IDEAS ON INTELLECTUAL PROPERTY LAW

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Game changer

Federal Circuit rejects ban on disparaging trademarks

If you follow trademark law — or the National Football League — you probably know about the ongoing battle over the Washington Redskins' name and logo. The government has canceled six related trademarks based on the so-called disparagement provision in the federal trademark law known as the Lanham Act. The owners of those marks are probably feeling pretty good about their chances on appeal, though, because the U.S. Court of Appeals for the Federal Circuit recently held in another case that the disparagement provision is unconstitutional.

MARK FOUND OFFENSIVE

In re Tam involved the Asian-American dance-rock band The Slants. The lead singer, Simon Shiao Tam, named the band to "reclaim" and "take ownership" of Asian stereotypes. The band draws inspiration for its lyrics from childhood taunts and mocking nursery rhymes. Its albums include "The Yellow Album" and "Slanted Eyes, Slanted Hearts." According to the Federal Circuit, "With their lyrics, performances, and band name, Mr. Tam and The Slants weigh in on cultural and political discussions about race and society that are within the heartland of speech protected by the First Amendment."

Tam filed an application to register the mark "The Slants," but the examiner refused to register it under Section 2(a) of the Lanham Act. Among other things, that section prohibits the registration of marks that "may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute … ." The examiner found that a "substantial composite" of persons of Asian descent would find the mark offensive.

> The appeals court found that it was beyond dispute that the disparagement provision discriminated on the basis of content and viewpoint.

The Trademark Trial and Appeal Board (TTAB) affirmed the refusal, and in April 2015, a three-judge panel of the Federal Circuit affirmed the board's determination that the mark was disparaging. A week later, though, the court vacated the decision and decided to hold a rehearing on the question of

INTERMEDIATE SCRUTINY DEFEATS DISPARAGEMENT PROHIBITION, TOO

The U.S. Court of Appeals for the Federal Circuit in *In re Tam* (see main article) found that the disparagement provision in the Lanham Act would be unconstitutional under the less stringent "intermediate scrutiny" standard applied to evaluate regulation of commercial speech (as opposed to expressive speech). The U.S. Supreme Court has established a two-part framework for determining the constitutionality of restricting commercial speech.

First, the speech must concern lawful activity and not be misleading. If this step is satisfied, a court must then ask whether the government's asserted interest in restricting the speech is "substantial," the regulation directly and materially advances this interest, and the regulation is narrowly tailored to achieve the government's objective.

The court found that, under this framework, the disparagement provision was unconstitutional. It didn't address misleading, deceptive or unlawful marks. Moreover, the government's only interest in the provision depended on disapproval of the message, an insufficient interest under the intermediate scrutiny test.

whether the disparagement provision violates the First Amendment.

3 TESTS

When considering the constitutionality of a law, a court generally applies one of three tests: 1) strict scrutiny, 2) intermediate scrutiny, or 3) rational basis. The first test is applied here because strict scrutiny is used to review governmental regulations that burden private speech based on disapproval of the message.

The appeals court found that it was beyond dispute that the disparagement provision discriminated on the basis of content and viewpoint. The test for disparagement (whether a substantial composite of the referenced group would find the mark disparaging), the court explained, made clear that it's the nature of the message that's being regulated. Because Sec. 2(a) discriminated on the basis of the content of the message conveyed by the speech, the court found that the provision was presumptively invalid and must satisfy strict scrutiny to be constitutional.

TACKLING GOVERNMENT ARGUMENTS

The government contended that the disparagement provision didn't implicate the First Amendment at all. Specifically, it argued that:

- Sec. 2(a) was immune from First Amendment scrutiny because it prohibited no speech and left Tam free to name his band as he wished and use the name in commerce — albeit without the protections associated with registration;
- Trademark registration is government speech, which doesn't implicate the First Amendment; and
- Sec. 2(a) merely withheld a government subsidy for Tam's speech and was valid as a permissible definition of a government subsidy program.

The Federal Circuit rejected all of these arguments. It found that federal trademark registration conveys valuable rights unavailable without registration. Because the provision denied those benefits to anyone whose mark the government deems disparaging, it had an unconstitutional, chilling effect on speech.

Further, the court said, the government's processing of trademark registrations didn't transform private speech into government speech. To conclude otherwise would transform every act of government registration into government speech and allow "rampant viewpoint discrimination." Finally, the court found that the system of trademark registration is a regulatory regime, not a government subsidy program.

The Federal Circuit ultimately struck down Sec. 2(a) as unconstitutional because it violated the First Amendment. It vacated the TTAB's holding that Tam's mark was unregistrable and sent the case back to the board for further proceedings.

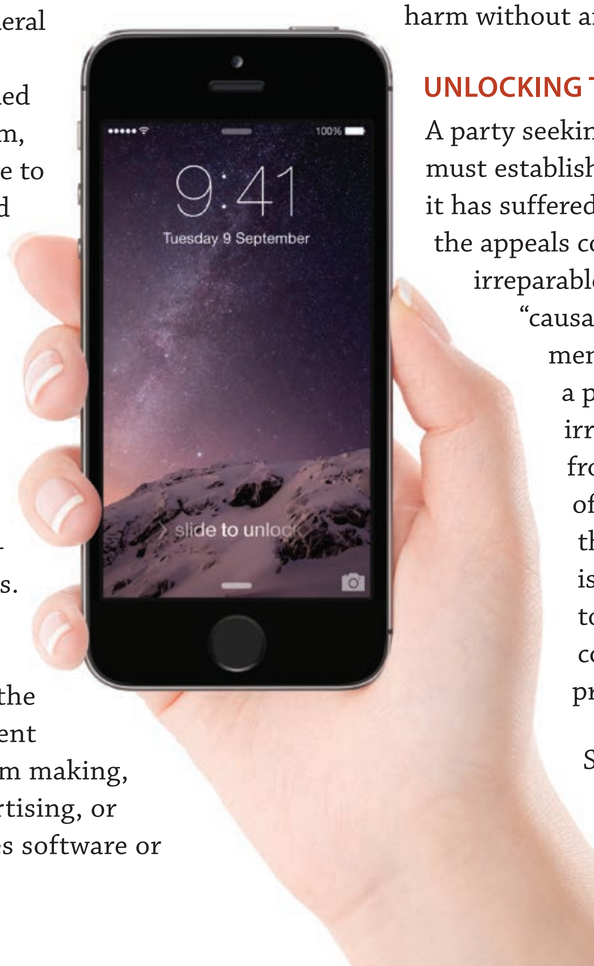
REVERSAL IS POSSIBLE

The U.S. Supreme Court may eventually reverse the appellate court's ruling. In the meantime, as the court recognized, its holding may lead to the increased registration of offensive marks — which could, in turn, be seen as a victory for the owners of the Redskins' marks. Even when speech inflicts great pain, the appellate court noted, the Constitution protects it.

Stop, thief!

Court lowers bar for injunctions against infringers

Smartphones and tablets boast thousands of features. So how can the owner of the patent on an infringing feature prove it has been irreparably injured, as is required to obtain a permanent injunction? This just got easier, thanks to the U.S. Court of Appeals for the Federal Circuit. In *Apple Inc. v. Samsung Electronics Co., Ltd.*, the Court ruled that, to establish irreparable harm, an infringing feature doesn't have to be the exclusive driver of demand for the infringing product.



TAKING A SWIPE

Apple sued Samsung for infringing three patents, including one that covers Apple's "slide to unlock" feature for touchscreen devices and another for a method that automatically corrects spelling errors. A jury awarded Apple almost $120 million in damages for Samsung's infringement. After the verdict, Apple sought a permanent injunction barring Samsung from making, using, selling, developing, advertising, or importing into the United States software or code capable of implementing the infringing features in its products.

The trial court denied the injunction, finding that Apple had not shown it would suffer irreparable harm without an injunction. Apple appealed.

UNLOCKING THE PROPER STANDARD

A party seeking a permanent injunction must establish, among other things, that it has suffered an irreparable injury. As the appeals court explained, a finding of irreparable injury requires proof of a "causal nexus," or that the infringement causes the harm. When a patentee alleges it suffered irreparable harm stemming from lost sales solely because of a competitor's infringement, the causal nexus requirement is satisfied if the competitor's infringing features drive consumer demand for its products.

Such a showing is difficult — if not impossible — when dealing with devices with thousands of features. It's also unnecessary, according to the court. Rather, proof of causal nexus requires the patentee to show only "some connection" between the patented features and demand for the infringing products. Thus, the appeals court found, the trial court erred by requiring Apple to prove that the infringing features were the exclusive or predominant reason why consumers bought Samsung's products.

A finding of irreparable injury requires proof of a "causal nexus," or that the infringement causes the harm.

The relevant question, according to the appeals court, was whether the patented features affect customers' purchasing decisions. The fact that the infringing features aren't the only cause of lost sales might reduce the weight of any alleged irreparable harm. However, it doesn't eliminate it entirely.

CORRECTING THE LOWER COURT

The appeals court found sufficient evidence that the infringing features did indeed influence consumers' perceptions of and desire for Samsung's products. For example, there was evidence that Samsung valued the infringing features, including evidence that it paid close attention to and tried to incorporate certain features of Apple's iPhone. Samsung had copied the "slide to unlock" feature, and internal Samsung documents showed it tried to create unlocking designs based on Apple's iPhone.

Evidence of copying alone doesn't establish a causal nexus, the court said. But the copying evidence here established a further link between Apple's and Samsung's subjective beliefs and consumers' perceptions, strengthening a causal nexus and irreparable harm to Apple. The appeals court acknowledged that the evidence of irreparable harm wasn't as strong as proof that customers buy the infringing products only because of the infringing features. Nonetheless, it's still evidence of causal nexus for lost sales and irreparable harm, and the court weighed in favor of granting the injunction.

IMPROVING USER EXPERIENCE

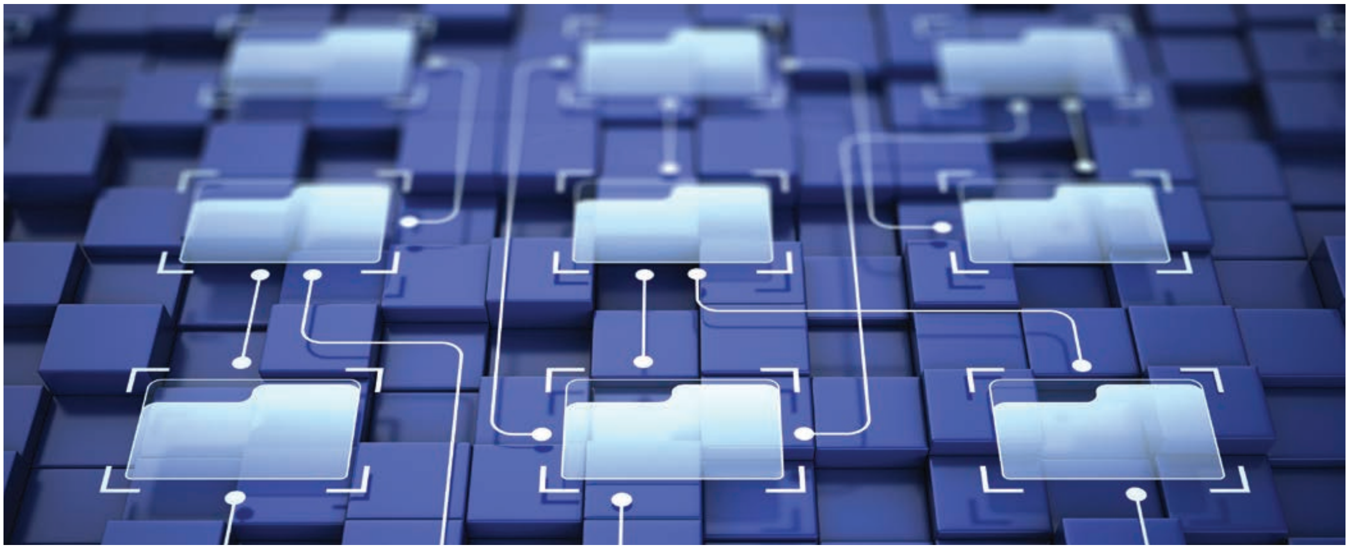
The appeals court's ruling is especially welcome news for the holders of patents that cover the type of inventions that are incorporated into devices with many features. These patentees should find it easier to obtain injunctions barring the use of infringing features. □

Price disparity does *not* preempt lost profits damages

It's ba-a-ack! The long-running and wide-ranging patent infringement case, *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, has returned to the U.S. Court of Appeals for the Federal Circuit — possibly for the last time. In this latest iteration, the court ruled on the patentee's damages. Specifically, it held that lost profits damages *were* available, despite the fact that the infringing product sold for half the price of the patentee's product.

PLAINTIFF PRESENTS ELASTICITY THEORY

Akamai Technologies is the exclusive licensee of a patent for a method of delivering electronic data using a content delivery network. In 2006, Akamai sued Limelight, a competing hosting service, for patent infringement. After several rounds of appeals, the case landed before a three-judge panel of the Federal Circuit. The panel reviewed several issues, including the lost profits damages theory presented



by Akamai's expert. The jury had awarded Akamai about $40 million in lost profits after the expert testified that, but for the infringement, Akamai would have collected about $74 million.

As the court noted, the lost profits analysis was complicated by the fact that Limelight sold its product for half the price of Akamai's. The expert assumed that, in a world where Limelight didn't sell an infringing product, Akamai would sell its products to some of Limelight's real-world customers for twice as much as Limelight had.

The expert also assumed that the demand for Akamai's products would be 25% less than the demand for Limelight's infringing products because of "price elasticity." He reasoned that the more elastic the demand for a product, the more sensitive it is to price change. Demand for Akamai's products was relatively inelastic — or relatively price-insensitive.

COURT SHUNS DEFENDANT'S ARGUMENT

Based on the price disparity between Limelight's and Akamai's products, Limelight argued that the expert's calculation of the share of its customers that would have gone to Akamai absent its infringement was arbitrary and not based on sound economic theory. Thus, it contended, Akamai shouldn't have been allowed to present a lost profits theory.

The Federal Circuit disagreed, pointing out that it has repeatedly approved similar adjusted market share analyses for estimating lost profits. The court acknowledged that Limelight was correct that its customers expressed a clear preference for lower-priced products. Therefore, they would have been less likely to buy Akamai's products than the average consumer. But the court found that the expert's testimony took this consideration into account both in excluding the lowest 25% of Limelight's customers for his analysis and in discounting the potential award for price elasticity.

> The plaintiff's expert reasoned that the more elastic the demand for a product, the more sensitive it is to price change.

PURPORTED PROBLEMS PASSED OVER

Notably, the court didn't address whether the discount was sufficient, because that issue related to the *amount* of lost profits, and Limelight had challenged only the *availability* of lost profits as a measure of damages in its original appellate briefs. Limelight didn't attack the basis for the amount of the award until supplemental briefing, so the court found no need to consider the argument. ◻

Computerized lending method found patent-ineligible, *again*

Another case involving computer-implemented business methods, another finding of patent-ineligibility. The plaintiff in *Mortgage Grader, Inc. v. First Choice Loan Services, Inc.* owned two patents on computer-implemented systems and methods for assisting borrowers. It sued First Choice Loan Services for infringement of those patents. First Choice asserted that the patents were invalid because they covered inventions that weren't patent-eligible, and the trial court dismissed the case.

Mortgage Grader appealed, but the U.S. Court of Appeals for the Federal Circuit didn't tell the plaintiff what it wanted to hear. It confirmed that the involved patents were actually invalid because they weren't directed to proper patentable subject matter.

WHAT DETERMINES ELIGIBILITY?

Under Section 101 of the federal Patent Act, patent-eligible subject matter is limited to new and useful — or new and useful improvements of — processes, machines, manufactures or compositions of matter. Although they aren't specifically prohibited by statute, laws of nature, physical phenomena and abstract ideas aren't patent-eligible as judicial exceptions under case law.

The U.S. Supreme Court has established a two-step framework for determining whether a claim in a patent is within a judicial exception to Sec. 101. First, a court must determine if the claim in the patent relates to one of the three types of judicial exceptions. If so, the court must then determine whether the claim covers significantly more than the judicial exception itself.

DOES IT PASS THE TEST?

The appeals court found that Mortgage Grader's patents related to the abstract idea of "anonymous loan shopping." This means that borrowers are anonymous to lenders until they learn the cost of a loan based on their credit grading, and only then reveal their identities. According to the court, the series of steps covered — including the borrower applying for a loan and a third party calculating the borrower's credit grading — could all be performed by humans without a computer.

The court further found that the patents didn't include an inventive concept. They only added generic computer components (an interface, network, and database). The court pointed out that nothing in the patents purported to improve the functioning of the computer itself or cause an improvement in any other technology or technical field. The patents also didn't solve a problem unique to the Internet.

HAVE AN INVENTIVE CONCEPT

The appeals court affirmed the trial court's ruling regarding patent-ineligibility. Patentees hoping to establish that inventions involving an abstract idea *are* patent-eligible generally must have an inventive concept. □

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