark* case—decided on the same day as *Octane Fitness*—the Supreme Court significantly heightened the appellate review standard, shifting it from *de novo* review for abuse of discretion for "all aspects of a district court's § 285 determination...."<sup>28</sup>

### **Trademarks**

Section 35(a) of the Lanham Act authorizes trademark attorney fees. Just like Section 285 of the Patent Act, Section 35(a) empowers the district court with broad discretion: "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."<sup>29</sup>

Since *Octane Fitness*, the Third, Fourth, Fifth, Sixth and Ninth Circuits—as well as many district courts in other circuits—have followed the reasoning of *Octane Fitness*, and held that the totality-of-the-circumstances test should be used when determining attorney fees awards in trademark cases.

For example, in extending *Octane Fitness* to trademark cases and returning discretion to district courts, the Third Circuit reasoned that not only is the language of Section 285 of the Patent Act "identical" to Section 35(a) of the Lanham Act, but also that Congress explicitly referenced Section 285 in passing Section 35(a).<sup>30</sup> The Fourth, Fifth, and Sixth Circuits have applied similar reasoning and relaxed their prior, more stringent standards.<sup>31</sup>

Most recently, in *SunEarth*, the Ninth Circuit—one of the most significant circuits for trademark infringement actions—followed suit.<sup>32</sup> Prior to *SunEarth*, the Ninth Circuit—much like the Federal Circuit in *Brooks Furniture*—placed significant restrictions on district court discretion. It required that a plaintiff show that a defendant engaged in "malicious, fraudulent, deliberate or willful" infringement in order to receive attorney fees.<sup>33</sup> However, with the relevant statutory language being identical to that governing patent cases and in light of the ruling in *Octane Fitness*, the Ninth Circuit reheard and reversed a May panel ruling and held that the *Octane Fitness* analysis equally applies to the Lanham Act.<sup>34</sup>

### **Copyrights**

Section 505 of the Copyright Act governs attorney fees in copyright cases and provides that a district court "may... award a reasonable attorney's fee to the prevailing party...."<sup>35</sup> Continuing the discretionary trend, in June 2016, the Supreme Court vacated the Second Circuit's *Kirstaeng v. John Wiley & Sons* decision, which had denied attorney fees by placing

---

<sup>28</sup> *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744, 1747 (2014).

<sup>29</sup> 15 U.S.C. § 1117(a).

<sup>30</sup> *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303 (3d Cir. 2014).

<sup>31</sup> *Georgia-Pacific Consumer Prods. LP v. von Drehle Corp.*, 781 F.3d 710 (4th Cir. 2015); *Baker v. Deshong*, 821 F.3d 620 (5th Cir. 2016); *Slep-Tone Entm't Corp. v. Karaoke Kany Store, Inc.*, 782 F.3d 313 (6th Cir. 2015). Other circuits—including the Second Circuit—have not yet decided the issue. See, e.g., *Penshurst Trading Inc. v. Zodax L.P.*, 652 F. App'x 10 (2d Cir. 2016) ("We have not yet decided whether [the *Octane Fitness*] rule applies in the context of the Lanham Act, but we need not do so here.").

<sup>32</sup> *SunEarth, Inc. v. Sun Each Solar Power Co., Ltd.*, No. 13-17622, – F.3d –, 2016 WL 6156039 (9th Cir. Oct. 24, 2016).

<sup>33</sup> *Secalt S.A. v. Wuxi Shenxi Constr. Mach. Co.*, 668 F.3d 677, 687 (9th Cir. 2012).

<sup>34</sup> *SunEarth*, 2016 WL 6156039, at \*5.

<sup>35</sup> 17 U.S.C. § 505.



substantial (nearly “dispositive”) weight on objective reasonableness.<sup>36</sup> Rejecting the Second Circuit, the Supreme Court found that “objective reasonableness can be only an important factor in assessing fee applications—not the controlling one.”<sup>37</sup> While a district court should take into account the objective reasonableness of the losing party’s position, it should also consider all other relevant factors.<sup>38</sup> For example, the Court stated that other factors—such as litigation misconduct and the importance of deterring repeated copyright infringement—must be factored into the analysis, regardless of whether the party’s claims are objectively reasonable.<sup>39</sup>

### **Trade Secrets**

On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act (“DTSA”), creating a federal civil cause of action for the misappropriation of trade secrets. The DTSA provides that “a court may... if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated award reasonable attorney’s fees to the prevailing party.”<sup>40</sup> This language (*e.g.*, “bad faith,” “willfully and maliciously”) appears much more stringent than the language of the statutes discussed above, and thus will likely be used less frequently.

### **Summary**

With increased district court discretion and a less stringent standard of review—particularly in patent and trademark cases, and, to a lesser extent, copyright disputes—it is likely that both fee requests and fee awards will increase. As for trade secrets, while it is too early to tell how courts will treat fee requests, given the explicit bad faith or willful and malicious requirements, we expect that trade secret fee awards will be more difficult to come by.

## **Patent Office Proposes Rule Changes Concerning Patent Agent and Foreign Patent Practitioner Privilege and Duty of Disclosure**



### **Recognizing Patent Agent and Foreign Practitioner Privilege**

On October 18, 2016, the United States Patent and Trademark Office (the “PTO”) issued a proposed rule that would “amend the rules of practice before the Patent Trial and Appeal Board to recognize that, in connection with discovery conducted in certain proceedings at the United States Patent and Trademark Office... communications between U.S. patent agents or foreign patent practitioners and their clients are privileged to the same extent as communications between clients and U.S. attorneys.”<sup>41</sup>

---

<sup>36</sup> 136 S.Ct. 1979 (2016).

<sup>37</sup> *Id.* at 1988.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 1988–89.

<sup>40</sup> Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 385.

<sup>41</sup> 81 Fed. Reg. 71653, 71653–54 (Oct. 18, 2016) (to be codified at 37 C.F.R. pt. 42).

The PTO's proposal stems from a February 2015 roundtable and solicitation of comments on attorney-client privilege issues. Commenters "unanimously supported a rule recognizing" a patent agent privilege.<sup>42</sup>

The PTO's currently-proposed rule is especially timely and necessary to resolve the uncertainty over patent agent privilege created by the various judicial and administrative bodies. As the PTO noted, "PTAB proceedings are subject to the Federal Rules of Evidence (FRE), which include rules on attorney-client privilege.... Accordingly, privilege may be asserted in PTAB proceedings by licensed attorneys. However, the FRE does not explicitly address privilege for communications with non-attorney U.S. patent agents or with foreign patent practitioners."<sup>43</sup> Moreover, "[t]he rules governing PTAB practice likewise do not address this matter, and when it arises, PTAB Administrative Law Judges make legal determinations as to which communications may be protected from disclosure on a case-by-case basis, based on common law."<sup>44</sup> And, the PTO recognized that "U.S. courts have devised several different approaches to determine under what circumstances communications with these practitioners are privileged... and results sometimes conflict."<sup>45</sup>

Earlier this year, the Federal Circuit appeared to have clarified matters in *In re Queens*, holding that the patent agent privilege extends to communications with patent agents when those agents are acting within the scope of their authorized practice of law before the PTO.<sup>46</sup> The Federal Circuit examined the unique role of patent agents and the history and treatment of the profession by Congress and the Supreme Court, with the majority concluding that the agent-client relationship is virtually indistinguishable from the attorney-client relationship.<sup>47</sup> A lack of the patent agent privilege, the court found, would hinder communications between patent agents and their clients, thereby undermining Congress's dual-path system affording applicants the choice between agents and attorneys.<sup>48</sup>

But, more recently, a Texas Appellate Court re-injected uncertainty into the discussion. In *In re Silver*, the Texas Appellate Court denied a petition for *mandamus*, and declined to adopt the patent agent privilege recently recognized by the Federal Circuit.<sup>49</sup> The petition arose from an underlying contract dispute wherein the trial court did not recognize the patent agent privilege because it is not recognized by Texas statute or rule.<sup>50</sup> Without the authority to adopt a new discovery privilege, the Texas Appellate Court found that the trial court did not abuse its discretion by declining to adopt the privilege.<sup>51</sup> It further found that the Federal Circuit precedent in the patent case *In re Queens* was not binding in this breach of contract case.<sup>52</sup> Rather, the patent agent privilege does not govern communications "that are not reasonably necessary and incident

---

<sup>42</sup> *Id.* at 71654.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* (citing *GEA Process Engineering, Inc. v. Steuben Foods, Inc.*, IPR2014-00041, Paper 117 (PTAB 2014) (ordering Petitioner to produce documents despite Petitioner's argument that said documents were protected by the attorney-client privilege)).

<sup>45</sup> 81 Fed. Reg. 71653, at 71654.

<sup>46</sup> *In re Queen's Univ. at Kingston*, 820 F.3d 1287, 1302 (Fed. Cir. 2016).

<sup>47</sup> *Id.* at 1300.

<sup>48</sup> *Id.*

<sup>49</sup> *In re Silver*, – S.W.3d –, 2016 WL 4386004 (Tex. App. Aug. 14, 2016).

<sup>50</sup> *Id.* at \*2–3.

<sup>51</sup> *Id.* at \*3.

<sup>52</sup> *Id.*

to the prosecution of patents before the [PTO].”<sup>53</sup> And, “in a civil case, state law governs privilege regarding a claim or defense for which state law supplies the rule of decision.”<sup>54</sup>

The PTO’s proposal also seems to go beyond the Federal Circuit’s *In re Queens* holding, as it appears to bring communications with non-U.S. patent-related personnel within the ambit of the privilege. This issue has, for some time, been of special interest to companies based in countries—like Japan—with few lawyers, and where in-house IP departments are largely staffed by “informally” trained ex-engineers, so long as they are “authorized to practice patent matters in foreign jurisdictions.”<sup>55</sup> The PTO’s proposal will not completely solve this issue for these companies, as it remains unclear how courts will deal with in-house communications that are not clearly related to a proceeding before the PTO.

The comment period ends on December 19, 2016.

### ***Modifications to Duty of Disclosure***

In addition to the proposed rule on patent agent privilege, on October 28, 2016, the PTO published a proposed rule revising the duty to disclose information in patent applications and reexamination proceedings in light of the 2011 Federal Circuit *Therasense* case.<sup>56</sup> In *Therasense*, an *en banc* Federal Circuit tightened the materiality standard for inequitable conduct, holding that “the materiality required to establish inequitable conduct is but-for materiality”—likely reducing the number of inequitable conduct cases that the Court would have to review. The PTO’s proposed rule would modify 37 C.F.R. §§ 1.56(a) and 1.555(b) to incorporate but-for materiality as set forth in *Therasense* into the materiality standard for the duty of disclosure. It would also incorporate affirmative egregious misconduct to address any fraudulent schemes that might arise under the but-for materiality standard.

The PTO stated that the proposed rule would have the following positive effects: (1) simplifying the patent system as a whole; (2) decreasing the frequency of inequitable conduct charges; (3) lessening the amount of marginally relevant information in information disclosure statements; (4) enhancing patent quality through more focused prior art submissions; and (5) continuing to encourage applicants to act in good faith.

While the proposed rule would appear to officially narrow the duty of disclosure, we believe that it is unlikely to have significant practical effect, as applicants likely will continue to err on the side of over-disclosure.

The comment period ends on December 27, 2016.

---

<sup>53</sup> *Id.* (quoting *In re Queen’s*, 820 F.3d at 1301–02).

<sup>54</sup> *Id.* (quoting *In re Queen’s*, 820 F.3d at 1294).

<sup>55</sup> The Notice defines the term “patent practitioner” to include “both those authorized to practice patent matters before the USPTO and those authorized to practice patent matters in foreign jurisdictions.”

<sup>56</sup> *Therasense, Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*).

## Lee v. Tam: Disparaging Trademarks at the Supreme Court



On April 20, 2016, the United States Patent and Trademark Office (the “PTO”) petitioned for a writ of *certiorari* on the following question:

Whether the disparagement provision in 15 U.S.C. 1052(a), which provides that no trademark shall be refused registration on account of its nature unless, *inter alia*, it “[c]onsists of... matter which may disparage... persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute,” is facially invalid under the Free Speech Clause of the First Amendment.

Respondent Tam sought federal registration for the mark THE SLANTS in connection with his dance-rock band. Pursuant to 15 U.S.C. § 1052(a), the PTO refused registration on the ground that it believed the mark to refer to person of Asian ancestry and to be disparaging of them.<sup>57</sup> The United States Court of Appeals for the Federal Circuit (the “CAFC”), in a panel decision, originally affirmed the PTO’s decision,<sup>58</sup> but then revisited the decision *en banc* and held that the disparagement provision of § 1052(a) is facially invalid under the First Amendment.<sup>59</sup>

The PTO’s argument, in essence, is as follows. Section 1052(a) does not prohibit any speech, proscribe any conduct, or restrict the use of any trademark.<sup>60</sup> Absent some other restriction, people are free to use disparaging racial terms to identify their goods and services.<sup>61</sup> Section 1052(a) does not restrict a mark owner’s common-law trademark protections (because trademark rights arise through use of a mark in commerce in connection with particular goods and services).<sup>62</sup> Rather, § 1052(a) directs the PTO to not bestow the benefits of federal registration on disparaging marks.<sup>63</sup> It reflects Congress’s judgment that the federal government should not affirmatively promote the use of racial slurs and other disparaging terms by granting them the benefit of registration.<sup>64</sup> That modest limitation on the trademark system, the PTO argues, does not violate the First Amendment.<sup>65</sup>

Tam argues in his brief that, while the CAFC’s *en banc* decision was correctly decided, the Supreme Court should grant *certiorari* to resolve, once and for all, the important issues raised in this litigation. Tam reasons that his trademark rights will not be secure until the Supreme Court rules on this issue, as various courts are going back and forth on it.<sup>66</sup> In addition to

<sup>57</sup> *In re Tam*, 2013 WL 5498164 (T.T.A.B. Sept. 26, 2013), *aff’d*, 785 F.3d 567 (Fed. Cir. 2015), *vacated and remanded en banc*, 808 F.3d 1321 (Fed. Cir. 2015).

<sup>58</sup> *In re Tam*, 785 F.3d 567 (Fed. Cir. 2015), *vacated and remanded en banc*, 808 F.3d 1321 (Fed. Cir. 2015).

<sup>59</sup> *In re Tam*, 808 F.3d 1321 (Fed. Cir. 2015).

<sup>60</sup> Petition for a Writ of *Certiorari* at 8, *Lee v. Tam*, (Apr. 20, 2016) (No. 15-1293).

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

<sup>62</sup> *Id.* at 10.

<sup>63</sup> *Id.*

<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

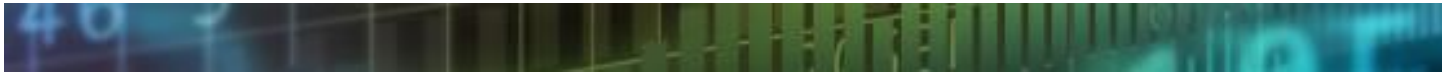
<sup>66</sup> For example, the National Football League’s Washington “Redskins” team is currently appealing the cancellation of its “Redskins” trademarks.

asking the Supreme Court to resolve the constitutionality of § 1052(a) under the First Amendment, Tam proposed two additional questions: first, does the mark THE SLANTS “disparage... persons, living or dead;” and, second, is the disparagement clause unconstitutionally vague?<sup>67</sup>

The PTO replied to Tam’s argument on July 12, 2016, opposing his two additional proposed questions on the grounds that they were not previously raised.<sup>68</sup>

The Supreme Court granted *certiorari* on September 29, 2016, but gave no indication as to which formulation of the question(s) presented is proper. Dates for oral argument are yet to be determined.

## **Star Athletica v. Varsity Brands: Supreme Court Evaluating Copyrights in Features of Useful Articles**



[T]hey are making a statement about themselves. They’re saying who they are. The clothes on the hanger do nothing; the clothes on the woman do everything. And that is, I think, what fashion is about.

–Justice Breyer

That’s so romantic.

–Justice Kagen<sup>69</sup>

On May 2, 2016, the Supreme Court granted Star Athletica, LLC’s petition for a writ of *certiorari* on the following question: “What is the appropriate test to determine when a feature of a useful article is protectable under section 101 of the Copyright Act?”

This case arises out of copyright infringement litigation between two competitors in the cheerleading-apparel industry. Petitioner Star Athletica, LLC (“Star”), created in 2010, is a relatively new entrant in the cheerleading-uniform market. By contrast, respondent Varsity Brands, Inc. (“Varsity”) is the world’s largest manufacturer and distributor of cheerleading and dance-team uniforms and accessories—“[n]early every uniform sold or camp attended by high school or college cheerleaders is part of Varsity’s vast empire of pep.”<sup>70</sup> Shortly after Star published its first cheerleading-uniform catalogue, Varsity sued for copyright infringement, alleging that Star’s cheerleader uniforms infringed the copyrights Varsity had registered in its two-dimensional cheerleader-uniform drawings and photos. See two examples of Varsity’s copyright-registered designs below:

---

<sup>67</sup> Brief for Respondent at 12, *Lee v. Tam*, (June 20, 2016) (No. 15-1293).

<sup>68</sup> Reply Brief for Petitioner at 1–2, *Lee v. Tam*, (July 12, 2016) (No. 15-1293).

<sup>69</sup> Transcript of Oral Argument at 47, *Star Athletica, LLC v. Varsity Brands, Inc.* (Oct. 31, 2016) (No. 15-866).

<sup>70</sup> Colleen Leahey, *The business of cheer*, *Fortune* (Dec. 21, 2012).





The United States District Court for the Western District of Tennessee determined on summary judgment that copyright protection could not apply to Varsity’s designs because the designs could not be conceptually separated from the utilitarian aspects of the objects themselves.<sup>71</sup> In other words, a cheerleading uniform is not a cheerleading uniform without stripes, chevrons, zigzags, and color-blocks.<sup>72</sup> Varsity appealed.

The United States Court of Appeals for the Sixth Circuit reversed the district court’s judgment, finding Varsity’s designs copyrightable.<sup>73</sup> Star’s petition followed.

Star argues, among other things, that the Sixth Circuit’s decision “allows roundabout copyrighting of garment designs masquerading as separable decorative features, preventing competition and inviting new copyright claims for all manner of garments, from band uniforms to everyday apparel, based solely on the arrangement of stripes and color blocks.”<sup>74</sup> Varsity counters that a two-dimensional design—which is squarely within the realm of copyrightable subject matter—does not lose its protection when it is applied to a three-dimensional “useful article,” and that such a “two-dimensional design is ‘separable’ from the three-dimensional article’s utilitarian functions.”<sup>75</sup>

The Supreme Court held oral argument in the case on October 31, 2016. Argument began with colloquies between Mr. Bursch, counsel for Star, and the justices, regarding the utility of the lines, chevrons, and patterns of Varsity’s copyrighted works. In essence, Mr. Bursch argued that these designs make the cheerleading uniforms what they are—they cannot be conceptually severed from the uniform. His argument is not that Varsity doesn’t have copyright protection in its two-dimensional images—if someone copied the two-dimensional images onto a lunchbox or made a poster of them, Mr. Bursch believes that Varsity could sue for copyright infringement. Rather, his argument is that applying the images to three-dimensional cheerleading uniforms is inappropriate because the designs make the useful article. This argument tracks the district court’s view of the issue:

<sup>71</sup> *Varsity Brands, Inc. v. Star Athletica, LLC*, No. 10-2508, 2014 WL 819422, at \*1 (W.D. Tenn. Mar. 1, 2014), *rev’d and remanded*, 799 F.3d 468 (6th Cir. 2015).

<sup>72</sup> *See id.*

<sup>73</sup> *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468, 471 (6th Cir. 2015).

<sup>74</sup> Petition for a Writ of *Certiorari* at 31, *Star Athletica, LLC v. Varsity Brands, Inc.* (Jan. 5, 2016) (No. 15-866).

<sup>75</sup> Brief for Respondents at 1, *Star Athletica, LLC v. Varsity Brands, Inc.* (Sept. 14, 2016) (No. 15-866).

Here, the court's focus eventually turns to the "cheerleading-uniform-ness" of a fabric garment without any of the physical designs and colors ordinarily printed upon or otherwise imparted to a garment that identifies it, generally, as an unavoidably imperfect reflection of the ideal of a "cheerleading uniform." In this case, because the court finds that the *absence* of such designs and colors simply fails to call to mind, or otherwise signal the presence of a cheerleading uniform in the garment at hand, it must also conclude that the *presence* of such designs and colors is at the core of the ideal—of "cheerleading-uniform-ness." With that conclusion, it also follows that the colors-and-designs component of a cheerleading uniform cannot be conceptually separated from the utilitarian object itself. Copyright protection, as a matter of law, cannot apply.<sup>76</sup>

From the other side, Mr. Jay, counsel for Varsity, began by fielding a question from the Chief Justice regarding whether an original camouflage design could be applied to a military uniform, for example. Mr. Jay hedged his answer by saying that an original camouflage design might be copyrightable separate from a military uniform or hunting gear—to lunchboxes or maybe iPhone covers. The Chief Justice then retorted, "[y]es... you can have a copyright in the pattern; and, yes, you can attach it to a useful article like a lunchbox that's going to have a design. But the question is when the design is what makes that useful article what it is—the design on a lunchbox doesn't make the lunchbox a lunchbox."<sup>77</sup> Mr. Jay attempted to hammer the point that Varsity's designs are, in fact, separable from cheerleading uniforms as they also appear on warm-ups and jackets.

On the practical side of this case, Justice Breyer discussed whether holding dresses copyrightable will perhaps double the price of women's clothes. And, Justice Sotomayor remarked that Varsity is using copyright—as opposed to trademark or patent law—to kill the knockoff industry.

Returning to the question presented, there are at least ten unique tests within legal precedent and professorial commentary for determining separability. Star argues in its briefs that none of them are consistent with § 101's statutory text and thus proposes a four part "statutory-separability analysis."<sup>78</sup> Varsity counters that Star jams together two pre-existing tests "into something even less clear—but at least as flawed" and that the Copyright Office's test for separability, which was applied to Varsity's submissions, warrants respect.<sup>79</sup>

Many commentators believe that the fate of a \$300B industry hangs in the balance.<sup>80</sup>

---

<sup>76</sup> *Varsity Brands, Inc. v. Star Athletica, LLC*, No. 10-2508, 2014 WL 819422, at \*1 (W.D. Tenn. Mar. 1, 2014) (emphases in original), *rev'd and remanded*, 799 F.3d 468 (6th Cir. 2015).

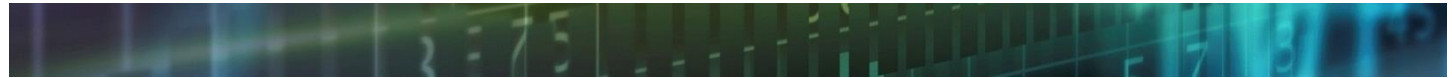
<sup>77</sup> Transcript of Oral Argument at 30, *Star Athletica, LLC v. Varsity Brands, Inc.* (Oct. 31, 2016) (No. 15-866).

<sup>78</sup> Brief for Petitioner at 38, *Star Athletica, LLC v. Varsity Brands, Inc.* (July 15, 2016) (No. 15-866).

<sup>79</sup> Brief for Respondents at 17, *Star Athletica, LLC v. Varsity Brands, Inc.* (Sept. 14, 2016) (No. 15-866).

<sup>80</sup> See, e.g., Mark Walsh, A "view" from the courtroom: *Dress for success*, SCOTUSBLOG (Oct. 31, 2016, 8:14 PM), <http://www.scotusblog.com/2016/10/a-view-from-the-courtroom-2/>.

## Key Contacts




**Mark Hannemann**  
Partner




New York  
T: +1 212 848 7696  
mark.hannemann@shearman.com

**Thomas Makin**  
Partner




New York  
T: +1 212 848 7698  
thomas.makin@shearman.com

**Matthew Berkowitz**  
Partner




New York / Menlo Park  
T: +1 212 848 7701  
matt.berkowitz@shearman.com

**Patrick Colsher**  
Associate




New York  
T: +1 212 848 7708  
patrick.colsher@shearman.com

**Joseph Purcell**  
Associate




New York  
T: +1 212 848 4074  
joseph.purcell@shearman.com

**Eric Lucas**  
Associate



New York  
T: +1 212 848 4955  
eric.lucas@shearman.com

**Sonal Patel**  
Associate\*



Menlo Park  
T: +1 650 838 3739  
sonal.patel@shearman.com

\*Admitted in NY and NJ

ABU DHABI | BEIJING | BRUSSELS | DUBAI | FRANKFURT | HONG KONG | LONDON | MENLO PARK | MILAN | NEW YORK  
PARIS | ROME | SAN FRANCISCO | SÃO PAULO | SAUDI ARABIA\* | SHANGHAI | SINGAPORE | TOKYO | TORONTO | WASHINGTON, DC

This memorandum is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

599 LEXINGTON AVENUE | NEW YORK | NY | 10022-6069

Copyright © 2016 Shearman & Sterling LLP. Shearman & Sterling LLP is a limited liability partnership organized under the laws of the State of Delaware, with an affiliated limited liability partnership organized for the practice of law in the United Kingdom and Italy and an affiliated partnership organized for the practice of law in Hong Kong.

\*Dr. Sultan Almasoud & Partners in association with Shearman & Sterling LLP