STRADLEY RONON

IP Appeal

A Publication of the Stradley Ronon
Intellectual Property Practice Group

WWW.STRADLEY.COM

FALL 2019

Stradley Ronon Stevens & Young, LLP
2005 Market Street
Suite 2600
Philadelphia, PA 19103-7018
215.564.8000 Telephone
215.564.8120 Facsimile
www.stradley.com

Pennsylvania
Washington, D.C.
New York
Illinois
New Jersey
Delaware

LAW FIRMS WORLDWIDE MERITAS

www.meritas.org

Our firm is a member of Meritas – a worldwide business alliance of more than 183 law offices in 92 countries, offering high-quality legal services through a closely integrated group of independent, full-service law firms.

Information contained in this publication should not be construed as legal advice or opinion or as a substitute for the advice of counsel. The enclosed materials may have been abridged from other sources. They are provided for educational and informational purposes for the use of clients and others who may be interested in the subject matter.

Copyright © 2019
Stradley Ronon Stevens & Young, LLP
All rights reserved.

Supreme Court Weighs in on IP Cases

By Kevin R. Casey

As we head into the last quarter of the year, it is noteworthy that the U.S. Supreme Court has already decided a number of intellectual property (IP) cases during 2019. Three of the more important decisions are summarized below, one each in the areas of copyright, trademark and patent law, along with insights about their practical impact. The cases reflect a relatively recent trend of the Court to decide IP cases. Historically, the Court rarely decided an IP case. This trend may reflect the importance of IP to our economy; the Court largely has a choice to decide, via a process called certiorari, only important cases and decline to address other cases. If there is one takeaway point from a review of the cases, it is this: The Court decides IP cases not as specialized areas of the law, but as consistent with general legal principles.

1. It Pays to Register Your Copyrighted Works With the U.S. Copyright Office

In *Fourth Estate Public Benefit Corp. v. Wall-Street.com* (https://www.supremecourt.gov/opinions/18pdf/17-571_e29f.pdf), 584 U.S. ___, 139 S. Ct. 881 (2019) (unanimous opinion by Justice Ginsburg), the Court ruled that a copyright holder must register a work with the U.S. Copyright Office before the holder can sue for infringement, and "registration" within the meaning of 17 U.S.C. § 411(a) occurs not when an application for registration is filed, but when the Copyright Office actually registers the copyright. Fourth Estate (a journalism collective) sued the website Wall-Street.com, claiming it had reposted articles without permission. The district court dismissed the case because Fourth Estate had filed its lawsuit before it had fully registered the copyrights for the articles. The Court affirmed the U.S. Court of Appeals for the Eleventh Circuit, resolving a long-standing circuit split, and rejected Fourth Estate's argument that the act of applying for copyright registration meets the prerequisite for filing an infringement suit.

The Recording Industry Association of America warned that forcing copyright owners to wait for registration would leave authors in a "sort of legal limbo." The American Bar Association cautioned that the slower registration approach, as opposed to the application approach, would have "an adverse impact on attorneys, their clients, and the judicial system." The Author's Guild predicted that the case could have "a monumental impact on an author's ability to protect the fruits of her creative endeavors." Delays in registration have grown recently: The average processing time for registration applications is currently seven months. Nevertheless, the Court rejected these policy and practical arguments and applied a straightforward statutory interpretation of the Copyright Act, namely the word "registration." Upon registration of the copyright, a copyright owner can recover for infringement that occurred both before and after registration – although the Copyright Act has a three-year statute of limitations on the time in which to sue.

The case has at least three practical ramifications:

a. Copyright owners should register early to avoid the delay that will occur if they wait to start the registration process until they notice someone infringing their work.

(Footnote 2 of the Court's opinion indicates that the initial delay in registering the application in this case was because the check submitted with the application "bounced.")

b. Also consider the use of expedited applications at the Copyright Office, which cost $800 and result in action within days.

c. From a contract perspective, copyright owners might include a provision in contracts directed to unregistered copyrights that provides injunctive relief, a de facto license or both to stop the use of content in the event of termination or expiration of the contract (i.e., create a contractual remedy that does not require copyright infringement litigation).

2. Trademark License Agreements Survive the Licensor's Bankruptcy

In *Mission Product Holdings, Inc. v. Tempnology, LLC* (https://www.supremecourt.gov/opinions/18pdf/17-1657_4f15.pdf), 587 U.S. ___, 139 S. Ct. 1652 (2019) (8-1 opinion by Justice Kagan; dissent by Justice Gorsuch), the Court considered the effect of bankruptcy on trademark licenses. Tempnology made and owned the intellectual property directed to specialized products such as towels, socks, headbands and other accessories designed to stay at a low temperature even when used during exercise. Tempnology and Mission executed an agreement in 2012, which expired in 2016, that granted Mission (1) distribution rights to some of Tempnology's products, (2) a nonexclusive license to Tempnology's patents, and (3) a nonexclusive license to use Tempnology's trademark and logo to sell and promote the products. After accruing multimillion-dollar operating losses in 2013 and 2014, Tempnology filed for bankruptcy in September 2015 under Chapter 11 of the Bankruptcy Code. The following day, Tempnology moved to reject its agreement with Mission under Section 365(a) of the Bankruptcy Code, which allows a debtor-in-possession to "reject any executory contract" that is not beneficial to the company.

Although the parties did not dispute that Mission could insist that the rejection not apply to the patent license in the agreement, it is unsettled in the First Circuit (where the proceedings were brought as a case of first impression) whether Mission could also insist that the rejection not apply to the trademark licenses. The bankruptcy court found that Tempnology's rejection of the agreement left Mission with only a claim for damages for breach of contract, and no claim that Tempnology was under an obligation to further perform under the license agreement. The First Circuit affirmed. The question addressed by the U.S. Supreme Court was this: Under Section 365 of the Bankruptcy Code, does a debtor-licensor's rejection of a trademark license

For more information, contact Kevin R. Casey at 610.640.5813 or kcasey@stradley.com .

agreement – which "constitutes a breach of such contract" under 11 U.S.C. § 365(g) – terminate rights of the licensee that would survive the licensor's breach under nonbankruptcy law? In other words, does the debtor-licensor's rejection of a trademark license deprive the licensee of its rights to use the trademark? The Court held "no" and reversed the First Circuit's decision.

The question of how trademark rights should be treated in the context of bankruptcy had split the circuits and led to uncertainty in the market for trademark licenses. The Court resolved the circuit split that traces back to the Fourth Circuit's 1985 decision in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). In *Lubrizol*, the Fourth Circuit held that rejection of an executory patent license agreement by a debtor-licensor terminates the license. Although Congress abrogated that result by amending the Bankruptcy Code in 1987 to address patent, copyright and trade secret licenses, 11 U.S.C. § 365(n) (allowing licensees to continue operations under their patent, copyright or trade secret license), it expressly left open the impact of rejection on trademark license agreements for further study and consideration. *Lubrizol* remained law in the Fourth Circuit with respect to trademark licenses, and courts in some other circuits (such as the First Circuit in this case) continued to rely on *Lubrizol* in holding that a trademark licensee's rights are terminated upon rejection.

Among the circuits that had disagreed with the Fourth Circuit is the Seventh Circuit. In *Sunbeam Prods. Inc. v. Chicago Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012), the Seventh Circuit held that although rejection eliminates the debtor-licensor's obligation to perform under the agreement, it does not terminate the licensee's right to continue to use the trademark for the duration of the agreement. Thus, rejection relieved the licensor of any obligations under the agreement and was a breach that may cause harm to the licensee for which the licensee might have a remedy, but the licensee could continue to use the licensed mark. Under the Seventh Circuit's reasoning, rejection did not terminate either the licensee's right to continue using the licensed mark or its obligation to continue to comply with the license. Those obligations might include making royalty payments and maintaining quality control, which the licensor may continue to enforce.

© 2019 Stradley Ronon Stevens & Young, LLP

The Solicitor General argued that the Court should adopt the Seventh Circuit's position because, among other reasons, a licensor cannot unilaterally revoke a trademark license outside of bankruptcy. Others suggested a case-by-case approach, which might depend on the language of the particular license at issue. The Court agreed with the Solicitor General and with the Seventh Circuit, against the First Circuit and Fourth Circuit, holding that rejection of a trademark license in bankruptcy constitutes a breach by the debtor-licensor and not a rescission. Therefore, all the rights that would ordinarily survive a contract breach (typically including the licensee's right to continue use of the mark) remain in place.

Tempnology's principal counterargument rested on a negative inference drawn from provisions of Section 365 that identified categories of contracts (including other IP contracts) under which a counterparty could retain specified rights after rejection. Tempnology argued that these provisions indicated that the ordinary consequence of rejection must be something other than a breach. The Court was not persuaded, stating that Congress did not intend for these provisions to alter the basic conclusion that a rejection operates as a breach of contract.

The practical ramifications of the Court's *Tempnology* decision are many:

a. The International Trademark Association (INTA) characterized the question presented as "the most significant unresolved legal issue in trademark licensing." The decision is definitely a "win" for trademark licensees.

b. Some question whether the Court's decision will result in "naked" trademark licenses, where the licensor fails to exercise control over the nature and quality of the goods and/or services sold by the licensee under the licensed mark, which can abandon rights in the trademark. The Court acknowledged that its decision might force a debtor to choose between expending scarce resources on quality control and risking the loss of a valuable asset, but dismissed such "trademark-related concerns" as subservient to general bankruptcy law.

c. Thus, the decision may place the debtor-licensor in the position of choosing between (1) retaining burdensome obligations associated with monitoring quality control and (2) abandoning a valuable trademark.

d. It is somewhat surprising that trademarks, unlike patents, copyrights or trade secrets, are not considered intellectual property and are treated differently under the Bankruptcy Code.

e. From a contractual perspective, the decision will require additional provisions related to aftereffects of bankruptcy with regard to a licensee's right to continued use of a licensed trademark. Justice Sotomayor, in her concurring opinion, noted that whether a trademark licensee retains rights to use a licensed mark following a debtor-licensor's rejection must be determined under applicable nonbankruptcy law, and that the result will likely turn on the language of the contract or on state law. For example, a licensor might want to draft its license agreement to permit an actual rescission in the event of a rejection.

3. When Conducting an Inter Partes Review, the U.S. Patent and Trademark Office Must Consider ALL Patent Claims Contested by the Petitioner

In *SAS Institute Inc. v. Iancu* (https://www.supremecourt.gov/opinions/17pdf/16-969_f2qg.pdf), 584 U.S. ___, 138 S. Ct. 1348 (2018) (5-4 opinion by Justice Gorsuch), the Court considered an inter partes review by the petitioner, SAS Institute, challenging the validity of all 16 claims of a patent granted to ComplementSoft. The Patent Trial and Appeal Board of the United States Patent and Trademark Office (PTO) determined that the petition had sufficient merit to find at least one of the claims invalid, the standard required to begin the inter partes review, but asserted a "partial institution" power and reviewed only a subset of the claims – denying review of the remaining claims. The PTO's final determination affected only the subset of claims that were actually instituted: The PTO found eight of the nine reviewed claims to be invalid.

SAS appealed to the U.S. Court of Appeals for the Federal Circuit, asserting that the statute granting inter partes review, 35 U.S.C. § 318(a), required the PTO to review all the claims identified in the petition. Section 318(a) states, "If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner." The Federal Circuit rejected SAS' position. The U.S. Supreme Court reversed and remanded. The Court held that when the PTO institutes an inter partes review to reconsider an already-issued patent claim, under 35 U.S.C. §§ 311-319, it must decide the patentability of all the claims the petitioner has challenged. The Court determined that the language of the inter partes statute as passed by Congress was clear and plain, and did not give the PTO "partial institution" power.

Here are some of the practical ramifications:

a. The PTO has subsequently made clear that it will also apply the all-or-nothing institution approach to grounds raised in petitions.

© 2019 Stradley Ronon Stevens & Young, LLP

b. In addition, as to already-instituted inter partes reviews, the PTO has issued supplemental orders instituting on all claims and all grounds. That action has required the expansion of approximately 45% of pending inter partes reviews.

c. The PTO will issue a decision on all claims, but will this mean more denials or summary conclusions on certain claims? The all-or-nothing nature of the PTO's decision on institution presents petitioners with new strategic questions. (Note that the PTO has discretion not to institute even if there is a "reasonable likelihood" that one claim is unpatentable.) The ability to force review of all claims and grounds if just one is granted is not necessarily an invitation to fill a petition with additional challenges. Instead, petitioners will need to make a strategic judgment about whether asking the PTO to review too many claims and grounds will backfire and lead to denial of the entire petition. If many of the grounds are shown to be frivolous, there may be a lower likelihood of institution.

d. Alternatively, for claims which may not have been previously instituted, the PTO may address patentability of those claims in a summary fashion. The SAS decision may significantly expand petitioner estoppel because the PTO's institution on all grounds (even where the PTO is dubious or may otherwise have instituted on less than all grounds) would mean that the petitioner "reasonably could have raised" those grounds during the inter partes review.

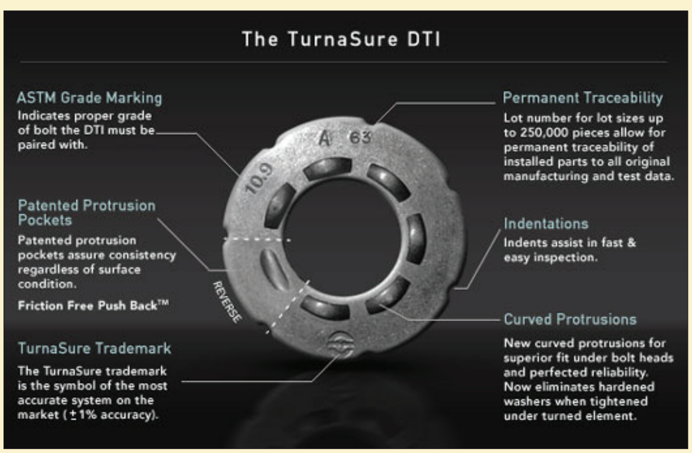
e. Petitioners may consider whether it would be preferable to present multiple petitions, categorized by claims and/or by grounds, to avoid both a binary decision as to institution on the entire set and to potentially avoid estoppel as to the grounds the PTO deems less persuasive given the evidence in the petition.

f. Patent owners might consider disclaiming relatively weak claims to render institution less likely, but such action might also limit the patent owner's infringement positions. Patent owners will need to weigh the disclaimer decision more carefully now in view of the different incentives.

g. If instituted, the decisions on all claims are appealable.

h. Finally, the Court stated in its opinion: "Sometimes . . . bad patents slip through." That statement might be of use to patent challengers in their future cases.

IP Client Spotlight



Stradley Ronon handles all IP law (patents, trademarks, copyrights, trade secrets and related areas) matters for **TurnaSure LLC** (http://www.turnasure.com/) of Langhorne, Pennsylvania. TurnaSure manufactures a simple washer-type load cell known as a direct tension indicator (DTI) or a load-indicating washer. TurnaSure's legacy company invented this brilliant concept of bolting technology. When this washer device is compressed while tightening a bolt or stud, the required clamp load is indicated in the fasteners and induced in the bolted joints. TurnaSure was the world's first company to devote all its energies to developing and supplying this unique fastener. DTIs are used to achieve required tension loads on bolts in countless applications, such as structural steel buildings and bridges, studs used in the petrochemical industry, anchor bolts and SAE cap screws for automotive applications. TurnaSure's recent improvements to the DTI include a DTI with offset protuberances and indentations (protected by U.S. Patent No. 9,863,457) and a DTI that shows an elastomer on the circumference once the structural bolt has been tightened to achieve its correct tension (protected by a pending patent application and sold under the trademark ViewTite).

Stradley Ronon's IP attorneys work with TurnaSure representatives to address any and all IP issues that arise for the company, among which are patent infringement investigations, IP litigation, assistance with insurance coverage supporting such litigation, commercial contracts with suppliers and joint development collaborators, and licenses with others in the fastener industry. Perhaps the most important support Stradley Ronon provides to the company, however, is strategic counseling and management directed to TurnaSure's global patent and trademark portfolios. Stradley Ronon's ever-growing knowledge of TurnaSure's needs and goals, and of the fastener industry in which the company thrives, has served both Stradley Ronon and TurnaSure well.

© 2019 Stradley Ronon Stevens & Young, LLP