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Intellectual Property Litigation

Expert Analysis

Federal Circuit Addresses Weighty Constitutional Issues

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We report on important decisions from the U.S. Court of Appeals for the Federal Circuit that (i) invalidated the Lanham Act's preclusion of disparaging marks; (ii) held that the International Trade Commission lacks jurisdiction over cases involving "intangible" goods; (iii) confirmed the constitutionality of the inter partes review provisions of the America Invents Act; and (iv) defined the scope of infringement liability for products manufactured abroad.

Anti-Disparagement

Section 2(a) of the Lanham Act precludes registration of "scandalous, immoral, or disparaging marks." See *In re Tam*, No. 2014-1203, 2015 WL 9287035, at *4 (Fed. Cir. Dec. 22, 2015) (*Tam II*) (citing 19 U.S.C. §1052(a)). Where a proposed mark references a group of people, the Patent and Trademark Office (PTO) has refused to register the mark if it concludes that a substantial composite of that group would find the mark disparaging. See id. at *4. Although the statutory provision is not new, it saw only infrequent use until relatively recently.

In its Dec. 22, 2015, decision in *Tam II*, the Federal Circuit invalidated Section 2(a) on First Amendment grounds.

Simon Shiao Tam is the frontman of an Asian-American rock band called "The Slants," which seeks to reclaim ownership of Asian stereotypes and draws inspiration from "childhood slurs and mocking nursery rhymes." Tam sought to register the mark, "The Slants." Id. at *4. The PTO examiner rejected the application, finding that the term "slants" would likely be disparaging to people of Asian descent. The Trademark Trial and Appeal Board (TTAB) affirmed, as did a Federal Circuit panel. See id. at *4–6.

The Federal Circuit panel held that Tam's constitutional arguments were foreclosed by binding precedent, and questioned whether en banc review might be appropriate to reconsider the constitutionality of Section 2(a). See *In re Tam*, 785 F.3d 567, 570–71 (Fed. Cir. 2015) (*Tam I*), reh'g en banc granted, opinion vacated, 600 F. App'x 775 (Fed. Cir. 2015). The en banc Federal Circuit then sua sponte vacated the panel's decision and ordered en banc rehearing on the constitutionality of Section 2(a). See *Tam II*, 2015 WL 9287035, at *7.

> In a 9-3 decision, the court in 'Tam II' held that the anti-disparagement provision of the Lanham Act violates the First Amendment.

In a 9-3 decision, the court held that the anti-disparagement provision of the Lanham Act violates the First Amendment. See id. at *29. Judge Kimberly Moore wrote for the majority, concluding that Section 2(a) should be subject to strict scrutiny as viewpoint discrimination, rather than to the intermediate scrutiny reserved for commercial speech.

The majority found that the government rejects marks under Section 2(a) because it is hostile to the messages conveyed by the refused marks, and permits registration of marks that refer to a group in a positive manner while rejecting marks that refer to a group in a negative manner. See id. at *7–9. While Section 2(a) does not actually ban speech—it simply denies the benefits of trademark registration—the provision chills private speech by creating a "strong disincentive" to adopt a mark that expresses a message the government might find offensive or disparaging. See id. at *14.

The majority also held, in the alternative, that Section 2(a) would not survive even under intermediate scrutiny because the government had failed to identify a substantial interest to justify its exclusion of disparaging marks. See id. at *26–28. And the majority rejected the government's arguments that trademark registrations constitute government speech, and are thus outside the scope of the First Amendment altogether, see id. at *16–19, and that a trademark registration is merely a subsidy that the government may regulate as it sees fit, see id. at *19–25.

Judge Timothy Dyk concurred in part and dissented in part, agreeing only that the statute was unconstitutional as applied to Tam, but concluding that it was constitutional as applied to purely commercial speech. Judge Alan Lourie dissented, objecting to the majority's interference with the continuous 70-year application of the statute by the PTO, and finding that the government has legitimate interests in regulating commercial speech that insults groups and tends to disrupt commercial activity. Judge Jimmie Reyna also dissented, and would have held that trademarks are commercial speech subject to intermediate scrutiny, and that Section 2(a) survives that review.

One of the most publicized Section 2(a) cases has been the TTAB's cancellation of six of Pro-Football, Inc.'s registered REDSKINS marks on the grounds that they may disparage a substantial composite of Native Americans. See *Pro-Football v. Blackhorse*, No. 1-14-CV-01043, 2015 WL 4096277, at *1 (E.D. Va. July 8, 2015). A federal district court upheld the TTAB's order, see id., and that decision is currently on appeal in the U.S. Court of Appeals for the Fourth Circuit. See *Pro-Football v. Blackhorse,* No. 15-1874 (4th Cir. filed Aug. 6, 2015).

While the Federal Circuit's decision in *Tam II* is not binding on the Fourth Circuit, it may nevertheless affect the outcome because the Tam II decision overturns prior Federal Circuit precedent on which the district court in *Pro-Football* had relied.

ITC's Jurisdiction

Under Section 337 of the Tariff Act, the International Trade Commission (ITC) has jurisdiction to remedy "unfair acts" involving the importation of "articles" that infringe a valid, enforceable

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U.S. patent. On Nov. 10, 2015, the Federal Circuit held that "articles" do not include electronic data. See *ClearCorrect Operating v. Int'l Trade Comm'n*, No. 2014-1527, 2015 WL 6875205, at *1 (Fed. Cir. Nov. 10, 2015) (citing 19 U.S.C. §1337 (a)(1)(B)(i)).

Align Technologies, manufacturer of Invisalign dental appliances, brought a Section 337 case against its competitor ClearCorrect, regarding electronic transmission into the United States of three-dimensional models of patients' teeth. ClearCorrect's Pakistani affiliate created the models and electronically transmitted them to ClearCorrect's U.S. affiliate, which then used those models to create physical aligners to place in patients' mouths. Align Technologies alleged that the three-dimensional digital models themselves infringed Align's U.S. patents. See id.

An ITC administrative law judge concluded that the digital models constituted "articles" within the ITC's jurisdiction, and found that the models infringed Align's patents. The commission agreed, and issued cease-and-desist orders against ClearCorrect's U.S. and Pakistani affiliates.

The Federal Circuit, however, reversed, holding that "articles" under Section 337 of the Tariff Act include only "material things," and do not include intangible goods.

Chief Judge Sharon Prost wrote the court's opinion, applying the Chevron framework to the commission's interpretation of the term "articles" in Section 337. See id. (citing *Chevron v. Natural Res. Def. Council*, 467 U.S. 837 (1984)). No deference was appropriate because Congress had directly spoken to the meaning of "articles," limiting the term to tangible goods.

The court reached this conclusion because, it found, to hold that "articles" could include intangible goods would render numerous statutory sections "superfluous at best," such as the provisions permitting seizure and forfeiture of the articles at the border. Id. at *8. Although it concluded that Congress unambiguously intended to limit "articles" to "material things," the court went on to hold that no deference was warranted under the second step of the Chevron analysis because the commission had "repeatedly and unreasonably erred in its analysis." Id. at *15.

Judge Kathleen O'Malley concurred in the outcome, but found that no Chevron ambiguity analysis was needed because Congress had never delegated any power to regulate Internet transmissions to the ITC. Judge Pauline Newman dissented, observing that Section 337 was designed to give the commission broad authority to remedy unfair trade practices, and finding that the commission's construction of the term "articles" as including electronic transmissions was entitled to deference.

The Federal Circuit's decision is significant for foreign producers of not just 3D-printing models, but all electronically transmitted data. It will have ramifications for publishers, movie studios, and other industries that face losses from infringing electronic transmissions into the United States.

Inter Partes Reviews

One of the new features of the 2011 Leahy-Smith America Invents Act was inter partes review, commonly referred to as "IPR," see Pub. L. No. 112-29, §6(a), codified at 35 U.S.C. §§311 et seq. IPR proceedings permit a party to challenge, in the Patent Office, the validity of issued patents, based on printed publications or other patents. IPRs replaced the inter partes reexamination proceedings that Congress created in 1999.

IPR proceedings have been very popular: IPRs first became available in September 2012, and as of Oct. 31, 2015, the PTO reported that more than 3,600 IPR petitions had been filed. See PTO, Patent Trial and Appeal Board Statistics at Slide 2 (Oct. 31, 2015), available at http://www.uspto.gov/sites/default/files/documents/2015-10-31%20PTAB.pdf.

On Dec. 2, 2015, in a decision that could have ended the IPR procedure had it come out the other way, the Federal Circuit held that the resolving invalidity challenges in IPR proceedings, rather than in court, did not violate Article III of the Constitution or the Seventh Amendment. See *MCM Portfolio v. Hewlett-Packard*, No. 2015-1091, 2015 WL 7755665, at *1 (Fed. Cir. Dec. 2, 2015)

Hewlett-Packard (HP) filed a petition with the PTO seeking inter partes review of claims in a patent owned by MCM Portfolio (MCM) directed at methods and systems for coupling a computer system with a flash memory storage system. The Patent Trial and Appeal Board (PTAB) found sufficient basis for instituting an IPR proceeding and thereafter issued a final decision holding that the challenged claims would have been obvious. See id. On appeal, MCM challenged the constitutionality of IPR proceedings and the merits of the PTAB's obviousness decision.

The Federal Circuit concluded that Article III represents no bar to IPR proceedings; patent rights derive from a federal regulatory scheme and are thus "public rights," the adjudication of which—even between private parties—Congress can delegate to a non-Article III court within an administrative agency.

A unanimous panel of the Federal Circuit, with the opinion written by Dyk and joined by Prost and Judge Todd Hughes, sustained IPR proceedings. The panel declared itself to be bound by Federal Circuit precedent holding that ex-parte reexamination proceedings were constitutional under Article III. See id. at *7 (citing *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985); *Joy Technologies v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992)). Addressing the merits, however, the court further concluded that Article III represents no bar to IPR proceedings; patent rights derive from a federal regulatory scheme and are thus "public rights," the adjudication of which—even between private parties—Congress can delegate to a non-Article III court within an administrative agency. See id. at *5–6.

Relying on Supreme Court and Federal Circuit precedent, the court also rejected MCM's Seventh Amendment challenge, holding that there is no right to a jury trial on a claim involving public rights that Congress has entrusted to an administrative agency for adjudication. See id. at *8. The court also affirmed the PTAB's rulings regarding the obviousness of MCM's patent claims. See id. at *9.

Patented Processes

Whoever "imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer" if the importation, offer to sell, sale, or use occurs during the term of the process patent. 35 U.S.C. §271(g). On Nov. 10, 2015, the Federal Circuit issued an important opinion defining the scope of Section 271(g) liability for patented quality-control processes. See *Momenta Pharms v. Teva Pharms,* Nos. 14-1274, 14-1277, 2015 WL 6875186, at *1 (Fed. Cir. Nov. 10, 2015).

Momenta was the first generic manufacturer of enoxaparin, an anticoagulant. It is the assignee of a patent directed to a set of processes for quality-control testing of enoxaparin, specifically for separating batches of intermediate enoxaparin drug substance that meet certain requirements from those batches that do not. Two other companies sought to enter the generic-enoxaparin market, Teva by importing product manufactured in Italy, and Amphastar by manufacturing product in the United States. Momenta accused each of violating Section 271(g), and also accused Amphastar of violating Section 271(a) (e.g., making, using, selling, or offering for sale a patented invention within the United States). See id.

The Federal Circuit (in a decision by Judge Evan Wallach joined by Judge Moore) held that Teva's and Amphastar's enoxaparin products are not "made by" Momenta's patented process. Momenta argued that because both companies use its patented process to identify viable batches of enoxaparin, that process is one by which the final enoxaparin is "made." See id. at *2. While declaring this argument to be "not without merit," the court held that it is "more consonant with the language of the statute" and with precedent to limit §271(g) to the actual manufacturing of a product, rather than extending it to methods of testing a final product or intermediate forms of the product. Id. at *2–4. Dyk dissented from this part of the opinion, and would have held that a quality-control process used to identify viable product is part of "making" the product.

Two other aspects of the opinion are noteworthy. First, because Amphastar made its product in the United States, it also faced possible infringement liability under Section 271(a). It argued, however, that safety testing using Momenta's patented method was an act reasonably related to the development and submission of information for regulatory approval and was thus shielded by the safe harbor of 35 U.S.C. §217(e)(1). The court unanimously rejected this, holding that conducting quality-control assessments of batches intended for commercial sale is not protected by the safe harbor. See id. at *5–8.

Second, because Amphastar made its product in the United States, there was a question whether Section 271(g) applied at all. District courts have split on whether selling a product in the United States that is domestically made by a patented method infringes Section 271(g). The Federal Circuit has never resolved this question, and in a footnote declined to do so here. See id. at *2 n.3.