

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Supreme Court Underscores Judicial Discretion in IP Cases

We report on two Supreme Court decisions emphasizing the district courts' discretion in awarding enhanced damages in patent cases and attorney fees in copyright cases; a Supreme Court decision upholding the Patent and Trademark Office's standard of review in inter partes review proceedings; and a Second Circuit decision discussing nominative trademark fair use.

Patent: Enhanced Damages

The Patent Act provides that “the court may increase the damages up to three times the amount found or assessed,” 35 U.S.C. §284, a provision that has long been held to require a finding that the infringer acted willfully. In 2007, the U.S. Court of Appeals for the Federal Circuit set forth a two-part test for determining willfulness, requiring

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a patentee to show by clear and convincing evidence that: (1) “the infringer acted despite an objectively high likelihood that its actions constituted infringement,” and (2) that “this objectively-defined risk...was either known or so obvious that it should have been known to the accused infringer.” *In re Seagate Technology*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

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“unduly rigid” and “impermissibly encumber[ing] the statutory grant of discretion to district courts.” *Halo Elecs. v. Pulse Elecs.*, No. 14-1513, 136 S.Ct. 1923, 1932 (June 13, 2016).

Chief Justice John Roberts, writing for a unanimous court, explained that *Seagate's* inclusion of an “objective” prong allowed a deliberate infringer to escape enhanced damages simply because its lawyer later discovered a reasonable defense, thus excluding “from discretionary punishment many of the most culpable offenders.” *Id.* Because the text of Section 284 prescribes no conditions, the court held that enhancement of damages is committed to the district court’s discretion. *Id.* at 1933. The court established no rule or formula to guide that discretion, instead noting that “[c]onsistent with nearly two centuries of enhanced damages under patent law...such punishment should generally be reserved for egregious cases typified by willful misconduct,” *id.* at 1934, and warning against awarding enhanced damages in “garden-variety cases,” *id.* at 1935.

The court relied extensively on its recent decision in *Octane Fitness v. ICON Health & Fitness*, 134 S.Ct. 1749 (2014), which rejected the Federal Circuit's two-part, objective/subjective test for determining when a case was "exceptional" and thus eligible for an award of attorney fees under 35 U.S.C. §285. Citing its reasoning in *Octane Fitness* that subjective bad faith alone could sufficiently warrant a fee award, the Halo court held that "[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless." *Halo*, 136 S.Ct. at 1933.

The court further relied on *Octane Fitness* in rejecting the use of the "clear and convincing evidence" standard under Section 284. Because the language of the statute does not provide a "specific evidentiary burden, much less such a high one," a patentee need only show a preponderance of the evidence. The court also rejected the Federal Circuit's three-part appellate review standard, holding that decisions about enhancement of damages should be reviewed on appeal for abuse of discretion. *Id.* at 1934.

Justice Stephen Breyer, joined by Justices Anthony Kennedy and Samuel Alito, wrote a concurrence to emphasize that awards of enhanced damages should be limited to cases of egregious misconduct. *See id.* at 1936.

Copyright: Fee-Shifting

The Copyright Act contains a "loser pays" provision allowing a district

court to "award a reasonable attorney's fee to the prevailing party." 17 U.S.C. §505. In 1994, the Supreme Court held that district courts have broad discretion in deciding when to shift fees, and provided some principles and factors to guide that discretion. *See Fogerty v. Fantasy*, 510 U.S. 517 (1994). On June 16, the court revisited that guidance, emphasizing the broad and flexible scope of judicial discretion and holding that the "objective reasonableness" of the losing party's position "can be only an important factor in assessing fee applications—not the controlling one." *Kirtsaeng v. John Wiley & Sons*, 136 S. Ct. 1979, 1988 (2016) (*Kirtsaeng II*).

Supap Kirtsaeng came from Thailand to study at Cornell University, where he realized that some English-language textbooks were being sold for far less in Thailand than in America. Through his family and friends, he started buying books in Thailand and reselling them in America for a profit. Wiley & Sons, a publisher, sued Kirtsaeng for copyright infringement.

Kirtsaeng invoked the "first-sale doctrine," while Wiley argued that the first-sale doctrine did not apply to foreign-made books—an issue that, at the time, was the subject of a circuit split. *See id.* at 1984. Wiley won in the district court and the U.S. Court of Appeals for the Second Circuit, but the Supreme Court reversed in 2013, holding that the first-sale doctrine allows the resale of foreign-made books. *Kirtsaeng v.*

John Wiley & Sons, 133 S. Ct. 1351, 1352 (2013) (*Kirtsaeng I*).

Having prevailed, Kirtsaeng sought more than \$2 million in attorney fees under Section 505. *Kirtsaeng II*, 136 S. Ct. at 1984. He lost in the district court and the Second Circuit, based in significant part on the courts' conclusion that Wiley's infringement claim, while unsuccessful, was objectively reasonable given the then-existing circuit split over the first-sale doctrine. *Id.* The language in the Second Circuit's opinion suggested that an objectively reasonable defense creates a presumption against granting fees. *Id.* at 1989.

The unanimous Supreme Court, in an opinion written by Justice Elena Kagan, vacated and remanded for reconsideration of Kirtsaeng's fee request in light of its opinion. The court restated its guidance from *Fogerty* that district courts must make case-by-case assessments and should consider "several nonexclusive factors" in making fee-shifting decisions, including "frivolousness, motivation, objective reasonableness[,] and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.* at 1985 (quoting *Fogerty*, 510 U.S. at 534 n.19).

The court then held that while the objective reasonableness of the losing party's position may be given substantial weight in deciding whether to award fees, objective reasonableness should not be treated as a controlling factor. *Id.* at 1988.

Rather, courts must consider all relevant factors. Fee-shifting might be appropriate even where the losing party's defense was reasonable if, for example, the party engaged in misconduct. *Id.* at 1988-89.

Patent: Inter Partes Review

The 2011 Leahy-Smith America Invents Act created inter partes review (IPR) proceedings, in which a challenger can ask the U.S. Patent and Trademark Office (PTO) "to reexamine the claims in an already-issued patent and to cancel any claim that the agency finds to be unpatentable in light of prior art." 35 U.S.C. §314.

On June 20, the Supreme Court affirmed the standard by which the PTO assesses the breadth of patent claims in an IPR proceeding, and clarified when the PTO's decision to institute an IPR proceeding may be reviewed by the courts. See *Cuozzo Speed Techs. v. Lee*, No. 15-446, — S.Ct. —, 2016 WL 3369425, at *1 (2016).

In 2012, Garmin International, Inc. asked the PTO to invalidate claims in a *Cuozzo* patent covering a speedometer that informs a driver whether he or she is exceeding the speed limit. The PTO's Patent Trial and Appeal Board (PTAB) instituted an IPR proceeding addressing three claims of *Cuozzo's* patent, including two claims that Garmin had not explicitly challenged but that the PTAB held were "implicitly" challenged based on the relationship among the claims. The PTAB ultimately held each of the three claims invalid as obvious.

Cuozzo appealed to the Federal Circuit, arguing that the PTAB erred in reexamining the two claims that Garmin had not explicitly challenged, and that the PTAB may not use the "broadest reasonable interpretation" standard (BRI) to assess the scope of patent claims during an IPR proceeding. The Federal Circuit rejected both arguments. Reflecting deep divisions over these issues, the court denied *Cuozzo's* petition for rehearing en banc by a 6-5 vote.

The Second Circuit held that nominative fair use is a valid doctrine under Second Circuit law, answering the question left open in 'Tiffany.' The court then held that a court addressing nominative fair use should consider the eight non-exclusive factors for likelihood of confusion set forth in 'Polaroid.'

The Supreme Court affirmed both aspects of the Federal Circuit's decision, with Justice Stephen Breyer writing for a majority regarding the first issue and for a unanimous court regarding the second.

The majority held that the federal courts cannot review the PTAB's decision to reexamine claims that Garmin had not challenged. The statute creating IPR proceedings states that the "determination by the [Patent Office] whether to institute an inter partes review...shall be final and nonappealable." 35 U.S.C. §314(d). While the court left open the

possibility of judicial review of decisions to institute an IPR that "implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation," it held that the PTAB's decision in *Cuozzo* was not reviewable because the grounds for attacking the decision consist of questions "closely tied to the application and interpretation of statutes related" to that decision. *Cuozzo*, 2016 WL 3369425, at *8. Justices Alito and Sonia Sotomayor dissented, and would have held that the statute bars only interlocutory appellate review.

The choice of what claim-construction standard should be used in an IPR proceeding was between BRI, which the PTO uses in patent prosecution and, historically, in post-grant review proceedings, or the "plain and ordinary meaning" standard, which federal courts apply in claim-construction hearings. BRI is commonly understood to be broader, rendering claims more likely to be invalidated by prior art. *Cuozzo* thus argued that because the patentee has very limited ability in IPR proceedings to amend its claims if found invalid under a broad reading, the narrower "plain and ordinary meaning" standard should apply.

There was significant amicus support for each standard, with *Cuozzo's* supporters urging that the PTAB's use of BRI, coupled with its history of rejecting most requests to amend claims during IPR proceedings, had resulted in the PTAB invalidating far more patents than would be

invalidated by the courts. Nevertheless, the court upheld the PTAB's use of BRI as a matter of Chevron deference, noting that the statute creating IPR proceedings is silent regarding what claim-construction standard the PTAB should use. See *Cuozzo*, 2016 WL 3369425, at *10 (citing *Chevron, U.S.A. v. Natural Resources Defense Council*, 467 U.S. 837 (1984)).

Nominative Fair Use

The doctrine of "nominative fair use" allows a trademark defendant to use the plaintiff's trademark to identify the plaintiff's own goods and services, as long as there is no likelihood of confusion about the source of the defendant's own product or whether the plaintiff sponsored or is affiliated with the defendant's product. See *Int'l Info. Sys. Sec. Certification Consortium v. Sec. Univ.*, No. 14-3456-CV, 2016 WL 2893172, at *10 (2d Cir. May 18, 2016) (*ISC2*) (citing *Tiffany (NJ) v. eBay*, 600 F.3d 93, 102 (2d Cir. 2010)). It is called "nominative" use because it "names" the mark-holder. *Id.* In *Tiffany*, the Second Circuit addressed whether eBay's use of Tiffany's trademark to sell genuine Tiffany articles was nominative fair use of the mark, but resolved the case without reaching whether the "nominative fair use" doctrine exists in the Second Circuit. See 600 F.3d 93.

A recent Second Circuit decision held that nominative fair use is a valid doctrine, established the test for determining nominative fair use, and held that nominative

fair use should not be treated as an affirmative defense (for which the defendant would bear the burden of proof), an issue as to which the Third and Ninth Circuits had split. See *ISC2*, 2016 WL 2893172, at *1.

The case concerned a "certification mark," a mark intended to be used by a non-owner to indicate certain characteristics of the goods or services, such as quality or accuracy. See 15 U.S.C. §1127. Examples include the Good Housekeeping Seal of Approval, or the "CE" mark showing that the product meets European safety standards. The mark at issue in *ISC2* is "CISSP®," owned by plaintiff International Information Systems Security Certification Consortium, Inc. (*ISC2*), a non-profit that develops information-security standards, and denoting a professional who has passed an *ISC2* certification examination.

The defendant Security University (*SU*) offers courses to prepare students for *ISC2*'s CISSP® certification examination. Between 2010 and 2012, *SU* ran advertisements referring to one of its instructors as a "Master CISSP" or "CISSP Master." *Id.* at *2. When *SU* refused *ISC2*'s request to stop using those phrases, *ISC2* sued for trademark infringement, among other claims. The district court granted summary judgment to *SU*.

The Second Circuit, in a decision by Judge Rosemary Pooler joined by Judges Guido Calabresi and Chester Straub, vacated the decision and remanded for further proceedings in light of its decision.

The court first held that nominative fair use is a valid doctrine under Second Circuit law, answering the question left open in *Tiffany*. The court then held that a court addressing nominative fair use should consider the eight non-exclusive factors for likelihood of confusion set forth in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961), even if some of those factors are "irrelevant to the facts at hand." *ISC2*, 2016 WL 2893172, at *10 (quoting *Arrow Fastener Co. v. Stanley Works*, 59 F.3d 384, 400 (2d Cir. 1995)).

Because however, "many of the Polaroid factors are a bad fit" in the context of nominative fair use, *id.* at *12, the court held that district courts should also consider the nominative-fair-use factors that the Ninth and Third circuits had identified: whether defendant's use of the mark was necessary; whether defendant limited its use to only so much of the mark as necessary; and whether defendant's actions suggested the mark-holder's sponsorship or endorsement, see *id.* Finally, the Second Circuit agreed with the Ninth Circuit that nominative fair use should be considered in determining the likelihood-of-confusion inquiry as part of the plaintiff's case-in-chief, rejecting the Third Circuit's decision that nominative fair use is an affirmative defense "that may be asserted by the defendant despite a likelihood of consumer confusion." *Id.* at *11.