



IDEAS ON INTELLECTUAL PROPERTY LAW

YEAR END
2017

Supreme Court disparages ban on offensive trademarks

Exhausted yet?

SCOTUS clarifies doctrine limiting patent rights

A road map for patent obviousness

Defining “seller” for copyright infringement liability



Cantor Colburn LLP

Supreme Court disparages ban on offensive trademarks

What's offensive is often in the eye of the beholder. Where federal trademark registration is sought, this has long meant that registration could be denied if the mark was considered disparaging. Now, in a landmark 8-0 decision in *Matal v. Tam*, the U.S. Supreme Court has struck down the so-called "disparagement clause" in federal trademark law, opening the door to the registration of marks that may have been rejected as offensive in the past.

BAND NAME ROCKS THE TRADEMARK WORLD

The lead singer of the Asian-American dance-rock band "The Slants" named the band to "reclaim" and "take ownership" of Asian stereotypes. It takes inspiration for its lyrics from childhood slurs and mocking nursery rhymes; its albums include "The Yellow Album" and "Slanted Eyes, Slanted Hearts."

The singer filed an application to register the mark The Slants, but an examiner from the U.S. Patent and Trademark Office (USPTO) refused registration under the Lanham Act's disparagement clause. The clause 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 Trademark Trial and Appeal Board affirmed the refusal. However, the Federal Circuit Court of Appeals found that the disparagement clause violated the Free Speech Clause of the First Amendment, and was thus unconstitutional.

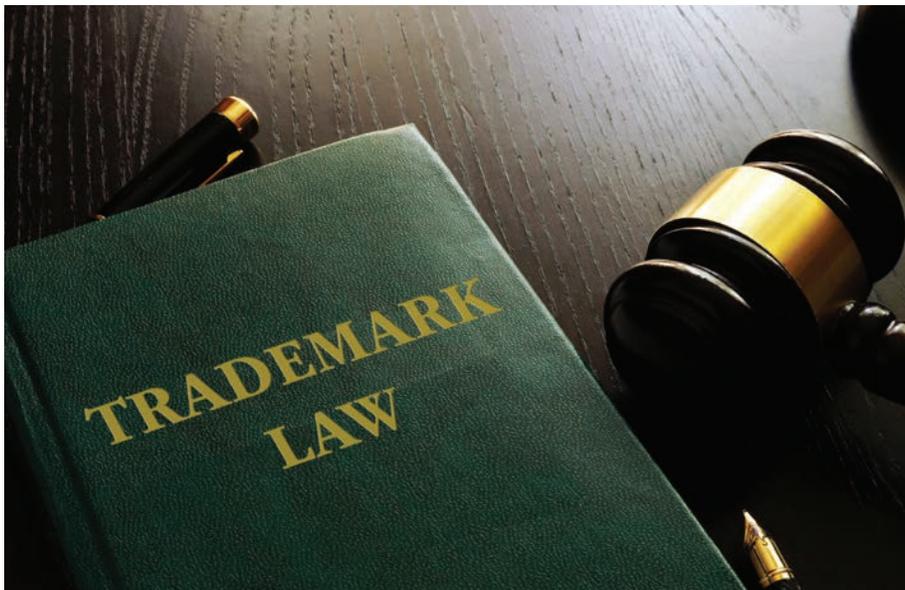
GOVERNMENT SPEECH ARGUMENT SHUT DOWN

On appeal to the Supreme Court, the federal government argued that the registration of marks under the Lanham Act makes trademarks government speech, which isn't subject to the Free Speech Clause. Thus, it can regulate them based on their content or viewpoint.

The Court disagreed, finding it "far-fetched" to suggest a registered mark is government speech. If registration makes the mark government speech, it said, the government "is babbling prodigiously and incoherently." What, the Court wondered, does the government have in mind when it advises

Americans to "Just do it" (Nike's trademark) or "Have it your way" (Burger King)?

Moreover, the USPTO doesn't create or edit marks. If a mark satisfies the Lanham Act's viewpoint-neutral requirements, registration is mandatory. The USPTO has also made it clear that registration doesn't represent government approval of a mark. Further, once a mark is registered, the USPTO can't remove it from the register unless a party moves for cancellation, the registration



COURT PUNTS ON COMMERCIAL SPEECH QUESTION

The parties in *Matal v. Tam* (see main article) also argued over whether trademarks are commercial speech and, therefore, entitled to less protection from regulation (for example, the disparagement clause) under the First Amendment. The government claimed that trademarks' central purposes are commercial. Tam countered that many trademarks have an expressive component that goes beyond simply identifying the source of a product or service.

The U.S. Supreme Court determined that it needn't resolve the issue for purposes of this case — because the disparagement clause would fail even under the relaxed standard that applies to the review of restrictions on commercial speech for constitutionality. Under that standard, a restriction must serve “a substantial interest” and be “narrowly drawn” to be upheld.

The Court found that the government's “purported interest” of preventing speech expressing ideas that offend “strikes at the heart of the First Amendment.” And the disparagement clause isn't narrowly drawn because it applies to any trademark that disparages any person, group or institution.

expires or the Federal Trade Commission initiates proceedings.

SUBSIDIES NOT FOUND

The high court also shot down the government's assertion that the case was governed by previous cases where it upheld the constitutionality of government programs that subsidized speech expressing a particular viewpoint. All of those cases involved cash subsidies or their equivalent.

If a mark satisfies the Lanham Act's viewpoint-neutral requirements, registration is mandatory, and registration doesn't represent government approval of a mark.

The USPTO, on the other hand, doesn't pay money to parties seeking trademark registration. To the contrary, it requires the payment of fees to apply for and maintain registration.

PROPOSED NEW DOCTRINE REJECTED

The government also urged the Supreme Court to adopt a “government-program” doctrine that would

permit some content- and speaker-based restrictions in government programs. The doctrine would merge the Court's government-speech cases and subsidy cases to construct a broader doctrine applicable to trademark registration.

According to the Court, cases in which the government creates a limited public forum for private speech are potentially more appropriate — and, even in those cases, viewpoint discrimination is forbidden. By denying registration to any mark that's offensive to a substantial percentage of the members of any group, the Court found, the disparagement clause discriminates on the basis of viewpoint. “Giving offense is a viewpoint,” it explained.

A CLEAR WINNER

The ultimate impact of this case remains to be seen, but it's certainly good news, not just for The Slants but also for the Washington Redskins. A federal judge canceled the National Football League team's trademark registrations in 2015 based on the disparagement clause. The team had appealed the ruling, but considering the Supreme Court's decision, both the Department of Justice and the plaintiffs in that case have asked the appellate court to end the case, as the marks can no longer be challenged as offensive. ■

Exhausted yet?

SCOTUS clarifies doctrine limiting patent rights

Anyone who has ever tried to avoid the high prices of toner cartridges by purchasing refills from so-called remanufacturers will be interested in a recent ruling from the U.S. Supreme Court — and many patentees should be interested, too. In *Impression Products, Inc. v. Lexmark Int'l, Inc.*, the Court provided some important clarifications to the patent exhaustion doctrine that limits a patentee's rights.

A CASE OF EXHAUSTION

Lexmark International owns several patents on toner cartridges and how they're used. It sells cartridges in the United States and abroad.

The company offers two options to consumers. They can:

1. Pay full price and obtain cartridges with no restrictions, or
2. Buy discounted cartridges through the company's "Return Program" if they sign a contract agreeing to use each cartridge only once and refrain from transferring cartridges to any third parties.

Remanufacturers nonetheless manage to acquire empty Lexmark cartridges, including Return Program cartridges and cartridges sold abroad. They then refill them with toner and resell them at lower prices than Lexmark does. In this situation, Lexmark sued remanufacturer Impression Products, Inc. for patent infringement. Lexmark claimed infringement for two groups of cartridges: Return Program cartridges that Lexmark sold within the United States and all

toner cartridges that Lexmark sold abroad and that remanufacturers imported into the country.

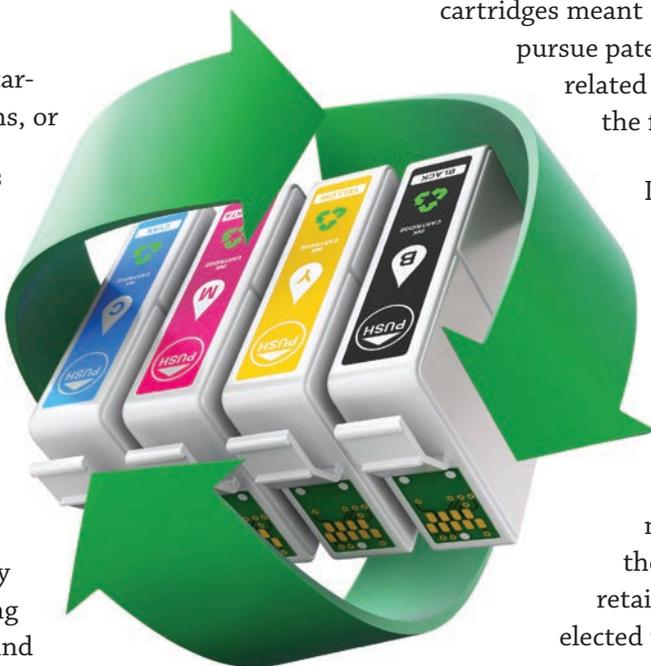
The trial court dismissed the claims regarding the domestic cartridges, but not the claims related to the foreign cartridges. On appeal, the Federal Circuit Court of Appeals ruled for Lexmark with respect to both types of cartridges, finding that their sales didn't exhaust the company's patent rights in them. The case then moved on to the U.S. Supreme Court.

A CLEARER PICTURE

Under the patent exhaustion doctrine, a patent owner's sale of one of its products exhausts its patent rights regarding that item. On appeal, Impression Products argued that Lexmark's sales of its toner cartridges meant Lexmark lost the right to pursue patent infringement claims related to both the domestic and the foreign cartridges.

In its review, the Supreme Court quickly concluded that Lexmark exhausted its patent rights in the domestic cartridges the moment it sold them. Although the single-use / no-resale restrictions in its customer contracts may have been enforceable, they didn't entitle Lexmark to retain patent rights in an item it elected to sell.

But what about the foreign sales? Lexmark argued that the Patent Act doesn't give rights to patentees abroad. As a result, patentees selling in foreign markets might not be able to sell their products for the same prices that they could in the United States. Because there are no patent rights to exhaust



out of the country, Lexmark argued, there should be no patent exhaustion from sales abroad.

The Court found nothing in the text or history of the Patent Act showing that Congress intended to restrict exhaustion to domestic sales.

However, the Supreme Court stressed that exhaustion is triggered by a patentee's decision to give up a patented item for whatever fee it determines is appropriate. A patentee might not command the same amount abroad as in the United States, it conceded, but the Patent Act doesn't guarantee

a particular price — only that a patentee receive one reward for every item that passes out of the monopoly created by patent rights.

Thus, the high court concluded that Lexmark's foreign sales exhausted its patent rights. The Court found nothing in the text or history of the Patent Act showing that Congress intended to restrict exhaustion to domestic sales.

LASTING IMPRESSIONS

The Supreme Court's ruling will no doubt be welcomed by toner cartridge buyers across the country. The owners of patents used in reusable products, however, are probably less pleased. Without patent protection, they're left with only contract law to restrict the use or resale of their products. And because the contracts are with purchasers, this means they'd have to sue their own customers. ▣

A road map for patent obviousness

It probably comes as no surprise that inventions that are obvious aren't eligible for patents. Yet arguments over obviousness land in the court all the time. A recent ruling by the Federal Circuit Court of Appeals (which hears all patent-related appeals) in *Millennium Pharmaceuticals, Inc. v. Sandoz Inc.* illustrates several arguments that can arise when the obviousness of an invention — and therefore the validity of its patent — is at issue.

CONTESTED FINDINGS

Millennium Pharmaceuticals is the exclusive licensee of a patent for a lyophilized (freeze-dried) compound, an ester of bortezomib and D-mannitol, used to treat multiple myeloma. Bortezomib is the subject of an earlier patent but never received approval from the Food and Drug Administration (FDA) or market status because of its instability and insolubility. The

ester compound has dramatically improved dissolution and stability.

Several defendants, including Sandoz Inc., sought FDA approval of a generic version of the ester compound, alleging that the patent was invalid based on obviousness. In the litigation that ensued, the district court agreed with the defendants. Millennium appealed to the Federal Circuit.

UNDER THE MICROSCOPE

The primary issue was whether a person of ordinary skill — seeking to remedy the instability and insolubility and produce an effective bortezomib formulation — would obviously produce the ester compound. Sandoz provided no references (or “prior art”) that showed or suggested a reason to make the ester, and no reference taught or suggested that such



a new compound would have the long-sought properties of stability and solubility. The appellate court thus found that Sandoz had failed to show it was obvious to use mannitol to make an ester during lyophilization or that it would solve bortezomib's problems.

Evidence of long-felt need is a particularly strong indicator of nonobviousness when it demonstrates both that a demand existed for an invention and that others tried but failed to satisfy the demand.

The appeals court determined, too, that the district court had erred in finding that lyophilizing bortezomib with mannitol to form an ester was a suitable option that the prior art (such as the bortezomib patent) didn't discourage persons of ordinary skill from pursuing. It found persuasive evidence that the process would have been unattractive to persons of ordinary skill because it could disturb the chemical properties that make bortezomib effective at fighting cancer.

The Federal Circuit also criticized the district court for its consideration of "inherency" — the idea that a patented claim was inherent in prior art. The appellate court noted that no experts testified that they foresaw, expected or would have intended the reaction between bortezomib and mannitol or that the resulting ester would have the long-sought properties and advantages.

ANOTHER ROUND OF EVIDENCE

The appellate court also faulted the district court for its evaluation of the objective indications of nonobviousness (also known as secondary considerations). Such evidence, it emphasized, can represent the strongest evidence in the court record. The court emphasized that examination of secondary considerations includes two particular indications:

Unexpected results. The district court had declined to consider the ester's advantages and benefits over bortezomib, ruling that bortezomib wasn't the closest prior art. But the appellate court found that bortezomib was indeed the closest prior art and that the ester exhibited unexpected results compared with it, with greatly improved stability, solubility and dissolution.

Long-felt need. Evidence of long-felt need is a particularly strong indicator of nonobviousness when it demonstrates both that a demand existed for an invention and that others tried but failed to satisfy the demand. The appellate court said that the long-felt need for a drug to treat multiple myeloma was undisputed; prior treatments gave poor remission and low survival rates.

FORMULA FOR SUCCESS

The Federal Circuit ultimately reversed the district court's finding of patent invalidity. Its heavy criticism of the initial ruling provides a useful road map of how parties should expect a court to analyze obviousness arguments and evidence. ▣

Defining “seller” for copyright infringement liability

What’s a copyright holder to do when counterfeit products show up on the massive online marketplace Amazon.com? Well, one thing it will have trouble doing is successfully suing Amazon for infringement, as seen in *Milo & Gabby LLC v. Amazon.com, Inc.*

PILLOW FIGHT LANDS IN COURT

Milo & Gabby LLC holds copyright registrations on animal-shaped pillowcases, its website and various other marketing images. It discovered knockoff pillowcases being sold on Amazon by third-party sellers, although Amazon didn’t directly sell any of the pillowcases. The depictions of the pillowcases on Amazon showed Milo & Gabby products.

The company sued Amazon for copyright infringement. The district court dismissed the copyright claims before trial, and Milo & Gabby appealed.

COPYRIGHT OWNER TAKES A HARD BLOW

Under the federal Copyright Act, a party can’t be held liable for infringement unless it has distributed copies of the copyrighted work to the public “by sale or other transfer of ownership.” Milo & Gabby asserted that the district court shouldn’t have focused on whether Amazon ever took legal title to the products sold on its website.

The Federal Circuit Court of Appeals agreed that passage of title isn’t of “talismanic significance” when determining whether a sale has occurred, but wasn’t persuaded that this case warranted abandoning its general insistence on transfer of title. And, while a court might consider a party to be a seller even when that party doesn’t hold and transfer title in some situations (for example, when the party engaged in consignment sales), Milo & Gabby failed to show that any of those situations applied to Amazon.

Milo & Gabby acknowledged that, if direct passage of title from Amazon to the buyers of the knockoff pillowcases were required for Amazon to be liable, Amazon wouldn’t qualify as a seller in most instances. According to the court, most of the products offered for sale on the Amazon website are offered by third-party sellers.



It claimed, though, that Amazon was a seller where it provided one of the third-party sellers of the pillowcases with fulfillment services. The third party shipped its product to an Amazon warehouse for storage, and Amazon boxed up and shipped the product to the buyer when a sale on the website took place.

That wasn’t enough for the court. It noted that Amazon never held title, so it couldn’t sell the product on its own, even if done on behalf of the third-party seller. Amazon also didn’t control the information or photos posted on the product detail page or the sale price. It made it easier for third parties to make a sale, but the third parties remained the sellers.

A CAVEAT

It’s important to note that the court’s ruling applies only to circumstances in which products are sold on Amazon by third-party sellers. When Amazon sells products itself, it likely would qualify as a seller. □



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