

THE WILLENKEN WORD

Intellectual Property in 2018 • February 2019

There were several meaningful developments in intellectual property (IP) law in 2018. These include a Supreme Court decision addressing the constitutionality of *inter partes* review, the passage of the Music Modernization Act, and key decisions from the Ninth and Federal Circuits — all of which could have material impact for IP practitioners and parties alike. Let's dive in.

Inter Partes Reviews May Ruin Our Patent System, but They are Constitutional.

The U.S. Chamber of Commerce published its 2018 Global IP Index, ranking the world's economies based on the extent to which they foster innovation and development in intellectual property. Since 2016, the U.S. patent system has dropped from 1st to 12th place in the world. The reason for the precipitous decline? The "high volume of trials (particularly for life sciences claims) and a disproportionate rate of rejections" in *inter partes* reviews (IPRs) instituted pursuant to the Leahy-Smith American Invents Act (AIA), and the uncertainty surrounding patentable subject matter due to inconsistent and difficult-to-apply judicial standards and U.S. Patent and Trademark Office (USPTO) rules. Unfortunately, the Supreme Court did little to address these problems; instead, it stirred up new ones by upholding post grant patent challenges under the AIA and complicating the process.

In ***Oil States Energy v. Greene's Energy Group***, 138 S.Ct. 1365 (2018), the Supreme Court upheld IPRs codified in the AIA. In that case, Plaintiff Oil States Energy obtained a favorable judgment in the trial court. However, its claims were later invalidated by the Patent Trial and Appeal Board (PTAB) after an IPR, thus nullifying the favorable trial court verdict. The Federal Circuit affirmed the PTAB without additional opinion. Oil States Energy then appealed to the Supreme Court, where it argued that post grant challenges at the PTAB were unconstitutional under Article III and the Seventh Amendment of the U.S. Constitution because they resulted in a taking of private property. The Supreme Court disagreed, holding that a grant of patent rights is more akin to the grant of a public franchise, which Congress can authorize the USPTO to revoke without violating the U.S. Constitution.

While *Oil States Energy* upheld the constitutionality of IPR proceedings, in ***SAS Institute Inc. v. Iancu***, 138 S.Ct. 1348 (2018), the Supreme Court held that the partial institution of IPR proceedings under the PTAB rules was not authorized by the AIA. SAS Institute challenged every claim in a software patent in its petition for IPR, only to have the PTAB institute a review on only a portion of those claims. The Director argued that such partial institution

decisions were necessary to streamline the work of the PTAB and ensure only those claims most likely to be invalid were reviewed. The Supreme Court disagreed, holding that the plain language of the statute resolved this case and the PTAB “must address every claim the petitioner has challenged” (emphasis in original).

Practical Tips & Impact: *SAS Institute Inc.* will likely significantly impact both the IPR process and petitioners’ IPR strategy going forward. The estoppel provisions of the AIA will now apply to all challenged claims, even those grounds that the board considers to be weak, because each claim will receive a final decision from the PTAB. Moreover, full institution will increase the workload of the PTAB, which may look to streamline other processes to manage ballooning dockets, e.g., issuing basic institution decisions that are less instructive of the PTAB’s position on each claim challenge. For parties, this means less guidance from the PTAB on the challenges likely to succeed at the outset of the review, and a more complicated trial that includes less robust grounds for invalidity. **At a minimum, clients should expect costs of post grant proceedings to increase, and may consider limiting claim challenges to those most likely to succeed and have the biggest impact on district court litigation.**

New USPTO Rule . . . to the Rescue?

In 2018, Director Andrei Iancu declared “a new day” at the USPTO. His office adopted a final rule that appears to address some of the problems with the U.S. patent system as reflected in the declining Global IP Index ranking. Fortunately for patentees, the new rule abandons the broadest reasonable interpretation standard for claim construction. IPRs, post grant reviews (PGRs), and covered business method (CBM) reviews filed after November 13, 2018 will be subject to the “ordinary and customary meaning” claim construction standard used by the federal district courts and articulated in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (*en banc*). The new rule effectively ensures claim construction consistency across different fora, and will narrow the amount of art available to the petitioner in IPRs, PGRs, and CBMs.

Practical Tips & Impact: Going forward, petitioners will need to offer narrower claim constructions that support their invalidity arguments and non-infringement positions. Consistent with a narrow claim construction position, the best prior art will be those references that teach the embodiments of the challenged patent.

Looking ahead in 2019, the PTAB rules may become even more patentee-friendly. In October 2018, the USPTO proposed rules that would implement a one-year pilot program allowing patent owners to amend, and narrow, challenged claims in AIA trials. We expect the pilot program to be available in early 2019.

“Concrete” Evidence of Irreparable Harm is Required for Trademark Injunctive Relief in the Ninth Circuit.

In *Adidas America Inc., v. Skechers USA, Inc.*, 890 F.3d 747 (9th Cir. 2018), the Ninth Circuit reaffirmed its holding in *Herb Reed Enterprises, LLC v. Florida Entertainment Management, Inc.*, 736 F.3d 1239 (9th Cir. 2013), that “evidence of loss of control of business reputation and damage to goodwill [can] constitute evidence of irreparable harm” in a trademark case, but only if there is concrete evidence of such harm. *Id.* at 1250. Importantly, the Court did not accept any “concrete” evidence presented by Adidas as sufficient to prove irreparable harm. The Court affirmed a preliminary injunction on a trade dress claim where Adidas presented advertising budgets, testimony regarding supply chain control, and a survey as “concrete” evidence of the loss of goodwill and control of its business reputation. However, the Court overturned a preliminary injunction on another Adidas mark because it found the evidence of harm, which was shown through testimony by Adidas employees that the Skechers brand was lower in quality and cost, to be biased and deficient.

Practical Tips & Impact: At the outset of litigation, plaintiffs seeking injunctive relief for trademark infringement in the Ninth Circuit should be prepared to collect and present “concrete” evidence of irreparable harm in the form of advertising budgets; sales, distributor, vendor, and supply chain agreements; trademark licenses; monitoring activities; and possibly surveys.

A Big, New Piece of Copyright Legislation and an Open Source Decision.

The biggest news of the year in copyright law was the passage of the **Orrin G. Hatch-Bob Goodlatte Music Modernization Act of 2018** (MMA), which became law on October 11, 2018. Most notably, the MMA updated the existing copyright laws to provide a better licensing regime for digital streaming services and copyright owners. Digital streaming services must obtain licenses for both the song composition and the sound recording. Song compositions are licensed using a compulsory mechanical license, which pays royalties to songwriters. Prior to the passage of the MMA, obtaining separate mechanical licenses for the thousands of songs in a streaming service’s catalogue was tedious, and often songwriters could not be located, so the streaming services submitted a Notice of Intention to Obtain a Compulsory License with the U.S. Copyright Office, and paid no royalties for the use of the song composition. This resulted in large volumes of litigation, and some very large class action suits against streaming services. Under the MMA, royalties for mechanical licenses will now be paid per stream into a central licensing agency run by the U.S. Copyright Office, where songwriters must register their work to get timely pay for any royalties due. Accordingly, streaming services no longer need to try to hunt down individual songwriters in order to obtain mechanical licenses and pay royalties to them. It is expected that the simplified licensing framework of the MMA will reduce copyright litigation against streaming services.

As for open source, the Federal Circuit rejected Google’s fair use defense in *Oracle America, Inc. v. Google, Inc.*, 886 F.3d 117 (Fed. Cir. 2018), in which Oracle’s Java Application Programming Interface (API) packages

were at issue. To develop applications on Android, Google copied these API packages when it was unable to negotiate a license for their use and made them available to developers via an open source license. Google argued that its copying was “fair use” because Android was available for free. After weighing the four statutory factors to evaluate fair use under 17 U.S.C. § 107, the Court concluded that Google copied the API packages from one platform to another “for the same purpose and function as the original competing platform,” and this “superseding use was decidedly unfair” because it limited the revenue Oracle could earn through licensing its software.

Practical Tips & Impact: While the Federal Circuit did not foreclose the fair use defense in the open source context, this decision highlights the danger of relying on the fair use defense if the code in question causes financial harm to the copyright owner.

The Supreme Court Will be Active in the Intellectual Property Space During 2019

In its 2019 term, the Supreme Court is set to rule on a number of key intellectual property issues. It will determine whether: vulgar, viewpoint neutral language (i.e., “FUCT”) can be registered as a trademark (***Iancu v. Brunetti***, U.S. Supreme Court Case No. 18-302); a copyright is registered for the purpose of bringing suit when it is filed with the Copyright Office (***Fourth Estate Public Benefit Corp. v. Wall-Street.com LLC***, U.S. Supreme Court Case No. 17-571); and costs to the prevailing party under the Copyright Act are limited to taxable costs (***Rimini Street v. Oracle***, U.S. Supreme Court Case No. 17-1625).

The IP litigation practice at Willenken serves clients in all areas of IP law, including patents, trademarks, copyrights, trade secrets, and unfair competition. For questions about the content of this article or how we may be able to handle your IP matters, please contact one of the members of our team.



William A. Delgado, Partner
E wdelgado@willenken.com
T 213.955.9240



Ashley L. Kirk, Of Counsel
E akirk@willenken.com
T 415.830.5740