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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 (i.e., 2016 or the Survey period).<sup>1</sup> This article reviews 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. Court of Appeals for the Federal Circuit. For developments in copyright and trademark law, although the U.S. Court of Appeals for the Fifth Circuit’s authority is binding, other circuits are considered highly persuasive.

The U.S. Supreme Court decided several cases involving IP issues.<sup>2</sup> In patents, the Supreme Court showed particular interest in design patent damages and whether an infringer should be liable for the full extent of the profit even where the infringing design only accounts for a portion of the overall product.<sup>3</sup> The Supreme Court also considered whether the two-part *Seagate* test for enhanced damages is consistent with the Patent Act.<sup>4</sup> As for administrative proceedings, the Supreme Court addressed whether an inter partes review was improperly instituted and whether it is appropriate to apply the “broadest reasonable construction” standard for claim construction in such proceedings.<sup>5</sup>

The U.S. Court of Appeals for the Federal Circuit also made important developments to its patent law jurisprudence.<sup>6</sup> For example, the Federal Circuit clarified the application of *Alice* by finding in one case that not all computer-related inventions are directed towards abstract ideas,<sup>7</sup> and in another, that even where a computer-related patent is directed to an abstract idea, it may still contain an inventive concept that renders the invention patentable.<sup>8</sup>

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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. See *Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429 (2016); *Halo Elecs. v. Pulse Elecs.*, 136 S. Ct. 1923, 1931 (2016); *Cuozzo Speed Techs. v. Lee*, 136 S. Ct. 2131, 2139 (2016).

3. See *Samsung*, 137 S. Ct. at 432.

4. See *Halo*, 136 S. Ct. at 1931.

5. See *Cuozzo*, 136 S. Ct. at 2139.

6. See, e.g., *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1330 (Fed. Cir. 2016).

7. See *id.* at 1336.

8. See *Bascom Global Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1343 (Fed. Cir. 2016).

In copyright, the U.S. Court of Appeals for the Sixth Circuit determined that the Copyright Act protects graphic features of a design even where those features cannot be physically separated from the “useful article.”<sup>9</sup>

In trademark, the U.S. Court of Appeals for the Federal Circuit confirmed that the bar to show “use in commerce” for the purposes of obtaining a federal trademark registration is low, considering the breadth of Congress’s power under the Commerce Clause.<sup>10</sup> Also, the U.S. Court of Appeals for the Fourth Circuit took a broad look at the Lanham Act, finding that owners of foreign trademarks, even with no domestic use, are eligible to bring false association, false advertising, and trademark cancellation actions in the United States.<sup>11</sup>

## II. PATENT UPDATE

### A. THE U.S. SUPREME COURT ON PATENTS

#### 1. *Damages Apportionment for Design Patents*—Samsung v. Apple

In *Samsung v. Apple*, the U.S. Supreme Court determined that design patent damages are limited to the profit attributable to the patented portion or component of a multi-component end product.<sup>12</sup>

At issue were a few Samsung smartphones that Apple asserted infringed a number of Apple-owned design patents related to the iPhone. Apple’s design patents included, among other elements, coverage related to a smartphone having a black rectangular face with rounded corners and a “grid of 16 colorful icons on a black screen.”<sup>13</sup> In 2011, Apple initiated the infringement suit against Samsung and eventually won a \$399 million award.<sup>14</sup> The award value was based on the damages remedy found in § 289 of the Patent Act, which provides that a person found to manufacture or sell an infringing “article of manufacture . . . shall be liable to the owner to the extent of his total profit[.]”<sup>15</sup>

On appeal, Samsung argued that the damages should be limited because Samsung’s entire profits were not attributable solely to the front portion (i.e., the infringing portion) of Samsung’s smartphones.<sup>16</sup> The U.S. Court of Appeals for the Federal Circuit was not persuaded and, in upholding the award, held that the only permissible “article of manufacture” for the purposes of § 289 had to be the entire smartphone because consumers could not purchase the face of the phone separately from the

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9. See *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468, 470–71 (6th Cir. 2015), *aff’d*, 137 S. Ct. 1002 (2017).

10. See *Christian Faith Fellowship Church v. Adidas AG*, 841 F.3d 986, 992–95 (Fed. Cir. 2016).

11. See *Belmora LLC v. Bayer Consumer Care AG*, 819 F.3d 697, 715 (4th Cir. 2016), *cert. denied*, 137 S. Ct. 1202 (2017).

12. See *Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429, 433 (2016).

13. See *id.*

14. *Id.* at 434.

15. *Id.* at 432 (quoting Patent Act, 35 U.S.C. § 289 (2012)).

16. *Id.* at 434.

rest of the device.<sup>17</sup>

In the first design patent ruling in over a century, the U.S. Supreme Court reversed the Federal Circuit, finding that the lower court's ruling was inconsistent with the language of the statute.<sup>18</sup> The Supreme Court began by noting that arriving at a damages award under § 289 requires a two-step test, including (1) "identify[ing] the 'article of manufacture' to which the infringed design has been applied"; and (2) calculating the infringing party's total profits derived from the identified "article of manufacture."<sup>19</sup>

The case hinged on the meaning of "article of manufacture." Relying heavily on a plain language analysis, the Supreme Court held that "article of manufacture" can refer to both "a [final] product sold to a consumer and a component of that product."<sup>20</sup> Further, the Supreme Court found that this broad reading was consistent with other portions of the Patent Act pertaining to design patents. For example, "35 U.S.C. § 171(a) . . . makes 'new, original and ornamental design[s] for an article of manufacture' eligible for design patent protection," and design patents are often obtained on "only a component of a multicomponent product."<sup>21</sup> Thus, it followed that "article of manufacture" in § 289 could refer to a single component of a multicomponent product.<sup>22</sup>

In the end, the Supreme Court declined to set out a test for determining what the relevant article of manufacture is and remanded the case to the U.S. Court of Appeals for the Federal Circuit.<sup>23</sup> It will be up to the lower courts to develop a workable legal standard going forward. From a practice standpoint, applicants should always consider a design patent on the entire product. While this strategy will not always prove effective, it should be considered in light of the U.S. Supreme Court's ruling and particularly due to the difficulties that will inevitably arise from attempting to determine the dollar value attributable to individual components of a multicomponent product.

## 2. Seagate Again—Halo Electronics v. Pulse Electronics

The U.S. Supreme Court in *Halo v. Pulse* focused on whether the two-part *Seagate* test for enhanced damages is consistent with the Patent Act.<sup>24</sup> Halo Electronics, Inc. (Halo) sued Pulse Electronics Corporation (Pulse) for patent infringement of its "patents for electronic packages containing transformers designed to be mounted to the surface of circuit boards."<sup>25</sup> A jury found Pulse guilty and also found a high probability

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17. *Id.*

18. *Id.*

19. *Id.*

20. *Id.*

21. *Id.*

22. *Id.* at 436.

23. *Id.*

24. *Halo Elecs., Inc. v. Pulse Elecs., Inc.* 136 S. Ct. 1923 (2016).

25. *Id.* at 1930.

that Pulse acted willfully.<sup>26</sup> The U.S. District Court for the District of Nevada refused to award enhanced damages because Halo did not show “objective recklessness under the first step of *Seagate*.”<sup>27</sup> The U.S. Court of Appeals for the Federal Circuit affirmed the district court’s finding.<sup>28</sup>

The U.S. Supreme Court vacated the judgment of the Federal Circuit.<sup>29</sup> The Supreme Court held, for several reasons, that the *Seagate* test is not consistent with § 284 of the Patent Act, which provides that “the court may increase the damages up to three times the amount found or assessed.”<sup>30</sup>

First, the statute contains “no explicit limit or condition on when enhanced damages are appropriate.”<sup>31</sup> Second, the statute gives the courts a better ability to punish culpable behavior.<sup>32</sup> The *Seagate* test requires an objectively reckless finding in every case, which is a rigid standard.<sup>33</sup> There is no ability for the court to use its discretion to punish intentional or knowing behavior, even if the behavior is not “objectively reckless.”<sup>34</sup> Third, *Seagate* is inconsistent with the Patent Act.<sup>35</sup> *Seagate* “requires clear and convincing evidence to prove recklessness.”<sup>36</sup> The Patent Act “imposes no specific evidentiary burden, much less such a high one.”<sup>37</sup> Thus, the Patent Act allows for “district courts to punish the full range of culpable behavior.”<sup>38</sup>

The Supreme Court found that § 284 “gives district courts the discretion to award enhanced damages against those guilty of patent infringement,” whereas *Seagate* “unduly confines the ability of [the] district courts to exercise . . . discretion.”<sup>39</sup> As a result, the Supreme Court abrogated the *Seagate* test.<sup>40</sup>

### 3. More Clarification on Inter Partes Review—*Cuozzo v. Lee*

In *Cuozzo v. Lee*, the U.S. Supreme Court addressed two important questions regarding inter partes review.<sup>41</sup> First, whether an inter partes review was improperly instituted.<sup>42</sup> Second, whether the Board “improperly used the interpretive standard set forth in the Patent Office’s regulation (*i.e.*, it gave those claims their ‘broadest reasonable construction’ . . .

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26. *Id.* at 1931.

27. *Id.*

28. *Id.*

29. *Id.* at 1935–36.

30. *Id.* at 1931 (quoting Patent Act, 25 U.S.C. § 284 (2012)).

31. *Id.*

32. *Id.* at 1932.

33. *Id.*

34. *Id.* at 1933.

35. *Id.* at 1934.

36. *Id.*

37. *Id.*

38. *Id.* at 1933.

39. *Id.* at 1935.

40. *Id.*

41. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016).

42. *Id.* at 2139.

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Petitioner Cuozzo Speed Technologies, LLC (Cuozzo) owned a patent covering "a speedometer that will show a driver when he is driving above the speed limit" by turning a speedometer needle red when a driver is going over the limit.<sup>44</sup> "In 2012, Garmin International, Inc., and Garmin USA, Inc., filed a petition seeking inter partes review of the Cuozzo Patent's 20 claims."<sup>45</sup> "Garmin backed up its request by stating, for example, that the invention described in claim 17 was obvious in light of three prior patents . . . ."<sup>46</sup> The Board not only agreed to review claim 17, but also claims 10 and 14 because "claim 17 depends on claim 14 which depends on claim 10[.]"<sup>47</sup> The Board found "claims 10, 14, and 17 . . . obvious[.]"<sup>48</sup>

The U.S. Court of Appeals for the Federal Circuit found that § 314(d) made the "Patent Office's decision to institute inter partes review 'nonappealable,' and it concluded that the Patent Office's regulation was a reasonable exercise of the agency's rulemaking authority."<sup>49</sup> Cuozzo filed for certiorari.<sup>50</sup>

The U.S. Supreme Court held that "§ 314(d) bars Cuozzo's efforts to attack the Patent Office's determination to institute inter partes review" for several reasons.<sup>51</sup> First, Congress told the Patent Office to "determine whether inter partes review should proceed" and that "the agency's decision is 'final' and 'nonappealable.'"<sup>52</sup> Second, Cuozzo merely challenged the Patent Office's determination regarding the "'reasonable likelihood' of success 'with respect to at least [one] of the claims challenged.'"<sup>53</sup>

The Supreme Court clarified that the current case does not extend to precluding review of "constitutional questions."<sup>54</sup> For example, the Supreme Court specifically mentioned that it is not precluding

review of a final decision where a petition fails to give "sufficient notice" such that there is a due process problem with the entire proceeding, nor does [the Court's] interpretation enable the agency to act outside its statutory limits by, for example, canceling a patent claim for "indefiniteness under § 112" in inter partes review.<sup>55</sup>

The Supreme Court also upheld the validity of the use of the broadest reasonable construction standard for several reasons. In Cuozzo's view, Congress "must have designed inter partes review as a 'surrogate for court proceedings'" and, if Congress did create a "surrogate," it would

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43. *Id.*

44. *Id.* at 2138.

45. *Id.*

46. *Id.*

47. *Id.*

48. *Id.*

49. *Id.* at 2134.

50. *Id.* at 2139.

51. *Id.* at 2142.

52. *Id.* at 2141–42.

53. *Id.*

54. *Id.*

55. *Id.*

have intended that the Patent Office apply the “ordinary meaning standard,” like in district courts, instead of the broadest reasonable construction standard that patent examiners apply.<sup>56</sup> However, the Supreme Court reasoned, “inter partes review is less like a judicial proceeding and more like a specialized agency proceeding.”<sup>57</sup> For example, challengers do not need to remain in the proceeding and may lack constitutional standing.<sup>58</sup> Furthermore, “the burden of proof in inter partes review is different than” in the district court, where “the challenger (or the Patent Office) must establish unpatentability ‘by a preponderance of the evidence’ [instead of] ‘clear and convincing evidence.’”<sup>59</sup>

Further, “neither the statutory language, its purpose, [n]or its history suggest that Congress considered what standard the agency should apply when reviewing a patent claim in inter partes review.”<sup>60</sup> An “express delegation of rulemaking authority” exists in § 301(d) because Congress never clarified which claim construction standard is “proper.”<sup>61</sup>

The Supreme Court also held “that the regulation represents a reasonable exercise of rulemaking authority that Congress delegated to the Patent Office.”<sup>62</sup> First, “construing a patent claim according to its broadest reasonable construction helps to protect the public” by “ensur[ing] precision while avoiding overly broad claims.”<sup>63</sup> Second, the “Patent Office has used this standard for more than 100 years.”<sup>64</sup> Third, the Supreme Court found that the broadest reasonable construction is fair because the patent owner may amend the claims during the inter partes review process.<sup>65</sup> Finally, other Patent Office proceedings use the broadest reasonable construction standard.<sup>66</sup> The Supreme Court disregarded *Cuozzo*’s argument that the broadest reasonable construction standard may produce inconsistent results when combined with the district court’s “ordinary meaning standard.”<sup>67</sup>

Two judges dissented, finding that Congress did not intend to “shield the Patent Office’s compliance—or noncompliance—with these limits from all judicial scrutiny.”<sup>68</sup> Instead, “Congress required only that judicial review, including of issues bearing on the institution of patent review proceedings, be channeled through an appeal from the agency’s final decision.”<sup>69</sup>

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56. *Id.* at 2143.

57. *Id.*

58. *Id.* at 2143–44.

59. *Id.*

60. *Id.* at 2144.

61. *Id.*

62. *Id.*

63. *Id.* at 2144–45.

64. *Id.*

65. *Id.*

66. *Id.* at 2146.

67. *Id.*

68. *Id.* at 2149.

69. *Id.*



## B. THE FEDERAL CIRCUIT ON PATENTS

1. *Alice Reversals*—Enfish and Bascom Global

Using the recent *Alice* framework, the U.S. Court of Appeals for the Federal Circuit found “that the claims are not directed to an abstract idea.”<sup>70</sup> The first step for determining whether an application covers a patent eligible idea is to “determine whether the claims at issue are directed to a patent-ineligible concept.”<sup>71</sup> The second step is to “consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent eligible application.”<sup>72</sup>

In the *Alice* portion of *Enfish v. Microsoft*, the Federal Circuit found an example of a patentable idea that fulfills step one of the *Alice* framework.<sup>73</sup> Enfish sued Microsoft for “infringement of several patents related to a ‘self-referential’ database.”<sup>74</sup> The U.S. District Court for the Central District of California found on summary judgment that “all claims [are] invalid as ineligible under § 101[.]”<sup>75</sup> Enfish appealed.<sup>76</sup>

The Federal Circuit acknowledged that there is a lack of guidance in determining whether a computer-related patent is an abstract idea. The Federal Circuit admitted that the “Supreme Court has not established a definitive rule to determine what constitutes an ‘abstract idea’ sufficient to satisfy the first step of the *Mayo/Alice* inquiry.”<sup>77</sup> Instead, “both [the Federal Circuit] and the Supreme Court have found it sufficient to compare claims at issue to those claims already found to be directed to an abstract idea in previous cases.”<sup>78</sup>

*Enfish* was focused on the first step of the *Alice* framework, which is to “determine whether the claims at issue are directed to a patent-ineligible concept.”<sup>79</sup> It is not enough to “simply ask whether the claims involve a patent-ineligible concept, because essentially every routinely patent-eligible claim involving physical products and actions *involves* a law of nature and/or natural phenomenon—after all, they take place in the physical world.”<sup>80</sup> Instead, the focus should be on whether the claims’ character “as a whole is directed to excluded subject matter.”<sup>81</sup>

The Federal Circuit used *Enfish* as an opportunity to make several clarifications about *Alice*. First, the holding in *Alice* does not mean that “all

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70. *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1330 (Fed. Cir. 2016).

71. *Id.* at 1334 (quoting *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S. Ct. 2347, 2355 (2014)).

72. *Id.*

73. *Id.* at 1335.

74. *Id.* at 1330.

75. *Id.*

76. *Id.*

77. *Id.* at 1334.

78. *Id.*

79. *Id.*

80. *Id.* at 1335.

81. *Id.* (quoting *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343, 1346 (Fed. Cir. 2015)).

improvements in computer-related technology are inherently abstract . . . . Indeed, some improvements in computer-related technology when appropriately claimed are undoubtedly not abstract, such as a chip architecture, an LED display, and the like.”<sup>82</sup> Furthermore, it is not true “that claims directed to software, as opposed to hardware, are inherently abstract and therefore only properly analyzed at the second step of the *Alice* analysis.”<sup>83</sup>

Second, at the first step of the *Alice* analysis it is “relevant to ask whether the claims are directed to an improvement to computer functionality versus being directed to an abstract idea.”<sup>84</sup> The invention at issue is directed towards a self-referential table and is “a specific type of data structure designed to improve the way a computer stores and retrieves data in memory.”<sup>85</sup> As a result, the Federal Circuit found that the claims in the current case focus “on an improvement to computer functionality itself, not on economic or other tasks for which a computer is used in its ordinary capacity.”<sup>86</sup>

Third, the claims in *Alice* were abstract because they “can readily be understood as simply adding conventional computer components to well-known business practices.”<sup>87</sup> The fact that the improvement at issue “is not defined by reference to ‘physical’ components does not doom the claims. To hold otherwise risks resurrecting a bright-line machine-or-transformation test.”<sup>88</sup>

The Federal Circuit admitted that “[m]uch of the advancement made in computer technology consists of improvements to software that, by their very nature, may not be defined by particular physical features but rather by logical structures and processes.”<sup>89</sup> Moreover, “[w]e do not see in *Bilski* or *Alice*, or our cases, an exclusion to patenting this large field of technological progress.”<sup>90</sup>

The Federal Circuit continued to distinguish the current case from *Alice* by stating, “we are not faced with a situation where general-purpose computer components are added post-hoc to a fundamental economic practice or mathematical equation.”<sup>91</sup> Instead, “the claims are directed to a specific implementation of a solution to a problem in the software arts.”<sup>92</sup> Thus, the claims were not “directed to an abstract idea.”

Similar to *Enfish*, the U.S. Court of Appeals for the Federal Circuit reversed a lower court, finding that a patent on filtering internet content

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82. *Id.* at 1335.

83. *Id.*

84. *Id.*

85. *Id.* at 1339.

86. *Id.* at 1336.

87. *Id.* at 1338.

88. *Id.* at 1339.

89. *Id.*

90. *Id.*

91. *Id.*

92. *Id.*

improves computer function and is not an abstract idea.<sup>93</sup> In the *Alice* portion of *Bascom Global v. AT&T*, the Federal Circuit found an example of an inventive step under the second step of the *Alice* framework.<sup>94</sup>

Bascom Global owns a patent which claims a method and system to provide customizable filtering for Internet content. The filtering process occurs at the “remote ISP server by taking advantage of the technical capability of certain communication networks.”<sup>95</sup> The patent claims that the patented invention is novel because “no one had previously provided customized filters at a remote server.”<sup>96</sup>

Bascom Global sued AT&T for patent infringement and AT&T moved to dismiss under Rule 12(b)(6).<sup>97</sup> AT&T claimed that the patent was invalid under § 101 because “performing the filtering on the Internet does not make the idea nonabstract.”<sup>98</sup> The district court agreed with AT&T because “content provided on the Internet is not fundamentally different from content observed, read, and interacted with through other mediums like books, magazines, television, or movies.”<sup>99</sup> Bascom Global appealed.<sup>100</sup>

The Federal Circuit found that the analysis would fall under the second step of the *Alice* framework because the patent is directed to an abstract idea.<sup>101</sup> Filtering “content is an abstract idea because it is a longstanding, well-known method of organizing human behavior, similar to concepts previously found to be abstract.”<sup>102</sup> The Federal Circuit compared and contrasted *Enfish*, saying that unlike *Enfish*, the current case presents a “close call[ ] about how to characterize what the claims are directed to.”<sup>103</sup> Furthermore, “the claims and their specific limitations do not readily lend themselves to a step-one finding that they are directed to a nonabstract idea.”<sup>104</sup> As a result, the Federal Circuit evaluated the narrowing effect of the claim limitations under step two of the *Alice* framework.

An abstract idea is transformed into a patent-eligible invention when there is an inventive concept.<sup>105</sup> The inventive concept “must be significantly more than the abstract idea itself, and cannot simply be an instruction to implement or apply the abstract idea on a computer.”<sup>106</sup> Moreover, the “inventive concept inquiry requires more than recognizing

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93. *Bascom Glob. Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1344 (Fed. Cir. 2016).

94. *Id.*

95. *Id.*

96. *Id.* at 1345.

97. *Id.* at 1346; *see also* FED. R. CIV. P. 12(b)(6).

98. *Id.*

99. *Id.* at 1346–47.

100. *Id.* at 1347.

101. *Id.* at 1348.

102. *Id.*

103. *Id.* at 1349.

104. *Id.*

105. *Id.*

106. *Id.*

that each claim element, by itself, was known in the art.”<sup>107</sup> In the current case, “prior art filters were either susceptible to hacking and dependent on local hardware and software, or confined to an inflexible one-size-fits-all scheme.”<sup>108</sup> Furthermore, the claims do not “preempt all ways of filtering content on the Internet; rather, they recite a specific, discrete implementation of the abstract idea of filtering content.”<sup>109</sup> Moreover, the “claims carve out a specific location for the filtering system (a remote ISP server) and require the filtering system to give users the ability to customize filtering for their individual network accounts.”<sup>110</sup>

*Bascom Global* is an example of claims that pass step two of *Alice*. Claims directed to an abstract idea are still patent eligible when an inventive concept may be found.<sup>111</sup> This was the case in *Bascom Global*, where claims directed towards the abstract idea of filtering content passed *Alice* because an inventive concept was found.<sup>112</sup>

Both *Enfish* and *Bascom Global* assist patent applicants in drafting patent applications to overcome § 101 rejections. *Enfish* clarifies *Alice* by finding that not all computer-related inventions are directed towards abstract ideas.<sup>113</sup> *Bascom Global* gives an example of a case where a computer-related patent is directed to an abstract idea but contains an inventive concept that renders the invention patentable.<sup>114</sup>

## 2. Patent Venue is Front and Center—In re TC Heartland

*In re TC Heartland* addresses the hot topic of patent litigation venue.<sup>115</sup> Kraft claimed that Heartland’s “liquid water enhancer products” infringed three of Kraft’s patents.<sup>116</sup> Heartland is a limited liability company organized under Indiana law.<sup>117</sup> Heartland is also headquartered in Indiana.<sup>118</sup> Kraft is organized under Delaware law.<sup>119</sup> Kraft’s principal place of business is Illinois.<sup>120</sup>

Kraft filed suit against Heartland in the U.S. District Court for the District of Delaware.<sup>121</sup> Heartland moved to dismiss for lack of personal jurisdiction.<sup>122</sup> Heartland also “moved to either dismiss . . . or transfer venue to the Southern District of Indiana under 28 U.S.C. §§ 1404 and

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107. *Id.* at 1350.

108. *Id.*

109. *Id.*

110. *Id.* at 1352.

111. *Id.*

112. *Id.*

113. *Enfish, LLC v. Microsoft Corp.* 822 F.3d 1327, 1329 (Fed. Cir. 2016).

114. *Bascom Glob.*, 827 F.3d at 1352.

115. *In re TC Heartland LLC* 821 F.3d 1338, 1340 (Fed. Cir. 2016), *rev’d*, *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017).

116. *Id.*

117. *Id.*

118. *Id.*

119. *Id.*

120. *Id.*

121. *Id.*

122. *Id.*

1406.”<sup>123</sup>

Heartland claimed that it was not subject to personal jurisdiction in Delaware because Heartland is “not registered to do business in Delaware, has no local presence in Delaware, has not entered into any supply contracts in Delaware or called on any accounts there to solicit sales.”<sup>124</sup> Furthermore, even though Heartland admitted to shipping orders of the accused products to Delaware, the shipments were about “2% of Heartland’s total sales of the accused products” for the year.<sup>125</sup>

The Magistrate Judge found that it “had specific personal jurisdiction over Heartland for claims involving the accused products.”<sup>126</sup> The district court adopted the Magistrate Judge’s report and denied Heartland’s motions.<sup>127</sup> Heartland petitioned the U.S. Court of Appeals for the Federal Circuit for a writ of mandamus to “direct the U.S. District Court for the District of Delaware to either dismiss or transfer the patent infringement suit filed against it by Kraft.”<sup>128</sup>

The Federal Circuit held that precedent required the denial of Heartland’s petition for writ of mandamus.<sup>129</sup> The Federal Circuit was not persuaded by Heartland’s argument that it “does not ‘reside’ in Delaware for venue purposes according to 28 U.S.C. § 1400(b).”<sup>130</sup> “Heartland argued that Congress[s] 2011 amendments to 28 U.S.C. § 1391 . . . effectively overruled *VE Holding*.”<sup>131</sup> The court in *VE Holding* held that “the definition of corporate residence in the general venue statute, § 1391(c), applied to the patent venue statute, 28 U.S.C. § 1400.”<sup>132</sup>

The Federal Circuit was not persuaded by Heartland’s argument for several reasons. First, “Congressional reports have repeatedly recognized that *VE Holding* is the prevailing law.”<sup>133</sup> Second, Congress’s amendment of § 1391 broadened, not narrowed, the definition of corporate residence.<sup>134</sup> Third, “the patent venue statute itself does not define corporate residence.”<sup>135</sup> As a result, “there is no statutory ‘law’ that would satisfy Heartland’s claim that Congress intended in 2011 to render § 1391(c)’s definition of corporate residence inapplicable to venue for patent cases.”<sup>136</sup>

The Federal Circuit did not agree with Heartland’s argument that the “Delaware district court lacks specific personal jurisdiction over it for this

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123. *Id.*

124. *Id.*

125. *Id.*

126. *Id.*

127. *Id.*

128. *Id.*

129. *Id.* at 1341.

130. *Id.*

131. *Id.*

132. *Id.*

133. *Id.* at 1343.

134. *Id.* at 1341.

135. *Id.* at 1342.

136. *Id.*

civil action.”<sup>137</sup> In *Beverly Hills Fan*, the Federal Circuit held “that the due process requirement that a defendant have sufficient minimum contacts with the forum was met where a non-resident defendant purposefully shipped accused products into the forum through an established distribution channel and the cause of action for patent infringement was alleged to arise out of those activities.”<sup>138</sup> The Federal Circuit found that Heartland had minimum contacts because it “shipped orders of the accused products directly to Delaware under contracts with what it characterizes as ‘two national accounts’ that are headquartered outside of Delaware.”<sup>139</sup> Furthermore, Heartland did not “argue that the district court’s exercise of jurisdiction is unreasonable nor d[id] it dispute that the balance of the plaintiff’s and forum state’s interests against the burdens imposed on it is any different than those in *Beverly Hills Fan*.”<sup>140</sup> The Federal Circuit found that “Heartland has thus failed to show that its right to mandamus is clear and indisputable.”<sup>141</sup>

The U.S. Supreme Court granted certiorari on December 14, 2016, regarding the issue of where a domestic corporation “resides” for purposes of the patent venue statute.<sup>142</sup> The Survey for the next Survey period will report on the Supreme Court’s decision and the decision’s impact on the future of patent suit filings.

### 3. “First Sale” Doctrine for Patents and Copyright—*Kirtsaeng v. John Wiley & Sons and Lexmark v. Impression Products*

In 2013, the U.S. Supreme Court in *Kirtsaeng* found that a first authorized sale, which takes place outside of the United States, exhausts the copyright owner’s exclusive right of distribution under U.S. copyright law.<sup>143</sup> Even though *Kirtsaeng* was a copyright case, its impact has also raised the issue of patent exhaustion. In the 2016 *Lexmark* decision, the U.S. Court of Appeals for the Federal Circuit found that *Kirtsaeng* does not have the same impact on patent law as it does on copyright law,<sup>144</sup> but the U.S. Supreme Court reversed this holding after the Survey period.<sup>145</sup>

Publisher John Wiley & Sons, Inc. (Wiley) sued *Kirtsaeng*, a domestic reseller, for copyright infringement.<sup>146</sup> Wiley’s foreign subsidiary published, printed, and sold foreign editions of Wiley’s textbooks abroad.<sup>147</sup>

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137. *Id.* at 1341.

138. *Id.* at 1344.

139. *Id.*

140. *Id.*

141. *Id.* at 1345. Readers should take note that the U.S. Supreme Court reversed this decision after the Survey period. *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017).

142. *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 614 (2016).

143. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

144. *Lexmark Int’l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 727 (Fed. Cir. 2016), *rev’d*, 137 S. Ct. 1523 (2017).

145. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1532 (2017).

146. *Kirtsaeng*, 133 S. Ct. at 1352.

147. *Id.*

The books contained statements that the books should not be taken into the United States.<sup>148</sup> Kirtsaeng moved to the United States and had his family and friends purchase Wiley's textbooks in Thailand and mail the textbooks to the United States.<sup>149</sup> Kirtsaeng sold the books, reimbursed his family and friends, and pocketed the profit.<sup>150</sup>

Wiley claimed that Kirtsaeng infringed under 17 U.S.C. § 106(3).<sup>151</sup> Kirtsaeng argued that his actions were protected under the "first sale" doctrine because the "books were 'lawfully made' and acquired legitimately[.]"<sup>152</sup> As a result, Kirtsaeng believed that the first sale doctrine allowed for the books to be imported and resold.<sup>153</sup> The U.S. District Court for the Southern District of New York disagreed with Kirtsaeng's arguments and found that the first sale doctrine did not apply to goods made abroad.<sup>154</sup> The U.S. Court of Appeals for the Second Circuit affirmed the district court's decision.<sup>155</sup>

The U.S. Supreme Court disagreed with the Second Circuit and held that the "first sale" doctrine applies to copyrighted works lawfully made abroad.<sup>156</sup> For several reasons, the Supreme Court found that the phrase "lawfully made under this title" from the Copyright Act does not have a geographical interpretation.<sup>157</sup> First, the language of the statute is silent regarding geography.<sup>158</sup> Second, "Congress did not have geography in mind when writing" the statute.<sup>159</sup> There was no previous geographical limitation before Congress changed that statutory language.<sup>160</sup> Furthermore, Congress did not implicitly add a geographical limitation in the language of the statute.<sup>161</sup> Third, a geographical limitation would negatively impact libraries, used-book dealers, technology companies, consumer-goods retailers, and museums.<sup>162</sup> For example, if the Copyright Act does contain a geographical limitation, a library would be required to track down foreign "heirs of copyright owners" for permission to display a work.<sup>163</sup>

As a result, the Supreme Court claimed that "[w]hether copyright owners should, or should not, have more than ordinary commercial power to divide international markets is a matter for Congress to decide."<sup>164</sup> Thus,

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148. *Id.*

149. *Id.*

150. *Id.*

151. *Id.*

152. *Id.*

153. *Id.*

154. *Id.*

155. *Id.* at 1357.

156. *Id.*

157. *Id.* at 1358.

158. *Id.*

159. *Id.* at 1360.

160. *Id.*

161. *Id.*

162. *Id.* at 1366.

163. *Id.* at 1354, 1366.

164. *Id.* at 1371.

the Supreme Court found that foreign sales exhaust in copyright.<sup>165</sup>

In *Lexmark*, the Federal Circuit found that a first sale abroad, without the approval of the U.S. patentee, does not exhaust patent rights.<sup>166</sup>

Lexmark makes and sells printer and toner cartridges and also owns patents related to the printer and toner cartridges and their use.<sup>167</sup> Impression resold the cartridges, in both the United States and abroad, after they had already been used.<sup>168</sup> In order for the cartridges to be reused, Impression had a third party modify the cartridges.<sup>169</sup> Lexmark sued for patent infringement.<sup>170</sup> Impression claimed that Lexmark's patent rights were exhausted.<sup>171</sup> The U.S. District Court for the Southern District of Ohio held that Lexmark's patent rights were not "exhausted upon the first authorized sale abroad."<sup>172</sup>

The U.S. Court of Appeals for the Federal Circuit addressed the issue of whether it should overrule *Jazz Photo* in light of *Kirtsaeng*.<sup>173</sup> The Federal Circuit in *Jazz Photo* found that patent rights are not exhausted by a first sale abroad, whereas the U.S. Supreme Court in *Kirtsaeng* found that copyright rights are exhausted by a first sale abroad.<sup>174</sup>

The Federal Circuit found the *Kirtsaeng* holding inapplicable for several reasons.<sup>175</sup> First, *Kirtsaeng* did not address patent law.<sup>176</sup> *Kirtsaeng* interpreted the Copyright Act, with no mention of the Patent Act.<sup>177</sup> Furthermore, copyright law is much different from patent law because the Copyright Act does not contain a "right to exclude anyone from" use, and permits acts without the authority of the copyright owner.<sup>178</sup> *Kirtsaeng* also does not cite to any patent exhaustion cases.<sup>179</sup> Second, there are differences between the Copyright Act and patent law. Patent exhaustion requires a prior sale, whereas the Copyright Act does not.<sup>180</sup> Moreover, the Patent Act refers to the manufacture, use, or sale of the patented article, whereas the Copyright Act only refers to the manufacture of the copyrighted work.<sup>181</sup> As a result, the Federal Circuit found that *Kirtsaeng* was not controlling of the analysis.<sup>182</sup>

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165. *Id.*

166. *Lexmark Int'l, Inc. v. Impression Prods., Inc.* 816 F.3d 721, 755–58 (Fed. Cir. 2016), *rev'd*, *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523 (2017).

167. *Id.* at 727.

168. *Id.*

169. *Id.*

170. *Id.* at 729.

171. *Id.*

172. *Id.* at 730.

173. *Id.* at 756.

174. *Id.*

175. *Id.*

176. *Id.*

177. *Id.*

178. *Id.*

179. *Id.*

180. *Id.* at 757–58.

181. *Id.* at 758.

182. *Id.* at 760.



The Federal Circuit also found that public policy and logistics supported its position. For example, the “reward” of a patent is the right to exclude others “in the United States,” not abroad.<sup>183</sup> Furthermore, the award of a patent is country specific.<sup>184</sup> Copyright registration is not country specific because it occurs without government approval.<sup>185</sup> Currently, Congress has refused to expand a patent owner’s right.<sup>186</sup> Finally, the Federal Circuit would cause “significant disruption of existing practices” if it overturned *Jazz Photo*.<sup>187</sup> As a result, the Federal Circuit upheld *Jazz Photo* and found that the first foreign sale of a patented article abroad “does not exhaust the patentee’s U.S. patent rights.”<sup>188</sup>

On December 2, 2016, the U.S. Supreme Court granted certiorari regarding the issue of whether a sale of a patented product exhausts both domestic and international rights.<sup>189</sup> The results of the Supreme Court’s decision will be reported in the following Survey for the next Survey period.

### C. INTER PARTES REVIEW

Inter partes review filings have remained consistent over the past year.<sup>190</sup> *Cuozzo* is an important case dealing with inter partes reviews, and several following cases have applied *Cuozzo*.

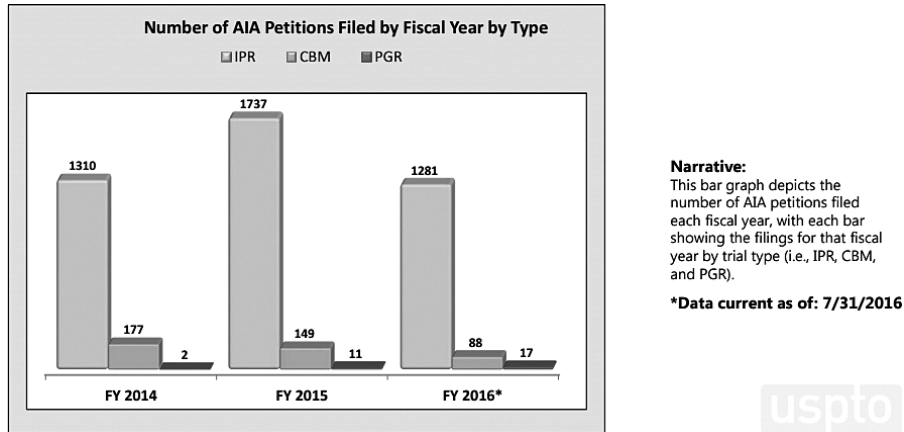


Chart 1. Number of AIA Petitions Filed by Fiscal Year by Type<sup>191</sup>

183. *Id.*

184. *Id.* at 762.

185. *Id.*

186. *Id.* at 767.

187. *Id.* at 772.

188. *Id.* at 774. The U.S. Supreme Court reversed the decision in *Lexmark* after the Survey period. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1532 (2017).

189. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 546 (2016).

190. *See infra* note 191.

191. *Patent Trial and Appeal Board Statistics*, USPTO 3 (July 31, 2016), <https://www.uspto.gov/sites/default/files/documents/2016-07-31%20PTAB.pdf> [<https://perma.cc/FB3P-M6VW>].

The U.S. Court of Appeals for the Federal Circuit has made several important rulings following *Cuozzo*. In the first case, the Federal Circuit found that the Patent Trial and Appeal Board's (PTAB) decision whether to institute an inter partes review proceeding based on an assessment of statutory timebar is not subject to judicial review.<sup>192</sup>

### 1. *Cuozzo and a Time Bar—Click-to-Call v. Oracle*

In *Click-to-Call*, the PTAB determined that the patent at issue was unpatentable.<sup>193</sup> The patent owner appealed and the U.S. Court of Appeals for the Federal Circuit dismissed the appeal.

Click-to-Call (CTC) “appealed from a final written decision” from the PTAB, arguing that the “[inter partes review] proceedings should have been barred by 35 U.S.C. § 315(b).”<sup>194</sup> The Federal Circuit then dismissed CTC's appeal because of a lack of jurisdiction, as set forth in *Achates* where the Federal Circuit held that “a party cannot challenge the Board's decision to institute an [inter partes review] proceeding under § 315(b)[.]”<sup>195</sup> The U.S. Supreme Court granted certiorari, vacated the previous judgment, and remanded the case for further consideration in light of *Cuozzo*.<sup>196</sup>

CTC argued that *Cuozzo* required the Federal Circuit to reconsider *Achates* because “the time bar under § 315(b) is not closely related to the Board's decision to institute under § 314(a).”<sup>197</sup> Oracle Corp. (Oracle) and the U.S. Patent and Trademark Office (USPTO) argued that *Cuozzo* supported the holding in *Achates* because the timebar is “closely tied to those statutes authorizing the PTO to act.”<sup>198</sup>

In *Wi-Fi One*, “a majority of the panel determined that the Supreme Court's decision in *Cuozzo* did not overrule [the Federal Circuit's] previous decision in *Achates* and that later panels of the court remain bound by *Achates*.”<sup>199</sup> The Federal Circuit held that since it is bound by *Wi-Fi*, it is also bound by *Achates*.<sup>200</sup> Thus, the Federal Circuit dismissed “CTC's appeal for lack of jurisdiction.”<sup>201</sup>

### 2. *Cuozzo and PTAB Independence—Magnum Oil Tools*

The U.S. Court of Appeals for the Federal Circuit addressed several burden-shifting issues in *In re Magnum Oil Tools Int'l, Ltd.*<sup>202</sup> McClinton Energy Group (McClinton) filed an inter partes review petition of a pat-

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192. *Click-to-Call Techs., LP v. Oracle Corp.*, No. 2015-1242, 2016 WL 6803054, at \*1 (Fed. Cir. Nov. 17, 2016).

193. *Id.*

194. *Id.*

195. *Id.*

196. *Id.*

197. *Id.*

198. *Id.* at \*2.

199. *Id.*

200. *Id.*

201. *Id.*

202. 829 F.3d 1364, 1368 (Fed. Cir. 2016).

ent owned by Magnum Oil Tools International (Magnum).<sup>203</sup> The PTAB instituted the petition and held that all challenged claims of the patent were obvious. Magnum appealed the PTAB's decision.<sup>204</sup> The Board scrutinized three primary references and a tool catalog, referred to as Cockrell, Kristiansen, Lehr, and Alpha, respectively.

McClinton argued that all the claims were "obvious over Alpha . . . in combination with Cockrell and Kristiansen."<sup>205</sup> McClinton "also noted that the claims would have been obvious over the combination of Lehr as a base reference (in view of Cockrell and Kristiansen), McClinton largely 'incorporated by reference' its arguments on Lehr from its earlier arguments based on Alpha."<sup>206</sup> The PTAB instituted the inter partes review "based on Lehr in view of Cockrell and Kristiansen, but not on the basis of Alpha."<sup>207</sup> Magnum argued for a rehearing, claiming that the "Board had relied on a 'new ground of unpatentability' regarding a skilled artisan's motivation to combine Lehr with Cockrell and Kristiansen."<sup>208</sup> Furthermore, Magnum claimed that "there was no evidence supporting the [PTAB's] finding."<sup>209</sup> The PTAB denied Magnum's request.<sup>210</sup>

The USPTO claimed that the PTAB's decision is unreviewable under *Cuozzo*.<sup>211</sup> Magnum argued that it is "not challenging the Board's decision to institute the [inter partes review], but rather the Board's statements made regarding obviousness of the claimed invention, some of which were made in the Board's institution decision and later relied upon in the Board's final written decision."<sup>212</sup> The PTAB found that it had jurisdiction because "[n]othing in either 35 U.S.C. § 314(d) or *Cuozzo Speed Techs.* shields aspects of a Board decision [that] are critical to its ultimate judgment merely because its final analysis relies on statements made when it initially considered the petition."<sup>213</sup>

The Federal Circuit disagreed with the USPTO's argument that the "burden of production shifts to the patentee upon the Board's conclusion in an institution decision that 'there is a reasonable likelihood that the petitioner would prevail.'"<sup>214</sup> The USPTO's proposal goes against the Federal Circuit's precedent, where the decision to institute and final decision are "two very different analyses."<sup>215</sup> Additionally, there is a "'significant difference' between the standards of proof at institution and trial during an [inter partes review]."<sup>216</sup> The petitioner must retain the "bur-

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203. *Id.* at 1367.

204. *Id.*

205. *Id.* at 1372.

206. *Id.*

207. *Id.* at 1373.

208. *Id.*

209. *Id.*

210. *Id.*

211. *Id.*

212. *Id.* at 1373-74.

213. *Id.* at 1374.

214. *Id.* at 1376.

215. *Id.*

216. *Id.*

den of proving unpatentability after institution.”<sup>217</sup> It would be “inappropriate” to put a burden of patentability on the patentee after institution.<sup>218</sup>

The Federal Circuit agreed with Magnum’s claims that the PTAB “improperly shifted the burden to it, as the patentee, to prove nonobviousness.”<sup>219</sup> Magnum claimed that McClinton never explained “why a skilled artisan would have sought to combine the asserted prior art references.”<sup>220</sup> McClinton argued Alpha as a primary base reference, not Lehr, which is the reference that the PTAB used to institute the inter partes review.<sup>221</sup> The Federal Circuit reversed the decision because “McClinton failed to separately meet its burden of establishing obviousness in view of Lehr, Cockrell, and Kristiansen[.]”<sup>222</sup>

The PTAB improperly shifted the burden to Magnum when it expected Magnum to explain why the obviousness argument that was used on Alpha, Cockrell, and Kristiansen was not applicable to Lehr, Cockrell, and Kristiansen.<sup>223</sup> Furthermore, Lehr and Alpha operate in “different manners,” and no one gave an explanation of why “combining the first set of references equally applies to the second set of references.”<sup>224</sup> As a result, the Federal Circuit reversed the decision because of the incorrect placement of the burden of persuasion.<sup>225</sup>

The Federal Circuit also found that since McClinton never explained “why a skilled artisan would have sought to combine the prior art references to achieve the claimed invention, the Board had no basis for its conclusion that McClinton had met its burden of proving by a preponderance of the evidence that the claimed invention would have been obvious.”<sup>226</sup> Furthermore, the PTAB cannot adopt arguments that McClinton should have made but never actually did make.<sup>227</sup> Thus, the Federal Circuit held that “while the PTO has broad authority to establish procedures for revisiting earlier-granted patents in [inter partes reviews], that authority is not so broad that it allows the PTO to raise, address, and decide unpatentability theories never presented by the petitioner and not supported by record evidence.”<sup>228</sup>

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217. *Id.* at 1376–77.

218. *Id.* at 1376.

219. *Id.* at 1377.

220. *Id.*

221. *Id.*

222. *Id.* at 1377–78.

223. *Id.* at 1378.

224. *Id.*

225. *Id.* at 1378–79.

226. *Id.* at 1380.

227. *Id.* at 1381.

228. *Id.*

3. *Cuozzo and Reconsideration of a Review Request—Medtronic v. Bosch*

The U.S. Court of Appeals for the Federal Circuit has also found that vacating institution decisions and terminating proceedings because of a failure to comply with the “requirement that all real parties in interest be disclosed” are both barred from review by § 314(d).<sup>229</sup>

In *Medtronic*, Bosch sued Cardiocom, alleging patent infringement.<sup>230</sup> Cardiocom filed petitions for inter partes review for the patents at issue.<sup>231</sup> The petitions were denied.<sup>232</sup> Cardiocom is a subsidiary of Medtronic.<sup>233</sup> Medtronic then filed petitions seeking inter partes review on the same patents at issue and listed only itself as “the sole real party in interest.”<sup>234</sup> Bosch “argued that the petitions should be denied because Medtronic had failed to name Cardiocom as a real party in interest as required by 35 U.S.C. § 312(a)(2).”<sup>235</sup> The PTAB instituted the petitions, but after additional discovery, granted Bosch’s motion to terminate the proceedings because Medtronic failed to name all real parties in interest.<sup>236</sup> Medtronic appealed the decision, and Bosch claimed that the PTAB’s decisions were not appealable under § 314(d).<sup>237</sup> The Federal Circuit dismissed Medtronic’s appeals and “denied mandamus relief in a non-precedential order.”<sup>238</sup> In light of the *Cuozzo* ruling, the Federal Circuit recalled its mandate.<sup>239</sup>

In performing its analysis, the Federal Circuit focused on whether the current challenge is “closely related” to “the application and interpretation of statutes related to the Patent Office’s decision to initiate inter partes review.”<sup>240</sup> The reconsideration of the PTAB’s decision is not reviewable for a couple reasons. First, the PTAB’s “reconsideration was predicated on a failure to meet the statutory requirements for filing a petition under § 312(a)[.]”<sup>241</sup> Second, 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>242</sup> The Federal Circuit found that the request to reconsider a decision whether to institute an inter partes review is a nonappealable decision under *Cuozzo* because the PTAB’s “reconsideration in this case is fairly characterized as a decision whether to institute proceedings, the review of which is barred by

229. *Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.*, 839 F.3d 1382, 1383–84 (Fed. Cir. 2016).

230. *Id.* at 1383.

231. *Id.*

232. *Id.*

233. *Id.*

234. *Id.*

235. *Id.*

236. *Id.*

237. *Id.* at 1384.

238. *Id.*

239. *Id.*

240. *Id.*

241. *Id.* at 1385.

242. *Id.* at 1384–85.

§ 314(d).”<sup>243</sup>

#### 4. *Future Cuozzo Questions*—Aqua Products

In *Aqua Products*, the U.S. Court of Appeals for the Federal Circuit vacated its previous opinion and granted a petition for rehearing en banc.<sup>244</sup> Once again, the burden of persuasion and production is at issue. The Federal Circuit requested supplemental briefs on the following questions:

- (1) When the patent owner moves to amend its claims under 35 U.S.C. § 316(d), may the PTO require the patent owner to bear the burden of persuasion, or a burden of production, regarding patentability of the amended claims as a condition of allowing them? Which burdens are permitted under 35 U.S.C. § 316(e)?<sup>245</sup>
- (2) When the petitioner does not challenge the patentability of a proposed amended claim, or the Board thinks the challenge is inadequate, may the Board sua sponte raise patentability challenges to such a claim? If so, where would the burden of persuasion, or a burden of production, lie?<sup>246</sup>

There are still many questions remaining pertaining to the inter partes review process. It will be interesting to see if there is a shift regarding the burden of persuasion and the burden of production in 2017. It is also interesting to see how the courts will continue to apply *Cuozzo* in the upcoming year.

### III. TRADEMARK UPDATE

#### A. A LOW BAR TO REGISTRATION—*CHRISTIAN FAITH FELLOWSHIP CHURCH V. ADIDAS*

The U.S. Court of Appeals for the Federal Circuit reversed the Trademark Trial and Appeal Board’s cancellation of trademarks owned by the Christian Faith Fellowship Church (the Church), finding that intrastate sales to out-of-state residents fell within the broad powers of the Commerce Clause.<sup>247</sup>

In 2005, in connection with a fundraising campaign, the Church began selling apparel displaying the phrase “ADD A ZERO.”<sup>248</sup> Thereafter, the Church applied for and obtained two U.S. Federal registrations for the mark, relying on actual use in commerce (as opposed to an intent-to-use in commerce). In 2009, Adidas sought registration of the mark “ADIZERO,” but encountered a refusal based on the Church’s prior registrations, spurring Adidas to bring a cancellation action before the

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243. *Id.*

244. *In re Aqua Prods., Inc.*, 833 F.3d 1335 (Fed. Cir. 2016) (per curiam).

245. *Id.* at 1336.

246. *Id.*

247. *See Christian Faith Fellowship Church v. Adidas AG*, 841 F.3d 986 (Fed. Cir. 2016).

248. *Id.* at 988.

Board. In the cancellation action, Adidas argued in part that the Church's registrations were void since the Church had failed to use the marks "in commerce" before registration, as required by the Lanham Act. The Board agreed with Adidas, finding that the evidence was insufficient to establish that a sale of one shirt and one cap from the Church's bookstore constituted "interstate commerce."<sup>249</sup>

In its ruling reversing the Board's decision, the Federal Circuit broke down § 1051(a) of the Lanham Act in determining what is required of mark owners to obtain a federal registration.<sup>250</sup> In doing so, the Federal Circuit determined that "to register a mark under § 1051(a), one must sell or transport goods bearing the mark such that the sale or transport would be subject to Congress's power under the Commerce Clause[.]"<sup>251</sup> After finding that the evidence on the record demonstrated that the Church had made an intrastate sale of its apparel to an out-of-state resident, the Federal Circuit analyzed whether such activities fell within the purview of Congress under the Commerce Clause (which would thus satisfy the Lanham Act's "use in commerce" requirement).<sup>252</sup>

Turning to the Commerce Clause, the Federal Circuit recognized at the outset that "Congress's power under the . . . Clause is broad."<sup>253</sup> Indeed, the Federal Circuit noted that contemporary decisions illustrate that Congress has the power to "regulate activities that have a substantial effect on interstate commerce," and even purely local activities may have such an effect.<sup>254</sup> After summarizing three U.S. Supreme Court cases addressing the broad reach of the Commerce Clause, as well as one of its own prior decisions on the topic,<sup>255</sup> the Federal Circuit held that "it [was] clear" that the sale of two hats bearing the Church's trademark "to an out-of-state resident is regulable by Congress under the Commerce Clause[.]"<sup>256</sup> Indeed, the Federal Circuit stated that "the transaction at issue falls comfortably within the bounds of those powers already sketched for us by the Supreme Court."<sup>257</sup> Not only did the Federal Circuit find that the economic activity of selling a product to an out-of-state resident was enough to satisfy the Lanham Act requirement, but it reminded the parties (and the TTAB) that the Commerce Clause does not

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249. Adidas AG v. Christian Faith Fellowship Church, Cancellation No. 9205331, 2015 WL 5882313, at \*6 (T.T.A.B. Sept. 14, 2015), *rev'd and remanded*, 841 F.3d 986 (Fed. Cir. 2016).

250. See *Christian Faith Fellowship Church*, 841 F.3d at 989.

251. *Id.*

252. *Id.* at 990.

253. *Id.*

254. *Id.* at 991; see also *Gonzales v. Raich*, 545 U.S. 1, 2 (2005) (the growth of marijuana for personal, medicinal use only and not to sell or transport the drug, was found to be part of "an economic 'class of activities' that have a substantial effect on interstate commerce").

255. See *Christian Faith Fellowship Church*, 841 F.3d at 990–94 (citing *Gonzales*, 545 U.S. at 1; *Taylor v. United States*, 136 S. Ct. 2074 (2016); *Wickard v. Filburn*, 317 U.S. 111 (1942); *Larry Harmon Pictures Corp. v. Williams Rest. Corp.*, 929 F.2d 662 (Fed. Cir. 1991)).

256. *Christian Faith Fellowship Church*, 841 F.3d at 992.

257. *Id.*

require any proof as to the activities' actual effects on interstate commerce.<sup>258</sup> Thus, despite the Church's sales being "de minimis" in nature, they were sufficient to support a federal registration.<sup>259</sup> The Federal Circuit left no question that the bar to establish "use in commerce" for purposes of obtaining a federal trademark registration is very low, due to the broad reach of Congress's powers to regulate commercial activity under the Commerce Clause. In the end, the Federal Circuit reversed the cancellation of the Church's marks and remanded the case to the TTAB for further review.<sup>260</sup>

B. PROTECTION OF FOREIGN TRADEMARKS IN THE UNITED STATES—  
*BELMORA V. BAYER*

In an important decision for companies engaging in global commerce, the U.S. Court of Appeals for the Fourth Circuit determined that owners of well-known foreign marks are permitted to pursue Lanham Act claims relating to false association and false advertising, as well as trademark cancellation, in the United States.<sup>261</sup>

The plaintiff, Bayer Consumer Care AG (Bayer), has been in the business of selling naproxen sodium pain relievers in Mexico under the registered trademark "FLANAX" since the 1970s.<sup>262</sup> Some of Bayer's sales over the years occurred near the Mexican-American border. The defendant, Belmora LLC (Belmora), began engaging in selling naproxen sodium pain relievers in the United States in 2004 and obtained a U.S. trademark registration a year later.<sup>263</sup> In the case, Bayer and its U.S. sister company alleged that Belmora registered and used the FLANAX trademark with the intent to deceive Mexican-American consumers into believing they were purchasing Bayer's products.

The evidence showed that, in addition to using and registering an identical name, Belmora initially sold its products in packaging resembling Bayer's own FLANAX-branded packaging.<sup>264</sup> Belmora also employed telemarketers who referred to Belmora's product as the "FLANAX in the US" and referred to Bayer's Latino FLANAX product routinely.<sup>265</sup> Bayer pursued a successful cancellation before the TTAB of Belmora's FLANAX registration based on a Lanham Act false association claim.<sup>266</sup> However, the U.S. District Court for the Eastern District of Virginia (relying on the U.S. Supreme Court decision in *Lexmark International, Inc.*

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258. *See id.* at 993.

259. *Id.* at 994.

260. *Id.* at 995.

261. *Belmora LLC v. Bayer Consumer Care AG*, 819 F.3d 697, 701 (4th Cir. 2016), *cert. denied*, 137 S. Ct. 1202 (2017).

262. *Id.* at 702.

263. *Id.*

264. *Id.* at 702–03.

265. *Id.* at 703.

266. *Id.* at 702.



*v. Static Control Components, Inc.*)<sup>267</sup> held that Bayer did not have standing to bring Lanham Act claims within the United States because Bayer did not have a protectable interest in the FLANAX mark in the United States and further because there cannot be a “cognizable economic loss” when a mark is not used in U.S. commerce.<sup>268</sup>

In reversing the lower court’s ruling, the Fourth Circuit first set forth § 43(a) of the Lanham Act, which provides an unfair competition claim for false association and false advertising.<sup>269</sup> Of great import was the fact that the plain language of the Section does not require that the plaintiff have possessed or used a trademark within U.S. commerce, whereas other sections of the Lanham Act do explicitly require use in commerce.<sup>270</sup> Rather, a false association claim on § 43(a) merely requires that one party’s use of a “word, term name, symbol, or device” in connection with goods or services “is likely to cause confusion . . . as to the origin, sponsorship, or approval of [the party’s] goods, services, or commercial activities by another person.”<sup>271</sup> Thus, in the case at hand, *Belmora*’s use of the FLANAX mark was the “alleged offending ‘word, term, name, symbol, or device.’”<sup>272</sup>

Contrary to the district court’s application, the Fourth Circuit, also analyzing the case under *Lexmark*, applied traditional rules of statutory interpretation and found that the district court erred in requiring Bayer to plead its prior use of the mark in the United States in order to bring a Lanham Act claim.<sup>273</sup> Rather, the Fourth Circuit noted, the statute clearly focuses on the defendant’s use.<sup>274</sup> The Fourth Circuit found that the district court had “conflated” § 43(a) of the Lanham Act with the “infringement provision in § 32.”<sup>275</sup> Also of significance to the Fourth Circuit was the U.S. Supreme Court’s recognition that § 43(a) “goes beyond trademark protection” and can extend to even generic marks.<sup>276</sup> Thus, if § 43(a) can provide protection to the previous owner of a mark that has become generic (and thus can no longer be owned as a trademark), it was clear to the Fourth Circuit that “§ 43(a) actions do not require, implicitly or otherwise, that a plaintiff have first used its own mark in United States Commerce.”<sup>277</sup>

Next, the Fourth Circuit had to determine whether Bayer had sufficiently pled that it was “likely to be damaged” by the defendant’s use of

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267. 134 S. Ct. 1377, 1388–90 (applying the “zone of interests” test to determine whether a cause of action extends to a particular plaintiff).

268. *Belmora*, 819 F.3d at 705.

269. *Id.* at 706 (citing Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1) (2012)).

270. *Id.*

271. *Id.*

272. *Id.*

273. *Id.* at 708–09.

274. *Id.* at 708.

275. *Id.*

276. *Id.* at 709.

277. *Id.* at 710.

the allegedly offending word or term, as required by § 43(a).<sup>278</sup> The Fourth Circuit held that Bayer's allegations of significant losses of sales stemming from Mexican-American consumers located near the border who would forgo purchases of Bayer's product in Mexico was enough to meet the pleading requirement as to proximate cause established in *Lexmark*.<sup>279</sup>

Similarly, the Fourth Circuit held that Bayer could also bring its false advertising claim on § 43(a), as well as a cancellation claim under § 14(3) of the Lanham Act, which allows for a petition to cancel a trademark registration by any party who "believes that he is or will be damaged."<sup>280</sup> The case was ultimately reversed and remanded. Belmora filed a Petition for Certiorari before the Supreme Court that was denied.<sup>281</sup>

#### IV. COPYRIGHT UPDATE

##### A. COPYRIGHT IN CHEERLEADER'S CHEVRONS AND STRIPES?— *VARSITY BRANDS V. STAR ATHLETICA*

In *Varsity Brands v. Star Athletica*, the U.S. Court of Appeals for the Sixth Circuit held that the Copyright Act protects graphic features of a design even where those features cannot be physically separated from the useful article.<sup>282</sup>

At the heart of the case was the question, "[a]re cheerleading uniforms truly cheerleading uniforms without the stripes, chevrons, zigzags, and color blocks?"<sup>283</sup> The plaintiff-appellants, Varsity Brands (and others), own copyright registrations for a number of designs that they imprint on "cheerleading uniforms and warm-ups they sell."<sup>284</sup> The defendant-appellees sell cheerleading uniforms bearing designs that the plaintiffs allege "are substantially similar" to its copyrighted designs.<sup>285</sup> The U.S. District Court for the Western District of Tennessee held that since the registered designs were not "physically or conceptually separable from the utilitarian function of a cheerleading uniform" (because a cheerleading uniform would not be a cheerleading uniform without its designs), the copyright registrations were invalid and entered summary judgment in favor of Star Athletica.<sup>286</sup>

In reversing the district court holding, the Sixth Circuit focused on the requirements to show infringement of a valid copyright.<sup>287</sup> Specifically, in this context, infringement of Varsity's copyright required that Varsity

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278. *Id.* at 711–12.

279. *Id.*

280. *Id.* at 712–15.

281. *Belmora LLC v. Bayer Consumer Care AG*, 137 S. Ct. 1202 (2017).

282. *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468, 471 (6th Cir. 2015), *aff'd*, 137 S. Ct. 1002 (2017).

283. *Id.* at 470.

284. *Id.*

285. *Id.*

286. *Id.* at 475.

287. *Id.* at 471.

“owned a valid copyright in [its] designs” and Star Athletic “copied protectable elements of the work.”<sup>288</sup>

In determining whether Varsity held valid copyrights, the Sixth Circuit first noted the presumption of validity given to a registered copyright and evaluated the level of deference that must be given to the Copyright Office’s determination that the designs are “non-functional and separable from the ‘utilitarian aspects of the article’ to which they are affixed.”<sup>289</sup> The Sixth Circuit held that, since decisions related to the copyrightability of works were not akin to “rules carrying the force of law,” the Copyright Office should be given greater deference (namely, *Skidmore* deference) than that which the district court afforded.<sup>290</sup> In addition, the Sixth Circuit noted that “the Copyright Office’s expertise in identifying and thinking about the difference between art and function [of a work] surpasses” the Sixth Circuit’s expertise.<sup>291</sup>

In determining whether an article constitutes a protectable work, the Sixth Circuit laid out the language of the Copyright Act and explained that a two-part inquiry must be pursued. First, the question must be answered “whether the design for which the author seeks copyright protection is a ‘design of a useful article[.]’”<sup>292</sup> If so, the court must ask if the “pictorial, graphic, or sculptural features” of the article are separable from, or in other words, can exist “independently of[ ] the utilitarian aspects” of the article.<sup>293</sup> To determine the separability of a “pictorial, graphic, or sculptural feature” of a work, courts look to “physical separability and conceptual separability.”<sup>294</sup> The Sixth Circuit laid out the numerous approaches employed by the Copyright Office and other courts, all of which have grappled with the idea of conceptual-separability over the years, and found that the best approach is to lay out a series of questions related to the text of the Copyright Act.<sup>295</sup> One portion in particular of the Sixth Circuit’s analysis was significant for the question of separability. Specifically, if the useful article’s function does not require the “pictorial, graphic, or sculptural features” or such features are “wholly unnecessary to performance of the utilitarian function,” then the features can exist without the useful article and vice versa.<sup>296</sup>

Applying its pronounced rule to the facts at hand, the Sixth Circuit found that Varsity’s designs could exist independently of the cheerleading uniforms as they could be transferred to a variety of garments and mediums, such as canvases.<sup>297</sup> The Sixth Circuit rejected Star’s argument that the ornamental features of the uniforms were “inextricably intertwined

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288. *Id.* at 476.

289. *Id.* at 477.

290. *Id.* at 479.

291. *Id.* at 480.

292. *Id.* at 481 (quoting Copyright Act, 17 U.S.C. § 101 (2012)).

293. *Id.* (quoting 17 U.S.C. § 101).

294. *Id.* at 481–82 (quoting 17 U.S.C. § 101).

295. *Id.* at 487.

296. *Id.* at 488.

297. *Id.* at 491.

with the utilitarian aspects . . . because they serve a decorative function.”<sup>298</sup> Indeed, the Sixth Circuit pronounced that such a rule “would render nearly all artwork unprotectable.”<sup>299</sup> The Sixth Circuit was careful to limit its holding by distinguishing between fabric designs and dress designs, which serve the purpose of covering and protecting the body, and which cannot be separated from the utilitarian aspects of the clothing.<sup>300</sup>

The Sixth Circuit’s opinion was recently affirmed by the U.S. Supreme Court.<sup>301</sup>

## V. WHAT PRACTITIONERS SHOULD WATCH FOR IN 2017–2018

The U.S. Supreme Court was very active in the intellectual property field after the Survey Period ended, having granted certiorari and issued opinions in several IP cases<sup>302</sup> following the Survey Period.<sup>303</sup>

In trademarks, the U.S. Supreme Court will determine whether the disparagement provision of the Lanham Act, 15 U.S.C. § 1052(a), is unconstitutional for violating the Free Speech Clause of the First Amendment.<sup>304</sup> The specific portion of § 1052(a) at issue relates to the refusal to register any trademark that may disparage persons, institutions, or beliefs.<sup>305</sup> In 2016, the U.S. Court of Appeals for the Federal Circuit found that the relevant section did, in fact, violate the Free Speech Clause, but limited its holding to that particular portion of the Statute.<sup>306</sup> The U.S. Supreme Court’s decision, however, could implicate additional aspects of the statute that refuse registration for trademarks deemed “immoral, deceptive, or scandalous.”<sup>307</sup> The case could also determine a currently pending case before the U.S. Court of Appeals for the Fourth Circuit, where the issue revolves around whether the football team name “Redskins” disparages against the Native American population and therefore should not be entitled to its federal trademark registration.<sup>308</sup> In addition, the Supreme Court’s decision has the ability to vastly change the face of the trademark register. If the Supreme Court deems the relevant portions of the Statute unconstitutional, the USPTO could expect an influx of “spirited” mark applications and potential action by Congress.

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298. *Id.* at 490.

299. *Id.*

300. *Id.* at 492.

301. *Star Athletica, L.L.C. v. Varsity Brands, Inc.*, 137 S. Ct. 1002 (2017).

302. See *In re Tam*, 808 F.3d 1321 (Fed. Cir. 2015), *as corrected* (Feb. 11, 2016), *cert. granted sub nom.* *Lee v. Tam*, 137 S. Ct. 30 (2016); *Varsity Brands*, 137 S. Ct. at 1002.

303. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523 (2017); *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017).

304. *In re Tam*, 808 F.3d at 1327.

305. *Id.* at 1331.

306. *Id.* at 1358.

307. 15 U.S.C. § 1052(a).

308. See *Pro-Football, Inc. v. Blackhorse*, 112 F. Supp. 3d 439 (E.D. Va. 2015), *appeal docketed*, No. 15-1874 (4th Cir. Aug. 6, 2015).

## VI. CONCLUSION

Developments during the Survey period continue to clarify the scope of intellectual property rights and liability for infringement. For example, the Supreme Court's decision in *Samsung* provides certainty that design patent damages are not necessarily attributable to an entire product. Furthermore, guidance on enhanced damages and the standard for institution of and claim interpretation during inter partes review proceedings was provided. In *Adidas*, the bar to federal trademark registration was confirmed to be low due to the broad reach of Congress's power under the Commerce Clause and foreign mark owners were given a leg up in asserting their rights in the United States in *Belmora*. In summary, the Survey period reflects changes in the law that, although not fundamental, result in greater certainty and efficiency in resolving IP disputes.