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Federal Circuit strikes down ban on 'immoral' or 'scandalous' marks

In the wake of the Supreme Court's 2017 decision declaring the Lanham Act's prohibition on "disparaging" trademarks to be unconstitutional, the U.S. Court of Appeals for the Federal Circuit has similarly held that its ban on "immoral" or "scandalous" trademarks does not pass constitutional muster.

The court's conclusion in *In re Brunetti* was almost inevitable after the Supreme Court's *Matal v. Tam* decision, says Tamara Miller, a member in Leydig's Chicago office.

"The same logic the Court applied in *Matal* was equally compelling in this case," Miller says. "The bans in Section 2(a) are focused on the expressive elements of marks. Taken together, these decisions make it clear that denying registration based on subjective determinations about the morality or offensiveness of such expressive speech violates the First Amendment."

In overturning the Trademark Trial and Appeal Board's decision to uphold the denial of Brunetti's registration of the word mark "FUCT," the Federal Circuit concluded that Section 2(a) was unconstitutional, regardless of which standard – strict scrutiny or intermediate scrutiny – was used to evaluate the ban's viability.

"There can be no question that the immoral or scandalous prohibition targets the expressive components of speech" and is, therefore, subject to strict scrutiny, the court held. Since the ban requires the government to make "value judgments about the expressive message behind the trademark," it cannot survive under the strict scrutiny standard.

Even if Section 2(a) were viewed through the lens of intermediate scrutiny as a regulation of commercial speech, it would still be unconstitutional because, as the court concluded, "the government does not have a substantial interest in protecting the public from scandalousness and profanities."

With the U.S. Patent and Trademark Office (USPTO) now out of the business of making subjective value judgments about the morality or propriety of proposed marks, one can expect a wave of refiled applications for marks previously rejected under Section 2(a), says Laura Schaefer, an associate in Leydig's Chicago office.

"Aside from denying applications based on, for example, a likelihood of confusion or because the mark is used in connection with illegal goods or services, examiners are now essentially obligated to approve a mark, regardless of its moral substance," Schaefer says.

Miller cautions that if Congress or the USPTO felt compelled to continue the prohibition on some offensive marks, they could do so by more formally banning the registration of "obscene" marks.

"Obscene speech is not protected by the First Amendment, but the Lanham Act doesn't mention obscenity," Miller notes. "Unless and until it does, prepare to see much more trademarked vulgarity in the marketplace."

Federal Circuit makes it easier to prove divided infringement liability

The U.S. Court of Appeals for the Federal Circuit has further expanded its view of divided infringement by recently elaborating on the ways in which plaintiffs can attribute method steps performed by a third party to an alleged infringer.

In overturning a district court's granting of summary judgment in *Travel Sentry, Inc. v. Tropp,* the Federal Circuit provided further guidance on the two-prong test it set forth in *Akamai Technologies, Inc. v. Limelight Networks, Inc. (Akamai V)* for establishing divided infringement liability under 35 U.S.C. § 271(a): The alleged infringer "conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method" and "establishes the manner or timing of that performance."

Taken together, *Akamai V* and *Travel Sentry* set the bar for attributing infringement extremely low, and represent a significant expansion of divided infringement from the contexts in which it had historically arisen, says Steven Petersen, a member in Leydig's Chicago office.

"Traditionally, divided infringement was used to impute liability to those who hired or directed others upstream to perform steps of the patented method," Petersen says. "In light of these decisions, courts can now seemingly impose liability based on the actions of downstream users who simply receive some benefit by performing a part of the patented method."

Travel Sentry sold luggage locks that screening authorities, such as the Transportation Safety

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Federal Circuit rules that some IPR initiation decisions are appealable

A determination by the Patent Trial and Appeal Board (PTAB) that a petition for inter partes review (IPR) is time-barred is appealable, an *en banc* U.S Court of Appeals for the Federal Circuit recently held. Relying on "the strong presumption favoring judicial review of administrative actions," the court overruled a previous panel decision in *Wi-Fi One, LLC v. Broadcom Corp.*

The decision opens up the possibility of more appeals of PTAB determinations as to whether to initiate an IPR, especially decisions based on issues unrelated to patentability, says John Winn, a member in Leydig's Chicago office.

"The court effectively narrowed the scope of non-appealable IPR initiation determinations to those which touch upon the substantive patent issues raised in the petition," Winn says. "Petitioners can seek appellate review of decisions based on procedural issues, such as timeliness, that don't implicate the PTAB's patent expertise."

After Broadcom petitioned the PTAB to institute IPRs challenging three of Wi-Fi One's patents, the board rejected Wi-Fi One's assertion that the petition was time-barred under 35 U.S.C. § 315(b) because of district court litigation involving the same patents and parties that Wi-Fi One claimed were real parties-in-interest. The PTAB instituted the IPR proceedings and ultimately determined the challenged claims of the Wi-Fi One patents were unpatentable.

Wi-Fi One appealed the PTAB's final ruling to the Federal Circuit, which held the board's decision was not reviewable under 35 U.S.C. § 314(d), which provides that "[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable."

After granting Wi-Fi One's petition for rehearing *en banc*, the Federal Circuit held that § 314(d) does not bar judicial review of a § 315(b) time-bar determination. Section 314(d) only precludes review of "the Director's determinations closely related to the preliminary patentability determination or the exercise of discretion not to institute," under that section, the opinion stated.

Since § 315 is not closely related "to the institution decision addressed in § 314(a) … it therefore is not subject to § 314(d)'s bar on judicial review," the court concluded.

Tara Goodarzi, an associate in Leydig's Chicago office, says that relationships which can trigger IPR time-bar claims based on district court litigation are fairly common, so the court's decision could offer many patent holders a potential escape hatch when such claims are rejected and IPRs are initiated over their objections.

"Patent holders are no longer stuck with initiation decisions, so long as they can base their objections on factors outside the four corners of the petition," Goodarzi says. "While you can't appeal a determination the board makes after evaluating a petition, you can appeal whether they should have been able to evaluate the petition at all."

Supreme Court to address lost profit damages for foreign patent infringement

A $93.4 million question about lost profits from work performed on the high seas has made its way to the high court. By granting certiorari in *WesternGeco, LLC v. ION Geophysical Corp.,* the Supreme Court will address the issue of whether a patent holder can recover lost profits for patent infringement, even where the patent holder would have earned those profits outside the United States.

The value of many infringement cases could increase significantly if the Court decides that overseas activities can be the basis of a damage award, says J. Karl Gross, a member in Leydig's Chicago office.

"If the Court makes a broad ruling about extraterritorial damages that extends beyond the unique facts of this case, successful plaintiffs could potentially recover damages for harms, such as lost market share, that occur outside the U.S.," Gross says.

The case arrives at the Court after a divided panel of the U.S. Court of Appeals for the Federal Circuit reversed a district court award of lost profits to WesternGeco, based on 10 contracts for marine seismic surveys performed by ION's customers in international waters. The district court judgment found that ION had infringed on WesternGeco's patents under 35 U.S.C. § 271(f) by exporting components to its customers, who then assembled and used WesternGeco's survey system.

Noting there is a presumption against the extraterritorial application of the Patent Act that only Congress can override, the majority of the Federal Circuit panel concluded that while § 271(f) expresses congressional intent to apply the law as to liability for acts performed outside the country, no such intent has been expressed that would allow an award of extraterritorial lost profit damages. U.S. patent laws do not "provide compensation for a defendant's foreign exploitation of a patented invention, which is not infringement at all," the majority opinion declared.

In a dissenting opinion, echoed by the government in its brief that supported granting certiorari, U.S. Circuit Judge Evan Wallach wrote that "[the] traditional common-law principle … [of] compensatory damages" should apply to patent infringement, which would allow for the recovery of lost profits if a plaintiff can prove proximate causation between any U.S. infringement and those profits.

While it is difficult to know which approach the Court will take, Brent Chatham, an associate in Leydig's Frankfurt am Main, Germany office, cautions that the nuances of this particular case mean the Court's decision may not be a definitive thumbs-up or thumbs-down regarding the availability of lost profit damages from foreign activities.

"The lost profits at issue here were based on contracts for services that involved the use of patented items – not for the sale of the patented items themselves," Chatham says. "The Court could find that while recovery of profits lost due to the foreign sale of patented items by a U.S. manufacturer of those items is allowed, lost profits for the service contracts entered into outside of the U.S. are unavailable."

Federal Circuit makes it easier to prove divided infringement liability *cont.*

Administration (TSA), could open with a master key that Travel Sentry provided. Travel Sentry entered into an agreement with the TSA to provide the master keys as well as instructions and training on how to identify its locks and open them. Tropp held a method patent requiring steps to be performed by both Travel Sentry and the TSA. Tropp claimed that Travel Sentry should be held liable for infringing his method patent because the steps performed by the TSA are attributable to Travel Sentry.

The Federal Circuit held that a reasonable jury could have found that both prongs of the *Akamai V* test were satisfied. In so doing, the court clarified that "conditioning" participation in an activity or receipt of a benefit does not require imposing legal or technological obligations on the third party to perform the steps in question.

Rather, it was sufficient that "whatever benefits flow to TSA from identifying luggage with Travel Sentry's dual-access locks and from opening these locks … can only be realized if TSA performs the final two claim steps." Further, the court held that a jury could have found that instructions and training Travel Sentry provided to TSA on how to identify and open the locks with the master keys established the "manner or timing" of the performance of the patented steps.

"While it is generally better to avoid drafting method claims in a manner which requires multiple actors, this decision makes it significantly easier to attribute steps performed by a downstream user to an alleged infringer," says James Signor, a member in Leydig's Frankfurt am Main, Germany office. "Who uses a product or engages in an activity that won't provide some benefit, and who sells a product or service without even the most rudimentary instructions? That is seemingly all you need now for divided infringement liability under § 271(a)."

To avoid Amazon Brand Registry 'hijacking,' keep your counsel in the loop

If you sell goods that are branded with a registered trademark on Amazon, you should be familiar with the Amazon Brand Registry. The program offers several benefits but is not without its vulnerabilities, even after Amazon completed a major overhaul in May 2017. While that overhaul added protections and simplified the process for discovering and reporting infringement, sellers may still discover that one of their listings has been "hijacked" by an unscrupulous competitor or counterfeiter who is now selling its own products under their listing.

Hijacking a listing through the registry often involves the hijacker or counterfeiter updating or changing the contact information on file with the U.S. Patent and Trademark Office (USPTO) for a given mark. That is because Amazon, after receiving a request to list a branded product on the registry, will send an activation code to the contact designated at the USPTO, which is then used to create an authorized, branded listing. By adding themselves as authorized contacts with the USPTO before signing up with Amazon, hijackers get their hands on that code and can begin selling their counterfeit goods using the trademark owner's registration.

The problem is that updating contact information with the USPTO is very straightforward, and when Amazon sends the code to the designated contact, the company does not indicate who requested the code or listing. When the legitimate contact receives the code in an email from Amazon, he may not be able to tell whether the request for the code came from someone or somewhere else in his organization or whether it came from an unauthorized hijacker.

This creates a challenge for larger companies as well as those who designate outside counsel as their USPTO contact, says Michelle Zimmermann, a member in Leydig's Chicago office.

"There is a need for increased communication and cooperation between a company's business units and between the company and its trademark counsel to make sure everyone is aware when a code is requested and who requested it," Zimmermann says.

She recommends that clients advise their designated USPTO contacts, whether in-house or outside counsel, every time a new code is requested. That way, trademark owners can quickly identify and address unauthorized requests.

PTAB rejects Allergan's sovereign immunity gambit

Rejecting a novel and closely watched effort by drugmaker Allergan to avoid an inter partes review (IPR) proceeding by transferring ownership of six patents to a Native American tribe, the Patent Trial and Appeal Board (PTAB) held that the concept of sovereign immunity does not apply to IPRs.

Denying Allergan's motion to dismiss, the board concluded that "reconsideration of the patentability of issued claims via inter partes review is appropriate without regard to the identity of the patent owner."

Unless Allergan appeals, the PTAB's ruling effectively ends the company's attempt to protect its patents for Restasis, its $1.5 billion dry-eye drug, from IPRs by transferring them to New York's St. Regis Mohawk Tribe.

The move caused controversy and backlash from Congress from the moment it was announced in fall 2017. A district court decision that invalidated the same patents on unrelated grounds also criticized Allergan's gambit, remarking that sovereign immunity "should not be treated as a monetizable commodity that can be purchased by private entities as part of a scheme to evade their legal responsibility."

LEYDIG **Intellectual Property Report**

Leydig Announces

Leydig welcomes to its Frankfurt am Main, Germany office:

- Associate **Eric Arnell** holds a law degree and a bachelor's degree in electrical engineering from the University of Texas.

Leydig Awards

- Thirteen Leydig attorneys have been named as Illinois Super Lawyers and six Leydig attorneys have been named as Rising Stars.
- *World Trademark Review* has recognized Leydig as a top trademark law firm, and **Mark Liss**, **Tamara Miller**, **Anne Naffziger**, **Kevin Parks** and **Claudia Stangle** were listed as top trademark lawyers.

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