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Intellectual Property Law

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INTELLECTUAL PROPERTY LAW

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I. INTRODUCTION

THIS article surveys significant developments in intellectual property (IP) law during the past year.¹ While we focus on precedential case law in the Fifth Circuit, we also review IP law developments that are likely to be influential in the evolution of Texas IP jurisprudence. Thus, the cases cited focus on the decisions of the U.S. Supreme Court and the U.S. Courts of Appeals for the Fifth and Federal Circuits. “For developments in trademark and copyright law, the Fifth Circuit’s authority is binding,”² but other circuits, such as the Second and the Ninth, are considered highly persuasive.³ “Because all cases concerning a substantive patent law-issue are appealed to the U.S. Court of Appeals for the Federal Circuit,”⁴ decisions from that court during the Survey period are included in this article.

The U.S. Supreme Court was quite active in the intellectual property field since the last Survey period ended, deciding seven cases involving IP issues⁵ and granting certiorari on four others.⁶ In patents, the Court showed particular interest in what qualifies as patentable subject matter.⁷

1. The views expressed in this article are the views of the individual authors and are not necessarily those of Haynes and Boone, LLP, its attorneys, or any of its clients.

2. David L. McCombs & Phillip B. Philbin, *Intellectual Property Law*, 59 SMU L. REV. 1409, 1410 (2006).

3. See, e.g., Andrew Cook, *Do As We Say, Not As We Do: A Study of the Well-Known Marks Doctrine in the United States*, 8 J. MARSHALL REV. INTELL. PROP. L. 412, 417–18 (2009) (discussing the split of authority on the well-known Mark’s doctrine of trademark law); Christopher R. Perry, *Exporting American Copyright Law*, 37 GONZ. L. REV. 451, 467 (2001) (explaining the Fifth Circuit’s consideration of a split of authority between the Second and Ninth Circuits to “carve out a compromise position” in copyright law).

4. McCombs & Philbin, *supra* note 2; see 28 U.S. § 1295(a) (2012).

5. See *Already, LLC v. Nike, Inc.*, 133 S. Ct. 721 (2013); *Kappos v. Hyatt*, 132 S. Ct. 1690 (2012); *Caraco Pharm. Labs., Ltd. v. Novo Nordisk A/S*, 132 S. Ct. 1670 (2012); *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012); *Golan v. Holder*, 132 S. Ct. 873 (2012); *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238 (2011); *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2063 (2011).

6. See *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 694, 694 (2012) (mem.); *Gunn v. Minton*, 133 S. Ct. 420, 420 (2012) (mem.); *Bowman v. Monsanto Co.*, 133 S. Ct. 420, 420 (2012) (mem.); *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905, 1905 (2012) (mem.).

7. *Ass’n for Molecular Pathology v. U.S. Patent and Trademark Office*, 689 F.3d 1303, 1324 (Fed. Cir. 2012), *cert. granted in part*, 133 S. Ct. 694 (2012), and *aff’d in part, rev’d in part sub nom. Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013).

The Court considered whether certain medical diagnostic methods are patentable,⁸ and it is prepared to decide whether isolated human genes may receive patent protection.⁹ Other issues considered by the Court include the level of knowledge required for induced infringement,¹⁰ the standard applicable to a district court's review of proceedings at the U.S. Patent and Trademark Office (PTO),¹¹ and the standard of proof required to support an invalidity defense.¹² The Federal Circuit also made important developments in its patent law jurisprudence,¹³ but perhaps more significant than any of these court decisions is the enactment of the Leahy-Smith America Invents Act, which makes substantial changes to the way patents are prosecuted, granted, and subsequently reviewed.¹⁴

In copyright, the U.S. Supreme Court decided whether Congress may grant copyright protection to works previously in the public domain,¹⁵ and it is set to decide whether copyright's first sale doctrine applies to imported, foreign-made goods.¹⁶ In trademark, the Court decided whether a trademark registrant can foreclose an invalidity challenge by promising not to sue the challenger.¹⁷ Finally, the Second Circuit issued important copyright and trademark decisions relating to the safe harbor provisions under the Digital Millennium Copyright Act (DMCA)¹⁸ and whether a single color may receive trademark protection in the fashion industry.¹⁹

II. PATENT UPDATE

A. THE U.S. SUPREME COURT ON PATENTS

1. *A Grim Diagnosis for Diagnostic Patents*—Mayo Collaborative Services v. Prometheus Laboratories, Inc.

Following its 2010 decision in *Bilski v. Kappos*,²⁰ the Supreme Court in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* again took up the question of what is patentable subject matter under 35 U.S.C. § 101.²¹ Unlike *Bilski*, which produced a unanimous result but several opinions,²² the unanimous result in *Mayo* was announced in a single opin-

8. *Mayo*, 132 S. Ct. at 1294.

9. *Ass'n for Molecular Pathology*, 689 F.3d at 1324.

10. *Global-Tech*, 131 S. Ct. at 2063.

11. *Kappos v. Hyatt*, 132 S. Ct. 1690, 1694 (2012).

12. *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2242 (2011).

13. See Peter Lee, *Antiformalism at the Federal Circuit: The Jurisprudence of Chief Judge Rader*, 7 WASH. J.L. TECH. & ARTS 405, 406–08 (2012).

14. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

15. *Golan v. Holder*, 132 S. Ct. 873, 875 (2012).

16. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 212 (2d Cir. 2011), cert. granted, 132 S. Ct. 1905 (2012), rev'd and remanded, 133 S. Ct. 1351 (2013).

17. *Already, LLC v. Nike, Inc.*, 133 S. Ct. 721, 725 (2013).

18. *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 41–42 (2d Cir. 2012).

19. *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc.*, 696 F.3d 206, 211–12 (2d Cir. 2012).

20. *Bilski v. Kappos*, 130 S. Ct. 3218, 3223 (2010).

21. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012).

22. *Bilski*, 130 S. Ct. at 3223.

ion by Justice Breyer.²³ In a highly-anticipated decision that was celebrated by the medical community but sharply criticized by the biotechnology industry,²⁴ the Court held that the diagnostic patents at issue were unpatentable under § 101.²⁵

Prometheus Laboratories was the exclusive licensee of patents covering processes that help doctors determine the appropriate dosage level of thiopurine drugs to be administered to patients with autoimmune diseases.²⁶ The claims at issue involved: (1) administering a thiopurine drug to a patient; and (2) determining the level of certain metabolites in the patient, wherein specified levels of metabolites would indicate a need to increase or decrease the dosage of the drug.²⁷ The Federal Circuit held these patents valid, reasoning that these steps involved the transformation of the human body and thus satisfied the “machine or transformation test” of patentability.²⁸ The Supreme Court vacated that decision and remanded for reconsideration in light of its *Bilski* decision, which rejected the “machine or transformation test” as the sole test for patent eligibility.²⁹ On remand, the Federal Circuit again concluded that the claims were patent eligible.³⁰

The Supreme Court reversed the Federal Circuit’s decision and rejected the contested claims as covering unpatentable laws of nature—namely, relationships between levels of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug would be too high or too low.³¹ The Court grappled with the question of whether the claims added enough to this correlation to distinguish a patent-eligible *application* of a law of nature from the mere law itself, and it concluded that they did not.³² The Court reasoned that the additional steps of administering a drug, determining the level of metabolites, and using set levels of metabolites to adjust the dosage were “well-understood, routine, conventional activit[ies] already engaged in by the scientific community” and added nothing significant to the law of nature.³³ The Court was concerned with the possibility of inhibiting further discovery by improperly tying up future use of laws of nature with patents that, in effect, “apply the natural law.”³⁴ The opinion observed that the claims, by telling a doctor to mea-

23. *Mayo*, 132 S. Ct. at 1292–93.

24. Brent Kendall et al., *Top Court Decision Stirs Alarm In Biotech*, WALL ST. J., Mar. 21, 2012, at A1.

25. *Mayo*, 132 S. Ct. at 1294.

26. *Id.*

27. *Id.* at 1295.

28. *Prometheus Labs., Inc. v. Mayo Collaborative Servs.*, 581 F.3d 1336, 1345–46, 1349–50 (Fed. Cir. 2009), *vacated*, 130 S. Ct. 3543 (2010) (mem.).

29. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 130 S. Ct. 3543, 3543 (2010) (mem.); *see Bilski v. Kappos*, 130 S. Ct. 3218, 3227 (2010).

30. *Prometheus Labs., Inc. v. Mayo Collaborative Servs.*, 628 F.3d 1347, 1349 (Fed. Cir. 2010), *rev'd*, 132 S. Ct. 1289 (2012).

31. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1296–99 (2012).

32. *Id.* at 1297.

33. *Id.* at 1298.

34. *Id.* at 1301.

sure metabolite levels and consider those measurements in light of the described statistical relationships, “tie up the doctor’s subsequent treatment decision,” even if that decision is not changed by the inference the doctor has drawn using the correlations.³⁵

The Court’s opinion is not a model of clarity. After concluding that the relationship between metabolite levels and appropriate dosage of thiopurine drugs is an unpatentable law of nature, the Court rejected these claims because they did not add “*enough*” to the natural law—the additional steps were “well-understood, routine, conventional activity.”³⁶ However, the opinion provides scant guidance for lower courts in determining what constitutes such conventional activity and explicitly states that although this § 101 analysis may sometimes overlap with a § 102 novelty analysis, the § 101 inquiry remains separate and distinct.³⁷ Despite the opinion’s lack of analytical guidance, its tenor sends a clear message to lower courts that § 101 continues to demand some “inventive concept” above and beyond any law of nature that the patent uses.³⁸ Determining exactly what that “inventive concept” is, or what qualifies as a law of nature, is left for future decisions.

2. A Fresh Look in District Court—*Kappos v. Hyatt*

Under 35 U.S.C. § 145, a patent applicant whose application has been denied by both a PTO examiner and the PTO’s Board of Patent Appeals and Interferences (BPAI) may seek judicial review by filing a civil action against the Director of the PTO in the United States District Court for the District of Columbia.³⁹ In *Kappos v. Hyatt*, the Supreme Court considered whether there are any limitations on the applicant’s ability to introduce new evidence before the district court, and what standard of review that court should apply when considering such new evidence.⁴⁰

Gilbert Hyatt filed a patent application with 117 claims, all of which were rejected by the PTO examiner under 35 U.S.C. § 112 for lack of an adequate written description.⁴¹ On appeal, the BPAI approved thirty-eight claims but denied the rest.⁴² “Hyatt then filed a § 145 action in Fed-

35. *Id.* at 1302.

36. *Id.* at 1297–98. The Court left open the question of whether less conventional steps would have saved the patents at issue. *Id.* at 1302.

37. *Id.* at 1304.

38. *Id.* at 1294.

39. 35 U.S.C. § 145 (2006). The Leahy–Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), was signed into law by President Obama on September 16, 2011. “[T]he Act changed the venue for § 145 actions from the United States District Court for the District of Columbia to the United States District Court for the Eastern District of Virginia [and also] changed the name of the Board of Patent Appeals and Interferences to the Patent Trial and Appeal Board” *Kappos v. Hyatt*, 132 S. Ct. 1690, 1694 n.1 (2012) (internal citations omitted). The changes made by the Act did not apply to this case, and all references in the opinion and in this discussion are to the law as it existed prior to the Act. *See id.*

40. *Id.* at 1694.

41. *Id.* at 1695.

42. *Id.*

eral District Court against the Director of the PTO”⁴³ At that proceeding, Hyatt submitted a written declaration that identified portions of the patent specification that he believed supported the previously rejected claims.⁴⁴ Hyatt had not presented that declaration to the examiner or the BPAI, and the district court refused to consider it absent a good reason why it had not been previously presented.⁴⁵ Without the new evidence, the record before the district court was the same as the record before the PTO, so the court reviewed the PTO’s factual findings under the “substantial evidence” standard of the Administrative Procedure Act.⁴⁶ The Federal Circuit convened en banc and reversed, holding that an applicant may introduce new evidence in a § 145 proceeding even without justification for failing to present it to the PTO and that when new evidence is presented, the district court must make de novo findings to take that evidence into account.⁴⁷

The Supreme Court agreed with the Federal Circuit and held that there are no limitations to an applicant’s ability to present new evidence to the district court in a § 145 proceeding, apart from those found in the Federal Rules of Evidence and Federal Rules of Civil Procedure.⁴⁸ The Court also held that where new evidence is presented to the district court on a disputed fact question, the court should review all of the evidence de novo and apply no deference to the PTO’s factual findings.⁴⁹ The Court reasoned that since the PTO could not account for evidence that it had never seen, its findings of fact should receive no deference.⁵⁰ Although this review should be de novo, the Court added that a district court could use its “broad discretion” to determine the weight to be given to new evidence presented at a § 145 proceeding.⁵¹

3. *Warning to the Willfully Blind*—Global-Tech Appliances, Inc. v. SEB S.A.

In *Global-Tech Appliances, Inc. v. SEB S.A.*, the Supreme Court considered “whether a party who ‘actively induces infringement of a patent’ under 35 U.S.C. § 271(b) must know that the induced acts constitute patent infringement.”⁵² The Court began by observing that the language of § 271(b) is ambiguous and lends itself easily to two readings.⁵³ The statute could mean that one is liable under § 271(b) for simply inducing conduct that happens to amount to infringement, or it could require the

43. *Id.*

44. *Id.*

45. *Id.*

46. *Id.*

47. *Hyatt v. Kappos*, 625 F.3d 1320, 1336–38 (Fed. Cir. 2010) (en banc).

48. *Kappos*, 132 S. Ct. at 1700–01.

49. *Id.* at 1696, 1701.

50. *Id.* at 1696.

51. *Id.* at 1700.

52. *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2063 (2011).

53. *Id.* at 2065; see 35 U.S.C. § 271(b) (2012) (“Whoever actively induces infringement of a patent shall be liable as an infringer.”).

inducer to know that the induced conduct infringes a patent.⁵⁴

The Court, relying on its related holding in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, held that induced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement.⁵⁵ The Court analogized this requirement to criminal law and held that “willful blindness” is sufficient to establish the knowledge requirement of § 271(b).⁵⁶ A willfully blind defendant “must subjectively believe that there is a high probability that a fact exists and . . . must take deliberate actions to avoid learning of that fact.”⁵⁷ As Justice Kennedy notes in dissent, “[t]he Court appears to endorse the willful blindness . . . [standard] for all federal criminal cases involving knowledge”—a sweeping holding to make in the context of a civil patent action.⁵⁸

4. *The Standard Remains the Same*—*Microsoft Corp. v. i4i Ltd. Partnership*

Under 35 U.S.C. § 282, “[a] patent shall be presumed valid,” and “[t]he burden of establishing invalidity . . . rest[s] on the party asserting such invalidity.”⁵⁹ For nearly the last three decades, the Federal Circuit’s interpretation of § 282 has required a party asserting a patent’s invalidity to prove it by “clear and convincing evidence.”⁶⁰ In *Microsoft Corp. v. i4i Ltd. Partnership*, the Supreme Court confirmed that § 282 requires an invalidity defense to be proven by clear and convincing evidence.⁶¹

Defendant Microsoft claimed at trial that i4i’s prior sale of a certain software program rendered i4i’s patent invalid under the on-sale bar of 35 U.S.C. § 102(b).⁶² Importantly, this software was never presented to the PTO examiner.⁶³ Microsoft argued that since the PTO never actually looked at this evidence, the presumption of the patent’s validity was weakened, and that in these circumstances, invalidity could be proven by a preponderance of the evidence.⁶⁴

The Court rejected Microsoft’s argument and kept the clear and convincing standard in place.⁶⁵ The Court found nothing in its precedents or § 282 that would support such a “fluctuating standard of proof.”⁶⁶ As to evidence that was never presented to the PTO examiner, the Court held

54. *Global-Tech*, 131 S. Ct. at 2065.

55. *Id.* at 2065–68 (citing *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964) (interpreting contributory infringement liability under 35 U.S.C. § 271(c) to require that the contributory infringer know he is contributing to patent infringement)).

56. *Id.* at 2068–69.

57. *Id.* at 2070.

58. *See id.* at 2073 (Kennedy, J., dissenting).

59. 35 U.S.C. § 282 (2012).

60. *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2243–44 (2011) (citing *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1360 (Fed. Cir. 1984)).

61. *Id.* at 2242.

62. *Id.* at 2243–44.

63. *Id.* at 2244.

64. *Id.* at 2249.

65. *Id.* at 2242, 2249–51.

66. *Id.* at 2250.

that the best way to account for the potentially-weakened presumption of validity in these cases would be to instruct the jury to consider the fact that the PTO never considered the evidence.⁶⁷ Courts should typically give this instruction if a party requests it.⁶⁸

This holding makes no significant change to the standard of proof applied to an invalidity defense. A party asserting this defense must always present clear and convincing evidence to support its position.⁶⁹ However, the opinion reminds practitioners in cases involving prior art that was not considered by the PTO to request that the jury be instructed to consider that fact when making its invalidity determination.⁷⁰

5. *Certiorari Granted*—Monsanto Co. v. Bowman

The “doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights [in] that item.”⁷¹ In *Monsanto Co. v. Bowman*, the Federal Circuit considered the question of whether patent exhaustion applies to self-replicating technologies, such as seeds.⁷²

Vernon Hugh Bowman, a grower, purchased patented soybean seeds from one of Monsanto’s licensed seed producers.⁷³ The sale was subject to a limited use license, which provided that a licensed grower may not sell or save the progeny of the patented seeds for planting or replanting.⁷⁴ However, “Monsanto authorize[d] growers to sell second-generation seed[s] to local grain elevators as a commodity, without requiring growers to place restrictions on grain elevators’ subsequent sales of that seed.”⁷⁵ When Bowman began purchasing commodity seed from a local grain elevator for planting a late-season crop, he noticed that most of the commodity seed possessed the same chemical-resistant properties as the more expensive patented seed he had purchased for his first crop.⁷⁶ The progeny of this planted commodity seed also possessed the patented chemical-resistant properties.⁷⁷ Monsanto sued for patent infringement, alleging that “Bowman’s use of the commodity seeds was not within the scope of the [limited use license],” which covered only those seeds purchased from Monsanto or a licensed dealer.⁷⁸

67. *Id.* at 2251.

68. *Id.*

69. *Id.*

70. *Id.*

71. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008).

72. *Monsanto Co. v. Bowman*, 657 F.3d 1341, 1346–48 (Fed. Cir. 2011), *cert. granted*, 133 S. Ct. 420 (2012), *aff’d*, 133 S. Ct. 1761 (2013). The Federal Circuit decided a similar issue in two previous cases, both of which involved the same Monsanto-patented soybean seeds. *See Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1333 (Fed. Cir. 2006); *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1293–94 (Fed. Cir. 2002).

73. *Bowman*, 657 F.3d at 1345.

74. *Id.*

75. *Id.*

76. *Id.* at 1345–46.

77. *Id.*

78. *Id.* at 1346.

The Federal Circuit agreed with Monsanto and found that Bowman's planting of the commodity seeds infringed upon Monsanto's patents.⁷⁹ The court held that even if Monsanto's patent rights in the seeds were exhausted by the authorized sale to grain elevators, an authorized sale conveys only the right to use the article, not the right to *make* a new infringing article.⁸⁰ Once a grower plants commodity seeds containing the patented technology, those seeds will grow into plants that produce a new, infringing generation of patented seeds.⁸¹ To hold that this new generation does not infringe "would eviscerate the rights" of the owners of patents to self-replicating technologies.⁸²

In October 2012, the Supreme Court granted certiorari to decide whether the Federal Circuit erred by: (1) refusing to find patent exhaustion in patented seeds even after an authorized sale; and (2) creating an exception to the doctrine of patent exhaustion for self-replicating technologies.⁸³ If the Court reverses the Federal Circuit, it will cause a massive upheaval in the business models of agricultural biotechnology companies.⁸⁴

6. *Certiorari Granted*—Association for Molecular Pathology v. United States Patent and Trademark Office

For nearly thirty years, the PTO has granted patents relating to human genes.⁸⁵ The Federal Circuit affirmed this practice in *Association for Molecular Pathology v. United States Patent and Trademark Office*, reversing a lower court's finding that a human gene is unpatentable subject matter under 35 U.S.C. § 101.⁸⁶ The Supreme Court vacated that decision and remanded the case to the Federal Circuit for further consideration in light of its decision in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*⁸⁷

The patents at issue in *Association for Molecular Pathology* relate to isolated and synthetic human genes and associated mutations that are connected" with a predisposition to breast and ovarian cancers" (the BRCA genes).⁸⁸ Myriad Genetics, Inc. is the exclusive licensee of these

79. *Id.* at 1348.

80. *Id.*

81. *Id.*

82. *Id.* (quoting *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1336 (Fed. Cir. 2006)) (internal quotation marks omitted).

83. *See* *Bowman v. Monsanto Co.*, 133 S. Ct. 420, 420 (2012) (mem.).

84. In May 2013, the Court affirmed and applied essentially the same reasoning as the Federal Circuit. *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013).

85. *See* *Ass'n for Molecular Pathology v. U.S. Patent and Trademark Office*, 689 F.3d 1303, 1333 (Fed. Cir. 2012), *cert. granted in part*, 133 S. Ct. 694 (2012), *aff'd in part, rev'd in part sub nom.* *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013).

86. *Ass'n for Molecular Pathology v. U.S. Patent and Trademark Office*, 653 F.3d 1329 (Fed. Cir. 2011), *cert. granted, judgm't vacated sub nom.* *Ass'n Molecular Pathology v. Myriad Genetics, Inc.*, 132 S. Ct. 1794 (2012) (mem.).

87. *Ass'n for Molecular Pathology*, 132 S. Ct. at 1794; *see* *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1305 (2012).

88. *Ass'n for Molecular Pathology*, 689 F.3d at 1309.

patents, which cover not only the BRCA genes themselves, but also methods of “[c]omparing’ a patient’s BRCA [nucleotide] sequence with the normal . . . sequence to identify the presence of [any] cancer-predisposing mutations.”⁸⁹

Following remand from the Supreme Court, the Federal Circuit reached the same conclusion as it had before and held that human genes in the form of isolated DNA are “patent-eligible subject matter under § 101.”⁹⁰ Although the court briefly considered *Mayo* in its analysis, it found that *Mayo* did not control the question of whether these compositions of matter are patent-eligible because *Mayo* concerned only method claims.⁹¹ The court instead relied on Supreme Court precedent indicating that man-made compositions of matter with “markedly different characteristics” from those found in nature are patent-eligible.⁹² The court determined that isolated DNA possesses markedly different characteristics from naturally occurring DNA.⁹³ “Natural DNA exists in the body as one of forty-six large, contiguous DNA molecules” each of which is “intertwined with various proteins” to make up a chromosome.⁹⁴ “Isolated DNA, in contrast, is a free-standing portion of a . . . natural DNA molecule” that has had its covalent bonds severed through human intervention, giving it a distinctive chemical identity.⁹⁵ The court also noted the adverse effects on the inventing and investing communities that would result from disrupting the PTO’s longstanding practice of issuing patents on DNA molecules, and it determined that Congress is in a better position to make such a drastic change.⁹⁶

Although the court upheld the validity of the patents on the BRCA genes themselves, it reaffirmed its earlier conclusion that the method patents related to those genes are unpatentable under § 101.⁹⁷ These patents claim steps of “comparing” or “analyzing” two nucleotide sequences to determine whether a mutation exists.⁹⁸ The court held these claims to be unpatentable “abstract mental processes,” indistinguishable from those found invalid in *Mayo*.⁹⁹

In November 2012, the Supreme Court granted certiorari to decide the sole issue of whether human genes are patentable.¹⁰⁰ If *Mayo*’s reasoning applies to composition of matter claims as well as to method claims, the Court will likely focus on whether isolating these naturally occurring

89. *Id.*

90. *Id.* at 1333.

91. *Id.* at 1325.

92. *Id.* at 1326–28 (citing *Diamond v. Chakrabarty*, 447 U.S. 303, 308, 310 (1980)).

93. *Id.* at 1328.

94. *Id.*

95. *Id.*

96. *Id.* at 1333.

97. *Id.* at 1334–35.

98. *Id.* at 1309, 1334.

99. *Id.* at 1334.

100. *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 694, 694 (2012) (mem.).

genes adds “enough” or supplies an “inventive concept” so as to render them patent-eligible.¹⁰¹ As Judge Bryson noted in his dissent from the Federal Circuit decision, the process of isolating a compound is rather routine, much like the “well-understood, routine, conventional” processes in *Mayo* that failed the eligibility determination.¹⁰² If the Supreme Court decides that human genes are not patentable, the decision would deal a major blow to the biotechnology industry.¹⁰³

B. THE FEDERAL CIRCUIT ON PATENTS

1. *Mental Gymnastics in the Pursuit of Justice*—Akamai Technologies, Inc. v. Limelight Networks, Inc.

Ever since the Federal Circuit’s ruling in *BMC Resources, Inc. v. Paymentech, L.P.*,¹⁰⁴ owners of method patents have had difficulty enforcing those patents in situations where performance of the claimed method steps is spread among more than one actor.¹⁰⁵ The *BMC* court applied the “single-entity rule,” which provides that a defendant is liable for direct infringement of a method patent only if the defendant, or one under his direction or control, performs *all* of the claimed steps.¹⁰⁶ The *BMC* court added that for a party to be liable for induced infringement, some other single entity must be liable for direct infringement.¹⁰⁷ Since liability for direct infringement requires that one single entity perform all of the claimed method steps, *BMC* established that liability for induced infringement requires as a predicate that some single entity perform all of the claimed steps.¹⁰⁸

In *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, the Federal Circuit convened en banc to determine whether, and under what circumstances, a defendant may be held liable for inducing others to perform some or all of the claimed steps of a method patent when no single party performs all of the steps.¹⁰⁹ The en banc court reviewed together the panel decisions in *Akamai* and *McKesson Technologies v. Epic Systems Corp.*, both of which relied on *BMC* and *Muniauction* to find no infringement liability when no single party performs all of the steps of a method

101. See *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294, 1297 (2012).

102. See *Ass’n for Molecular Pathology*, 689 F.3d at 1355 (Bryson, J., dissenting).

103. In June 2013, the Court found that “separating [a] gene from its surrounding genetic material is not an act of invention” and invalidated patents to isolated genes. *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2117, 2120 (2013).

104. *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1375 (Fed. Cir. 2007), *overruled by Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012) (en banc).

105. See, e.g., *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1323 (Fed. Cir. 2008).

106. *BMC*, 498 F.3d at 1378–79, 1381.

107. *Id.* at 1379.

108. See *id.* at 1378–79.

109. See *Akamai*, 692 F.3d at 1305.

patent.¹¹⁰

Akamai Technologies, Inc., owned a patent related to a method for efficient delivery of web content. The claimed method involved “placing some of a content provider’s content elements on a set of replicated servers and modifying the content provider’s web page to instruct web browsers to retrieve that content from those servers.”¹¹¹ The accused infringer, Limelight Networks, Inc., offered a similar content distribution service, but instead of directly modifying its content providers’ web pages, it provided its content providers with instructions so that they could do it themselves.¹¹² In the *McKesson* case, “McKesson Information Solutions LLC own[ed] a patent covering a method of electronic communication between healthcare providers and their patients.”¹¹³ The defendant, Epic Systems Corp., provided software to healthcare providers that enabled such electronic communication.¹¹⁴ However, Epic did not perform any of the claimed method steps for electronically communicating; performance of those steps was split among the healthcare providers and their patients.¹¹⁵

The en banc Federal Circuit held that the defendants in these cases could be found liable for induced infringement.¹¹⁶ The court arrived at this conclusion by starting with two well-supported propositions.¹¹⁷ The first is that liability for direct infringement of a method claim requires that the accused infringer “perform all the steps of the claimed method, either personally or through another acting under his direction or control.”¹¹⁸ The second is that liability for induced infringement requires some direct infringement to occur.¹¹⁹ The court concluded that, contrary to the now-overruled holding in *BMC*, proving that direct infringement occurred is not the same as proving that some entity would be liable for direct infringement.¹²⁰ The court found “no reason to immunize” from liability one who knowingly induces others to commit infringing acts “simply because the parties have structured their conduct so that no single [party] has committed all the acts necessary to [incur] . . . liability for direct infringement.”¹²¹ The court noted that the impact on the patentee is the same whether one party or several parties together perform the claimed steps.¹²² One who “cause[s], urge[s], encourage[s], or aid[s]” in-

110. *Id.*; see *McKesson Techs. Inc. v. Epic Sys. Corp.*, No. 2010-1291, 2011 U.S. App. LEXIS 7531 (Fed. Cir. Apr. 12, 2011), *rev'd and remanded*, *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012) (en banc).

111. *Akamai*, 692 F.3d at 1306.

112. *Id.*

113. *Id.*

114. *Id.*

115. *Id.*

116. *Id.* at 1318.

117. *Id.* at 1307–08.

118. *Id.* at 1307.

119. *Id.* at 1308.

120. *Id.* at 1308–09.

121. *Id.* at 1309.

122. *Id.*

fringing conduct may be liable for induced infringement, even if no party would be liable for direct infringement.¹²³

The court's opinion provides owners of method patents with a viable remedy for infringement,¹²⁴ but it leaves a host of doctrinal difficulties in its wake. Because the court based its entire decision on the theory of induced infringement, it never reached the issue of whether liability for direct infringement may lie when more than one independent party is responsible for performing all of the claimed steps of a method patent.¹²⁵ As Judge Newman noted in dissent, this could leave parties who actually perform the claimed steps without any liability for infringement.¹²⁶ Absent infringement liability, these parties might not be "subject to damages or injunction."¹²⁷ Furthermore, it remains to be seen how far liability will be extended for "aiding" or "encouraging" infringing activity. For example, in a case like *McKesson*, must the inducer directly encourage the patients themselves to use the software, or is it sufficient to induce the healthcare providers to operate the software, knowing that they will then induce patients to perform the remaining steps? Resolving these kinds of issues will be a challenge for lower courts in the years to come.

2. *Let the Judge Decide That*—*Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates*

Awarding enhanced damages under 35 U.S.C. § 284 "requires a showing of willful infringement."¹²⁸ In the landmark opinion *In re Seagate Technology, LLC*, the Federal Circuit set out a two-pronged test for establishing willful infringement.¹²⁹ This test first requires the patentee to "show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent If this threshold objective standard is [met,] the patentee must [then] demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the . . . infringer."¹³⁰ Whether the threshold "objective" prong is met depends in part upon whether the defendant "relie[d] on a reasonable defense to a charge of infringement."¹³¹ In *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates*, the Federal Circuit considered whether *Seagate's* objective prong is a question of law to be decided by the judge and subject

123. *See id.* at 1308–09 (quoting *Arris Grp., Inc. v. British Telecomms. PLC*, 639 F.3d 1368, 1379 n.13 (Fed. Cir. 2011)) (internal quotation marks omitted).

124. *Id.* at 1306.

125. *Id.* at 1307.

126. *Id.* at 1320 (Newman, J., dissenting).

127. *Id.*

128. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007); *see* 35 U.S.C. § 284 (2012) (permitting the court to "increase the damages up to three times the amount found or assessed").

129. *Seagate*, 497 F.3d at 1371.

130. *Id.*

131. *See Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010).

to de novo review.¹³²

The court observed that although “[t]he ultimate [determination] of willfulness has long been [considered] . . . a question of fact,” whether to label something a question of fact, a question of law, or a mixed question of law and fact sometimes turns on which judicial actor is in the better position to decide the question.¹³³ The court held that a judge should decide whether *Seagate’s* objective prong is met because the ultimate determination of whether an infringement defense is “reasonable” is a question of law better suited to the court and reviewable de novo.¹³⁴ This remains true even when the infringement defense depends on underlying questions of fact that are decided by a jury.¹³⁵ The court found this approach consistent with similar areas of law that involve mixed questions of law and fact.¹³⁶ Subjecting these kinds of questions to de novo review also has the added benefit of “unify[ing] precedent.”¹³⁷ In deciding whether *Seagate’s* objective prong is met, a judge should determine “whether a ‘reasonable litigant could realistically expect’” its infringement defenses to succeed.¹³⁸

3. *You Didn’t Build That Demand*—Uniloc USA, Inc. v. Microsoft Corp.

The Federal Circuit continued its recent trend of demanding ever more reliable evidence to support a damages award for patent infringement.¹³⁹ The patent at issue in *Uniloc USA, Inc. v. Microsoft Corp.* concerned a software registration system to deter software piracy.¹⁴⁰ Uniloc sought damages for willful infringement based upon Microsoft’s software registration system for its Word XP, Word 2003, and Windows XP programs.¹⁴¹ At trial, Uniloc’s damages expert used the “25 percent rule of thumb” to arrive at a starting point for his damages calculation.¹⁴² The 25 percent rule “approximate[s] the reasonable royalty rate that [a] manufacturer of a patented product would be willing to offer a . . . patentee during a hypothetical negotiation.”¹⁴³ The rule suggests that a licensee of patented technology would pay 25 percent of its expected profits for use of the license and retain the other 75 percent for itself.¹⁴⁴ Uniloc’s expert

132. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 682 F.3d 1003, 1005 (Fed. Cir. 2012).

133. *Id.* at 1006.

134. *Id.* at 1006–07.

135. *Id.* at 1007.

136. *Id.* (discussing the standard of review applied to issues of “sham” litigation and malicious prosecution, both of which involve “objectively baseless claims”).

137. *Id.* at 1008 (quoting *Ornelas v. United States*, 517 U.S. 690, 697–98 (1996)) (internal quotation marks omitted).

138. *Id.* (quoting *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011)).

139. *See generally* *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011).

140. *Id.* at 1296.

141. *Id.* at 1295–97.

142. *Id.* at 1311.

143. *Id.* at 1312.

144. *See id.* at 1311.

referenced a Microsoft document which valued a software activation key at \$10, and after multiplying by 25 percent, he arrived at a baseline royalty rate of \$2.50 per software package.¹⁴⁵ He then multiplied this rate by the total number of software packages Microsoft sold to obtain a total damages award of over \$560 million.¹⁴⁶ Conceding that this was a rather large amount of money, the expert used another method to check the reasonableness of his initial estimate.¹⁴⁷ He multiplied Microsoft's total number of software packages sold by the average sales price per package of \$85 (i.e., the entire market value of a package), yielding \$19.28 billion in gross revenue.¹⁴⁸ The expert then compared his initial estimate to the \$19 billion figure and found that it represented a royalty rate of only 2.9 percent of gross revenues, well below what he found typical in the software industry.¹⁴⁹ The jury awarded \$388 million in damages.¹⁵⁰ Although the district court accepted the use of the 25 percent rule, it granted Microsoft a new trial on damages due to the improper use of the "entire market value" rule, which put the \$19 billion figure before the jury.¹⁵¹

The Federal Circuit affirmed the district court's grant of a new trial on damages, finding several problems with the methodology employed by Uniloc's damages expert.¹⁵² The court began by assessing the reliability of the 25 percent rule as a means for calculating damages.¹⁵³ The court noted that although it had sometimes "passively tolerated" the rule's use, the admissibility of evidence based on the rule had "never been squarely" before the court.¹⁵⁴ The court found the 25 percent rule to be a "fundamentally flawed tool," and it held as a matter of Federal Circuit law that evidence relying on the rule is inadmissible under "the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue."¹⁵⁵ "To be admissible, expert testimony opining on a reasonable royalty rate must 'carefully tie proof of damages to the claimed invention's footprint in the market place.'"¹⁵⁶ The court found that the 25 percent rule did nothing to account for a particular hypothetical negotiation or reasonable royalty involving any particular technology, industry, or party.¹⁵⁷ Testimony based on the rule is therefore "unreliable[] and irrelevant."¹⁵⁸

145. *Id.*

146. *Id.*

147. *Id.*

148. *Id.*

149. *Id.*

150. *Id.* at 1301.

151. *Id.* at 1301, 1312.

152. *Id.* at 1312.

153. *Id.* at 1312-19.

154. *Id.* at 1314.

155. *Id.* at 1315.

156. *Id.* at 1317 (quoting *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010)).

157. *Id.*

158. *Id.* at 1318.

The court also rejected Uniloc's use of the entire market value rule in arriving at the \$19 billion "check" on damages.¹⁵⁹ "The entire market value rule allows a patentee to assess damages based on the entire market value of the accused product only where the patented feature creates the 'basis for customer demand.'"¹⁶⁰ Here, the evidence was undisputed that the software activation key did not create the basis for customer demand of the software itself.¹⁶¹ The court also rejected Uniloc's argument that the entire market value may be used as long as the royalty rate is low enough.¹⁶² Asserting a low royalty rate does nothing to show that the patented feature drives demand for the accused product.¹⁶³ The court finally noted "the danger[s] of admitting consideration of the entire market value of the accused" product in situations such as this—"where the patented component does not create the basis for customer demand."¹⁶⁴ Evidence that a company has made \$19 billion in revenue from an infringing product undoubtedly skews a jury's damages determination.¹⁶⁵ As the district court observed, even with cross-examination and a limiting jury instruction, "[t]he \$19 billion cat was never put back into the bag"¹⁶⁶

C. THE LEAHY-SMITH AMERICA INVENTS ACT

The Leahy-Smith America Invents Act (AIA) was signed into law by President Barack Obama on September 16, 2011,¹⁶⁷ and it enacts arguably the most sweeping patent law reform in nearly six decades. The AIA makes several fundamental changes to the way patents are prosecuted, granted, and challenged. A complete treatment of the AIA is beyond the scope of this article. The discussion that follows includes only what we find to be the most noteworthy changes made by the Act.

Perhaps the most heralded reform resulting from the AIA's enactment is the change from a "first-to-invent" to a "first-to-file" priority system.¹⁶⁸ This change takes effect on March 16, 2013,¹⁶⁹ and will bring the United

159. *Id.* at 1318–21.

160. *Id.* at 1318 (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549–50 (Fed. Cir. 1995)).

161. *Id.* at 1319.

162. *Id.* at 1320.

163. *Id.*

164. *Id.*

165. *Id.*

166. *Id.* (quoting *Uniloc USA, Inc. v. Microsoft Corp.*, 640 F. Supp. 2d 150, 185 (D.R.I. 2009), *aff'd in part, rev'd in part*, 632 F.3d 1292 (Fed. Cir. 2011)).

167. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011); see Office of the Press Secretary, *President Obama Signs America Invents Act, Overhauling the Patent System to Stimulate Economic Growth, and Announces New Steps to Help Entrepreneurs Create Jobs*, WHITEHOUSE.GOV, available at <http://www.whitehouse.gov/the-press-office/2011/09/16/president-obama-signs-america-invents-act-overhauling-patent-system-stim>.

168. Sec. 3, § 100, 125 Stat. at 285–87.

169. Sec. 3(e)(3), § 111, 125 Stat. at 288.

States in line with every other country that has a patent system.¹⁷⁰ The first-to-file regime enacted by the AIA dispenses with questions of abandonment and does away with interference proceedings formerly found in 35 U.S.C. §§ 102(c) and 102(g), respectively.¹⁷¹ Interferences are replaced by a new procedure at the PTO known as a “derivation proceeding,” which allows a patent applicant to take priority over an earlier-filed application by showing that an inventor named in the earlier application “derived” the claimed invention from an inventor named in the later-filed application.¹⁷² Although much has been made of the transition to a first-to-file system, the change is unlikely to have an effect on the vast majority of patent applications.¹⁷³

The AIA also expands the universe of available prior art.¹⁷⁴ Formerly, § 102(b) prevented a patent from issuing if the claimed invention was in public use or on sale in the United States for more than one year prior to the patent’s filing.¹⁷⁵ The AIA establishes that a sale or public use occurring anywhere in the world at any time before the patent is filed will prevent that patent from issuing.¹⁷⁶ This change should benefit accused infringers, and it will cause potential patentees to be more careful about conducting sales and demonstrations abroad.

The AIA provides two new ways to challenge the validity of an issued patent.¹⁷⁷ The first is the *inter partes* review, which replaces the former *inter partes* reexamination proceeding.¹⁷⁸ A third party may file a petition for *inter partes* review at the PTO to cancel one or more claims in a patent, but “only on a ground that could be raised under [§§] 102 or 103 and only on the basis of prior art consisting of patents or printed publications.”¹⁷⁹ To successfully institute an *inter partes* review, the petitioner must show a reasonable likelihood of prevailing with respect to at least one of the challenged claims.¹⁸⁰ This is somewhat stricter than the “substantial new question of patentability” standard associated with the former *inter partes* reexamination proceeding.¹⁸¹ Once instituted, the

170. See Gerald J. Mossinghoff & Vivian S. Kuo, *World Patent System Circa 20XX*, A.D., 38 IDEA 529, 548 (1998) (noting that every nation but the United States utilizes a first-to-file system of priority).

171. 35 U.S.C. §§ 102(c), 102(g) (2006).

172. Sec. 3(i), § 135, 125 Stat. at 289–90; see also sec. 3(h), § 291, 125 Stat. at 288–89 (providing for a similar remedy via civil action).

173. See Mossinghoff & Kuo, *supra* note 170, at 549 (finding that only 0.1% of patent applications result in interferences and that the later-filed application prevails in less than one-third of those).

174. Sec. 3(b), § 102(a)(1), 125 Stat. at 286.

175. 35 U.S.C. § 102(b) (2006).

176. See sec. 3(b), § 102(a)(1), 125 Stat. at 285–86. However, to the extent that a sale or public use is considered a “disclosure” under the new law, such disclosures made by the inventor one year or less before the patent is filed will not prevent the patent from issuing. See *id.* § 102(b)(1).

177. Sec. 6(a), ch. 31, 125 Stat. at 299–305.

178. *Id.*

179. *Id.* § 311(b), 125 Stat. at 299.

180. *Id.* § 314(a), 125 Stat. at 300.

181. See sec. 6(c)(3)(A)(i)(I)(aa), § 312, 125 Stat. at 305.

petitioner must prove invalidity by a preponderance of the evidence.¹⁸² An *inter partes* review offers a challenger speedy resolution.¹⁸³ If the proceeding is instituted, the Patent Trial and Appeal Board will issue a final determination within one year (extendable by six months for good cause).¹⁸⁴

The other new proceeding available to a third-party challenger is the post-grant review.¹⁸⁵ Generally, post-grant review is available only for patents filed on or after March 16, 2013.¹⁸⁶ However, the AIA creates a transitional program that provides for a modified post-grant review of “covered business method patents” as early as September 16, 2012.¹⁸⁷ Unlike in an *inter partes* review, a petitioner for post-grant review may cancel one or more claims of a patent on *any* ground that could be raised under § 282 (i.e., §§ 101, 102, 103, and 112).¹⁸⁸ A petition for post-grant review must be filed within nine months of the date the patent issues.¹⁸⁹ A post-grant review will be instituted only if the petitioner shows that it is “more likely than not” that at least one of the challenged claims is unpatentable.¹⁹⁰ As in the *inter partes* review, a petitioner must prove invalidity by a preponderance of the evidence, and once a post-grant review is instituted, the Patent Trial and Appeal Board will issue a final determination within one year, extendable by six months for good cause.¹⁹¹

One of the broader goals of the AIA is to establish a more “streamlined patent system that will improve patent quality and limit unnecessary . . . litigation costs.”¹⁹² To further this goal, the PTO seeks to conduct the *inter partes* review and post-grant review “proceedings in a timely, fair, and efficient manner.”¹⁹³ Only time will tell whether the AIA and the PTO’s rules and regulations have their intended effect.

182. *Id.* § 316(e), 125 Stat. at 303.

183. *Id.* § 316(a)(11), 125 Stat. at 302.

184. *Id.*

185. Sec. 6(d), 125 Stat. at 305–11.

186. *See* sec. 6(f)(2)(A), § 321, 125 Stat. at 311.

187. Sec. 18(a), 125 Stat. at 329. The Act defines a “covered business method patent” as “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.” Sec. 18(d)(1), 125 Stat. at 331.

188. *See id.* § 321(b), 125 Stat. at 306. However, a patentee’s failure to comply with the best mode requirement of § 112 will not cancel or invalidate any claim of a patent. *See* sec. 15, § 282, 125 Stat. at 328.

189. Sec. 6(d), § 321(c), 125 Stat. at 306.

190. *Id.* § 324(a), 125 Stat. at 306.

191. *Id.* §§ 326(a)(11), (e), 125 Stat. at 309.

192. Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 48612-01, 48612 (Aug. 14, 2012) (to be codified at 37 C.F.R. pt. 1, 42, 90).

193. Office Patent Trial Practice Guide, 77 Fed. Reg. 48756-01, 48756 (Aug. 14, 2012) (to be codified at 37 C.F.R. pt. 42).

III. COPYRIGHT UPDATE

A. THE U.S. SUPREME COURT ON COPYRIGHT

1. *The Free Ride is Up*—Golan v. Holder

In 1994, “[t]he Uruguay Round of multilateral trade negotiations produced the World Trade Organization (WTO) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS),” both of which the United States joined.¹⁹⁴ Any country that signs on to TRIPS must implement the first twenty-one articles of the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention), the primary agreement governing international copyright relations.¹⁹⁵ Article 18 of the Berne Convention provides that “a work must be protected abroad unless its copyright term has expired in either the country where protection is claimed or the country of origin.”¹⁹⁶

Since the Berne Convention took effect in 1886, many works by foreign authors have fallen into the public domain in the United States for reasons unrelated to expiration of their copyright term.¹⁹⁷ Seeking to bring the United States into compliance with TRIPS, “Congress . . . gave works enjoying copyright protection abroad the same . . . term of protection” they would have had in the United States had those works never passed into the public domain.¹⁹⁸ Congress accomplished this by enacting the Uruguay Round Agreements Act (URAA), § 514, “which grants copyright protection to preexisting works of Berne member countries” that lacked protection in the United States for any of three reasons: (1) the United States did not protect works from the country of origin at the time of publication; (2) the United States did not protect sound recordings fixed before 1972; or (3) the author had failed to comply with U.S. statutory formalities.¹⁹⁹ In *Golan v. Holder*, the Supreme Court considered whether Congress could remove works from the public domain in the manner provided by § 514.²⁰⁰

The petitioners in *Golan* challenged the constitutionality of § 514 as a violation of both the Constitution’s Copyright Clause and the First Amendment.²⁰¹ Essentially, petitioners argued that once a work falls into the public domain, it may never be removed for any reason.²⁰² The Court rejected these arguments and held that § 514 passed constitutional muster.²⁰³ The Court found that granting copyright protection to these previously unprotected works did not violate the “limited Time[]” restriction in the Copyright Clause because the term granted to these works was just

194. *Golan v. Holder*, 132 S. Ct. 873, 881 (2012).

195. *Id.*

196. *Id.* at 878.

197. *Id.* at 878–79.

198. *Id.* at 877–79.

199. *Id.* at 875, 878; see 17 U.S.C. § 104A(h)(6)(C) (2012).

200. *Golan*, 132 S. Ct. at 878.

201. *Id.* at 884.

202. *Id.*

203. *Id.* at 894.

as limited as the term granted to domestic works.²⁰⁴ Although petitioners argued that the limited term of “zero” had already passed for the unprotected foreign works, the Court found little sense in this argument, reasoning that a “‘limited time’ of exclusivity must begin before it . . . end[s].”²⁰⁵ Petitioners also argued that § 514 fails to “promote the Progress of Science and useful Arts” as required by the Constitution because it does nothing to incentivize the creation of new works.²⁰⁶ The Court dismissed this argument by observing that “creation of at least one new work . . . is not the sole way Congress may promote knowledge and learning.”²⁰⁷ Finding nothing in the text of the Copyright Clause that would render the public domain as inviolable as petitioners urged, the Court bolstered its conclusion by noting that Congress had, in the past, granted protection to works that were previously in the public domain.²⁰⁸ Finally, the Court rejected petitioners’ First Amendment arguments by noting that “fair use” and the “idea/expression dichotomy” built into copyright law serve as adequate speech-protective safeguards.²⁰⁹

2. *Certiorari Granted*—John Wiley & Sons, Inc. v. Kirtsaeng

Under the first sale doctrine, the lawful owner of a copyrighted work may resell or otherwise dispose of that work without the permission of the copyright owner.²¹⁰ However, § 602(a)(1) of the Copyright Act prohibits importing copyrighted works without the permission of the copyright owner.²¹¹ In *Costco Wholesale Corp. v. Omega, S.A.*, the Supreme Court considered whether the first sale doctrine applies to foreign-made copies of copyrighted works that are sold abroad, imported, and then resold in the United States.²¹² Justice Kagan took no part in that decision, and an equally divided Court affirmed without opinion the Ninth Circuit’s determination that the first sale doctrine does not apply to goods manufactured and sold abroad.²¹³ The Supreme Court now appears set to decide this issue with its grant of certiorari from the Second Circuit case *John Wiley & Sons, Inc. v. Kirtsaeng*.²¹⁴

Defendant Supap Kirtsaeng’s family and friends in Thailand shipped him foreign-edition textbooks that were printed abroad by a John Wiley & Sons subsidiary.²¹⁵ Kirtsaeng then sold these textbooks on websites

204. *Id.* at 884–85.

205. *Id.*

206. *Id.* at 887–88 (quoting U.S. CONST., ART. I, § 8, cl. 8) (internal quotation marks omitted).

207. *Id.* at 888.

208. *Id.* at 885–87.

209. *Id.* at 890–91.

210. See 17 U.S.C. § 109(a) (2006).

211. *Id.* § 602(a)(1).

212. *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565, 565 (2010).

213. *Id.*

214. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 213 (2d Cir. 2011), *cert. granted*, 132 S. Ct. 1905, *rev’d and remanded*, 133 S. Ct. 1351 (2013).

215. *Id.*

such as eBay.com.²¹⁶ With the revenues from the sales, Kirtsaeng reimbursed his family and friends for their expenses and kept the profits for himself.²¹⁷ John Wiley & Sons filed suit against Kirtsaeng for copyright infringement, claiming that Kirtsaeng violated § 602(a)(1) by importing the copyrighted foreign-edition textbooks.²¹⁸ Kirtsaeng tried to raise a defense based on the first sale doctrine, but the district court found this defense inapplicable to copies published outside of the United States.²¹⁹

In determining whether the first sale doctrine applies to copies manufactured abroad, the Second Circuit first looked to the text of § 109(a).²²⁰ Section 109(a) embodies the first sale doctrine,²²¹ and it applies to copies “lawfully made under [Title 17].”²²² After extensive analysis, the court found this text too ambiguous to decide the issue alone.²²³ Confronted with an ambiguous statute, the court adopted an interpretation it found would best comport with § 602(a)(1).²²⁴ The court reasoned that if the first sale doctrine applied to copies manufactured and acquired abroad, § 602(a)(1) would lose much of its force because copyright holders would no longer be able to control importation of their works in the vast majority of cases.²²⁵ The court therefore held that the first sale doctrine applies only to copies manufactured domestically.²²⁶

During oral argument at the Supreme Court, several of the Justices expressed concerns regarding the implications of the Second Circuit’s holding.²²⁷ Justice Breyer observed that foreign-made cars have many copyrighted components, and he wondered whether the millions of Americans who buy these imports would be able to resell them without first obtaining the permission of the copyright holder of every copyrighted component in the car.²²⁸ Justice Sotomayor seemed to share related concerns.²²⁹ Further, as counsel for Kirtsaeng observed at oral argument, the Second Circuit’s rule might incentivize copyright owners to move manufacturing of their works offshore in order to circumvent the

216. *Id.*

217. *Id.*

218. *Id.* at 213–14.

219. *Id.* at 214.

220. *Id.* at 216.

221. *Id.*

222. 17 U.S.C. § 109(a) (2012).

223. *John Wiley & Sons*, 654 F.3d at 220.

224. *Id.*

225. *Id.* at 221. This reasoning is similar to that used by the Ninth Circuit in its *Omega* decision. The court there noted that “because importation is almost always preceded by at least one lawful foreign sale,” applying the first-sale doctrine to foreign sales would “render § 602 virtually meaningless.” *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 986 (9th Cir. 2008) (quoting *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991)) (internal quotation marks omitted), *abrogated by Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

226. *John Wiley & Sons*, 654 F.3d at 221.

227. Transcript of Oral Argument at 28–29, *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (2012) (No. 11-697).

228. *Id.* In practice, this situation may involve a copyright license or sale, so the language of the agreement would be important to analyze.

229. *Id.* at 30–32.

first sale doctrine and maintain full control over downstream sales.²³⁰ To avoid these possible results, the Court could adopt the middle ground endorsed by the Ninth Circuit, which applies the first sale doctrine to foreign-made goods once an authorized sale occurs in the United States.²³¹ However sensible this interpretation might be, it finds little support in the text of the statute.²³² If the Court is unable to resolve this issue with the statutory text alone, it may have to weigh the aforementioned potential consequences against the effects of curtailing copyright owners' ability to control importation of their works. Given the statute's ambiguity, legislative action ultimately may be necessary to resolve this issue in a way that addresses these competing concerns.²³³

B. THE CIRCUIT COURTS ON COPYRIGHT

1. *Safe Harbor?*—*Viacom International, Inc. v. YouTube, Inc.*

During the Survey period, the Second Circuit released its long-awaited decision in the case of *Viacom International, Inc. v. YouTube, Inc.*²³⁴ YouTube faced potential liability for direct and secondary copyright infringement for displaying infringing works uploaded by its users.²³⁵ YouTube's liability turned on whether it qualified for protection under the safe harbor provisions of the Digital Millennium Copyright Act (DMCA).²³⁶ The district court granted summary judgment to YouTube, finding that it satisfied the requirements for safe harbor under § 512(c) with respect to all of the infringement claims.²³⁷ Section 512(c) offers a service provider such as YouTube immunity from liability for the infringing activity of its users as long as the service provider is not operating with actual knowledge of infringement, or "in the absence of such . . . knowledge, . . . [with] aware[ness] of facts or circumstances from which infringing activity is apparent."²³⁸ The district court interpreted this provision to mean that the service provider must know of "specific and identifiable infringements of particular individual items" and that "[m]ere knowledge of [the] prevalence of such [infringing activity] . . . is not enough."²³⁹

The Second Circuit affirmed this interpretation of the § 512(c) safe har-

230. *See id.* at 20.

231. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 986 (9th Cir. 2008), *abrogated by* *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

232. *Id.*

233. In March 2013, the Court held that the first sale doctrine applies to goods manufactured abroad as well as domestically-manufactured goods. *Kirtsang v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355–56 (2013).

234. *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19 (2d Cir. 2012).

235. *Id.* at 28.

236. *Id.* at 30; *see* 17 U.S.C. § 512(c), (m)–(n) (2006).

237. *Viacom*, 676 F.3d at 29 (citing *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 529 (S.D.N.Y. 2010)).

238. 17 U.S.C. § 512(c)(1)(A)(ii).

239. *Viacom*, 676 F.3d at 29.

bor provision,²⁴⁰ but it nevertheless vacated the district court's grant of summary judgment because it determined that a reasonable jury could find that Youtube knew of specific occurrences of infringement.²⁴¹ The record before the court showed reports and emails authored by YouTube's founders that indicated their awareness of specific videos that they knew or suspected were infringing.²⁴² The court also held that the doctrine of willful blindness could apply to show actual knowledge, and it remanded the case to the district court for further fact-finding on whether the defendants made a "deliberate effort to avoid guilty knowledge."²⁴³

Aside from these knowledge provisions, "the § 512(c) safe harbor provides that an eligible service provider must 'not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.'"²⁴⁴ The court found that the right and ability to control infringing activity does not require specific knowledge of particular infringing activities; however, it does "requir[e] something more than the ability to remove or block access to materials posted on . . . [the] website."²⁴⁵ The court failed to articulate a specific test to determine what this "something more" might be, but it provided some guidance by alluding to other decisions which "involve[d] a service provider exerting substantial influence on the activities of users"²⁴⁶ The Second Circuit remanded the case to the district court to consider in the first instance whether a reasonable jury could find that YouTube had the right and ability to control the infringing activity.²⁴⁷

Although hailed by some as a win for the user-generated content community at large,²⁴⁸ the Second Circuit's opinion provides plaintiffs with more ways to negate a DMCA safe harbor defense.²⁴⁹ Specifically, the court's application of the willful blindness doctrine and its interpretation of the "right and ability to control" provision of § 512(c) mean that further litigation in this area is sure to follow.

240. *Id.* at 30, 41.

241. *Id.* at 41.

242. *Id.* at 33–34.

243. *Id.* at 35 (quoting *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003)) (internal quotation marks omitted); see discussion *supra* Part II.A.3. However, the court made clear that application of the willful blindness doctrine does not give rise to an affirmative duty to monitor the service for infringing activity. *Viacom*, 676 F.3d at 35 (citing 17 U.S.C. § 512(m) (2006)).

244. *Id.* at 36 (quoting 17 U.S.C. § 512(c)(1)(B)).

245. *Viacom*, 676 F.3d at 36–38 (quoting *Capitol Records, Inc. v. MP3tunes, LLC*, 821 F. Supp. 2d 627, 645 (S.D.N.Y. 2011)).

246. *Id.* at 38, 42.

247. *Id.* at 42.

248. See, e.g., Corynne McSherry, *Viacom v. Google: A Decision at Last, and It's Mostly Good (for the Internet and Innovation)*, ELECTRONIC FRONTIER FOUND. (Apr. 5, 2012), <https://www.eff.org/deeplinks/2012/04/viacom-v-google-decision>.

249. See *Viacom*, 676 F.3d at 35, 38.

IV. TRADEMARK UPDATE

A. ATTACK AND RETREAT—*ALREADY, LLC v. NIKE, INC.*

In *Already, LLC v. Nike, Inc.*, the U.S. Supreme Court considered “whether a covenant not to enforce a trademark against a competitor’s existing products and any future ‘colorable imitations’ [thereof] moots the competitor’s action to have the trademark declared invalid.”²⁵⁰ Nike brought a complaint against Already alleging trademark infringement.²⁵¹ Already counterclaimed for a declaratory judgment that the asserted mark was invalid.²⁵² A few months later, Nike determined that the infringement case was no longer worth pursuing, and it delivered a “Covenant Not to Sue” to Already.²⁵³ This covenant prevented Nike from asserting its mark against Already for any of Already’s past and current products, as well as any future imitations thereof.²⁵⁴ Nike then moved to dismiss its infringement claims, but Already sought to maintain its counterclaim challenging the trademark’s validity.²⁵⁵ The district court dismissed Already’s counterclaim, finding that Nike’s covenant not to sue meant there was no longer a “substantial controversy” that would support the issuance of a declaratory judgment.²⁵⁶ The Second Circuit affirmed.²⁵⁷

“Article III of the Constitution grants the Judicial Branch authority to adjudicate ‘Cases’ and ‘Controversies.’”²⁵⁸ A case loses this Article III requirement “when the issues presented are no longer ‘live’ or the parties lack a legally cognizable interest in the outcome.”²⁵⁹ The Court observed, however, “that a defendant cannot automatically moot a case simply by ending its unlawful conduct once [it is] sued. Otherwise, a defendant could [just] . . . have [a] case declared moot, then pick up where he left off”²⁶⁰ Therefore, “a defendant claiming that its voluntary compliance moots a case bears the formidable burden of showing that it is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur.”²⁶¹ Under the Court’s precedents, Nike bore the burden of showing “that it ‘could not reasonably be expected’ to resume its enforce-

250. *Already, LLC v. Nike, Inc.*, 133 S. Ct. 721, 725 (2013). The Federal Circuit has decided a similar issue in the context of a patent invalidity counterclaim, finding that a covenant not to sue based on the accused infringer’s “past and present products” divests a court of subject-matter jurisdiction over the accused’s invalidity counterclaim. See *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1059 (Fed. Cir. 1995).

251. *Already*, 133 S. Ct. at 725.

252. *Id.*

253. *Id.*

254. *Id.*

255. *Id.*

256. *Id.* at 726.

257. *Id.*

258. *Id.*

259. *Id.* (quoting *Murphy v. Hunt*, 455 U.S. 478, 481 (1982) (per curiam)) (internal quotation marks omitted).

260. *Id.* at 727 (citation omitted).

261. *Id.* (quoting *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs. (TOC), Inc.*, 528 U.S. 167, 190 (2000)) (internal quotation marks omitted).

ment efforts against Already.”²⁶²

The Court held that Nike satisfied this burden.²⁶³ Nike’s covenant not to sue was unconditional, irrevocable, and covered not only “current or previous designs, but [also] any [future] colorable imitations” thereof.²⁶⁴ Given Nike’s showing that the covenant contemplated all of its allegedly unlawful enforcement efforts, maintaining jurisdiction over the invalidity counterclaim required Already to show that it had “sufficiently concrete plans to engage in activities not covered by the covenant.”²⁶⁵ The Court found that, despite several opportunities to do so, Already had failed to demonstrate “any intent to design or market a [product] that would expose it to [potential] . . . infringement liability.”²⁶⁶ The Court therefore affirmed the Second Circuit’s ruling and held that the case was moot.²⁶⁷

The strategy employed by Nike in this case seems to be an effective way of disrupting a smaller competitor’s business operations while still protecting the asserted trademark’s validity. Justice Kennedy, recognizing the potential for abuse, wrote a concurring opinion that advised courts to “proceed with caution before ruling that [a covenant not to sue] can be used to terminate litigation.”²⁶⁸

B. COLOR IS THE “SOLE” ISSUE—*CHRISTIAN LOUBOUTIN S.A. v. YVES SAINT LAURENT AMERICA HOLDING, INC.*

The Supreme Court has held that, in some circumstances, a color may be trademarked.²⁶⁹ In *Christian Louboutin S.A. v. Yves Saint Laurent America Holding, Inc.*, the Second Circuit considered whether a color may receive trademark protection in the fashion industry.²⁷⁰ Christian Louboutin designs and markets women’s high-heeled shoes that have their undersides (or “outsoles”) painted glossy red.²⁷¹ On most of Louboutin’s shoes, the red outsole contrasts sharply with the color of the rest of the shoe.²⁷² The PTO granted Louboutin a trademark consisting of a “lacquered red sole on footwear.”²⁷³ Yves Saint Laurent, a competitor in the fashion industry, began selling a “monochrome” shoe which was entirely red.²⁷⁴ Louboutin brought claims against Yves Saint Laurent al-

262. *Id.* (quoting *Friends of the Earth*, 528 U.S. at 190); *contra* *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed. Cir. 1995) (placing the burden of supporting jurisdiction on the party asserting a patent invalidity counterclaim).

263. *Already*, 133 S. Ct. at 728.

264. *Id.*

265. *Id.*

266. *Id.* at 729.

267. *Id.*

268. *Id.* at 734 (Kennedy, J., concurring).

269. *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 161 (1995).

270. *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc.*, 696 F.3d 206, 211 (2d Cir. 2012).

271. *Id.*

272. *Id.* at 213.

273. *Id.* (quoting *Christian Louboutin S.A. v. Yves Saint Laurent Am. Inc.*, 778 F. Supp. 2d 445, 449 (S.D.N.Y. 2011)) (internal quotation marks omitted).

274. *Id.*

leging trademark infringement, and it sought a preliminary injunction that would prevent Yves Saint Laurent from marketing its allegedly infringing shoes.²⁷⁵ The district court denied the request for an injunction and held that Louboutin's trademark was likely invalid because single-color marks in the fashion industry are "inherently 'functional.'"²⁷⁶

The Second Circuit rejected the district court's per se rule regarding single-color trademarks in the fashion industry, finding such a rule inconsistent with Supreme Court precedent.²⁷⁷ The court evaluated the infringement claim by analyzing whether the mark "merits protection" and whether use of the mark "is likely to cause consumer confusion."²⁷⁸ A mark merits protection if it is "distinctive."²⁷⁹ Distinctiveness may be proved by showing that the mark has acquired "secondary meaning in the public eye" that causes the mark to be associated with the creator's brand.²⁸⁰ The court found that Louboutin's mark had acquired secondary meaning, but only where the red sole contrasts with the color of the rest of the shoe.²⁸¹ The court modified the mark pursuant to § 37 of the Lanham Act and limited it to only those situations in which the red outsole contrasts with the color of the rest of the shoe.²⁸² The court then affirmed the district court's denial of the request for a preliminary injunction, finding that the defendant's monochromatic shoe did not "use" the mark as modified.²⁸³ Although the court extensively analyzed the functionality defense as applied to color marks in the fashion industry, its modification of the mark made it unnecessary to rule on the defense's applicability in this case.²⁸⁴

V. CONCLUSION

Many of the Supreme Court's decisions and anticipated decisions will have profound effects on industry. The Court's decision in *Mayo* and its grant of certiorari in *Association for Molecular Pathology* have injected uncertainty into the biotechnology industry, which has been relying on settled practices in the PTO for many years. If the Court reverses the Federal Circuit in *Bowman*, the agricultural industry will have a difficult time enforcing its seed patents. In *Kirtsaeng*, the Court's decision could either prevent the content industry from controlling importation of its

275. *Id.*

276. *Id.* at 214 (quoting *Louboutin*, 778 F. Supp. 2d at 457). The Fifth Circuit currently rejects the doctrine of "aesthetic functionality" entirely. *See Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 487–88 (5th Cir. 2008).

277. *Louboutin*, 696 F.3d at 223 (citing *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 161 (1995)).

278. *Id.* at 224 (quoting *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 454 F.3d 108, 115 (2d Cir. 2006)) (internal quotation marks omitted).

279. *Id.* at 225.

280. *Id.*

281. *Id.* at 228.

282. *Id.*; *see generally* 15 U.S.C. § 1119 (2012).

283. *Louboutin*, 696 F.3d at 228.

284. *Id.* at 223–24, 228.

works or cause the industry to manufacture more of its works overseas. In *Already*, the Court's decision will affect the way companies enforce and protect their trademarks. The Federal Circuit's decision in *Akamai* solves some problems of joint infringement but creates many more, while its decision in *Uniloc* continues the court's trend of demanding reliable evidence to support a damages award. The Second Circuit's decision in *Viacom* gives service providers considerable protection under the DMCA, but it leaves room for future plaintiffs to prevail. Finally, the sea change brought about by the Leahy-Smith America Invents Act will affect courts and practitioners for many years to come.

