Intellectual Property and Tech Transactions Update

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Notable Developments

Supreme Court Settles Circuit Split on Treatment of Trademark Licenses Following Rejection in Bankruptcy

On May 20, 2019, the U.S. Supreme Court issued a significant decision in *Mission Product Holdings, Inc. v. Tempnology, LLC*, holding that the rejection of a trademark license by a debtor-licensor under Section 365 of Chapter 11 of the U.S. Bankruptcy Code operates not as a rescission of the license but as a breach of the license agreement and, following any such rejection, the licensee can continue to use the licensed trademarks in accordance with the license agreement.

The Court's decision resolves a split between federal circuit courts that has long been the source of confusion as to the rights of a trademark licensee in the event of a licensor's bankruptcy, in part because a trademark licensee could not avail itself of the protections of Section 365(n). More recently, there had been a growing trend among certain courts to provide trademark licensees with protections against such risk, however other courts had not afforded such protections. In *Mission*, the Court has clearly put trademark licensees on surer footing in the event their licenses are rejected in bankruptcy.

Mission Product was a licensee of Tempnology under a co-marketing and distribution agreement which provided Mission with exclusive distribution rights to certain of Tempnology's cooling accessories and a non-exclusive license to use Tempnology's trademarks to sell these products. After Tempnology filed a petition for Chapter 11 bankruptcy, it moved to reject a number of its contracts, including its agreement with Mission. The bankruptcy court allowed Tempnology to reject the agreement and concluded that because Section 365(n) does not apply to trademarks, Tempnology could terminate Mission's rights to use Tempnology's trademarks. The Bankruptcy Appellate Panel reversed the bankruptcy court, relying on a Seventh Circuit decision. On appeal, the First Circuit agreed with the bankruptcy court and overturned the Bankruptcy Appellate Panel's decision, which created a circuit split between the First Circuit and Seventh Circuit regarding the treatment of trademark licenses following their rejection in bankruptcy.

Under both Section 365's text and fundamental principles of bankruptcy law, the Court held that "rejection of a contract—any contract—in bankruptcy operates not as a rescission but as a breach." The Court noted that Sections 365(a) and (g) speak broadly, and that "any executory contract[s]" and licensing agreements involving trademarks or other property, including the Tempnology-Mission contract, are executory contracts. According to the Court, under Section 365(g), "the rejection of an executory contract[ ] constitutes a breach of such contract." Following the Seventh Circuit, the Court concluded that a breach by a licensor outside of bankruptcy (assuming no special contract term or state law) "does not revoke the license or stop the licensee from doing what [the license] allows." The Court reasoned that the same result should apply in bankruptcy since a rejection constitutes a breach and concluded that the debtor cannot rescind a license already conveyed, although the debtor is no longer obligated to perform its obligations under the agreement. Meanwhile, the licensee may continue to act in any manner authorized by the license. Accordingly, the Court held "that construction of Section 365 means that the debtor-licensor's rejection cannot revoke the trademark license."

Tempnology argued that a negative inference should be read into Section 365(n) for trademark licenses, noting that, since the provisions of Sections 365(h), (i) and (n) provide specific exceptions in which certain executory contracts may be retained notwithstanding their rejection, the effect of rejection must be more than a breach. According to Tempnology, if this were not the case, the general rule of Section 365 would be "swallowed" by such exceptions.

The Court rejected Tempnology's argument. The Court confirmed that Section 365(n) does not apply to trademark licensing agreements, however, the Court also concluded that because such agreements fall within Section 365(g)'s general rule, the fact that Section 365(n) does not apply to trademark licenses does not mean that the rejection of trademark licenses should be treated differently than the rejection of other executory contracts. In particular, the Court noted that "Congress did nothing in adding Section 365(n) to alter the natural reading of Section 365(g)—that rejection and breach have the same results." Given that trademark license agreements are generally considered executory contracts that fall under Section 365(g), the Court held that a debtor-licensor's rejection of a trademark license agreement cannot revoke the license granted thereunder. However, the Court also noted that the provisions of Sections 365(h), (i) and (n) are not redundant of Section 365(g), rather the Court provided that each provision "sets out a remedial scheme embellishing on or tweaking the general rejection-as-breach."

Justice Sotomayor, in a concurring opinion, agreed with the Court in rejecting Tempnology's arguments and that Congress' adoption of Section 365(n) does not change the Court's interpretation of Section 365(g). At the same time, however, Justice Sotomayor highlighted in her concurrence that the Court's holding confirms in some respects that a trademark licensee's post-rejection rights and remedies are more expansive as compared to those of other intellectual property licensees under Section 365(n) and noted that Congress may choose to specifically address the treatment of trademark licenses in future legislation to the extent such trademark licensees are treated differently from other intellectual property licensees.

The Supreme Court's opinion can be found **here**.

Supreme Court Holds That the Government May Not Challenge Patents as a "Person" Under the America Invents Act

On June 10, 2019, the U.S. Supreme Court issued a decision in *Return Mail, Inc. v. United States Postal Service*, holding that the government is not a "person" who may seek post-issue review of patents under the Leahy-Smith America Invents Act ("**AIA**"). The Court's decision reverses the Federal Circuit's ruling that the U.S. Postal Service and the U.S. government were not barred from filing such a petition under the AIA.

The AIA allows a "person" to seek post-issue review of patents through three types of administrative review proceedings, including Covered Business Method ("**CBM**") review. In response to a lawsuit filed by Return Mail alleging that the U.S. Postal Service's activities infringed Return Mail's patent for a method of processing undeliverable mail, the U.S. Postal Service filed a petition in which it sought CBM review of Return Mail's patent. The PTAB found that the government met the AIA's requirements for standing to bring a petition for CBM review and ultimately found the challenged patent claims invalid as covering ineligible subject matter. The Federal Circuit upheld the PTAB's decision, but the dissent raised the argument that the AIA's use of "person" prohibits standing for the government because the common usage of "person" excludes the government and its agencies unless expressly provided. The majority responded to the dissent and found that "person" is used throughout the AIA in a manner that does not exclude the government and that the government, like a private party, has interests in having a non-judicial forum for reconsidering a patent when sued for infringement. Return Mail petitioned the Court to reverse the Federal Circuit decision and the Court granted review to the question of whether the government is a "person" within the AIA.

In a 6-3 decision, the Court held that the government is not a "person" capable of instituting the three AIA review proceedings, finding that, in the absence of an express definition of the term "person" in the AIA or an affirmative showing of Congressional intent to the contrary, there is a presumption that the term "person" does not include the government. The U.S. Postal Service argued that Congress intended to include the government as a "person" under the AIA, highlighting that certain references to "person" in the AIA include the government and that the government has the ability to apply for patents, petition for *ex parte* reexaminations and assert defenses of patent invalidity. The Court rejected these arguments, noting that the mere existence of references to "person" that include the government do not amount to an affirmative showing of Congressional intent required to overcome the presumption. The Court also found that there are likely reasons that Congress would authorize government involvement in a "hands-off" *ex parte* reexamination, but not an adversarial proceeding before the PTAB, in part due to the imbalance of risks involved for the government compared to non-governmental actors.

In a dissenting opinion, Justice Breyer found that Congressional intent weighs in favor of the government, noting the government's ability to apply for patents, sue others for infringement and petition for *ex parte* reexaminations, and questioning why Congress would then decline to give the government the power to invoke AIA proceedings.

The Supreme Court's opinion can be found **here**.

Supreme Court Holds That "Secret Sales" May Trigger the On-Sale Bar Under the America Invents Act

The Leahy-Smith America Invents Act ("**AIA**") bars a person from receiving a patent on an invention that was "in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention." Although the on-sale bar is long-standing, the AIA added the phrase "or otherwise available to the public" to 35 U.S.C. § 102, raising the question of whether an invention is "on sale" only when it is publicly available, or whether "secret sales" qualify as prior art under the AIA. On January 22, 2019, the U.S. Supreme Court resolved this ambiguity in *Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc*., unanimously holding that "a commercial sale to a third party who is required to keep the invention confidential may place the invention 'on sale.'"

Helsinn Healthcare, a Swiss pharmaceutical company, makes Aloxi, which treats nausea and vomiting induced by chemotherapy. In 2000, it submitted clinical trial protocols to the Food and Drug Administration to study palonosetron, Aloxi's active ingredient, in two doses: 0.25 mg and 0.75 mg. Helsinn then sought marketing partners for palonosetron, and partnered with MGI Pharma, Inc., a Minnesota pharmaceutical company.

Helsinn and MGI entered into a license agreement and a supply and purchase agreement. The license agreement granted MGI "the right to distribute, promote, market, and sell the 0.25 mg and 0.75 mg doses of palonosetron" in exchange for certain payments. Additionally, under the supply and purchase agreement, MGI agreed to purchase palonosetron exclusively from Helsinn in the FDA-approved dosages, and Helsinn agreed to supply however much of the doses that MGI needed. MGI was required to "keep confidential any proprietary information received under the agreements." Helsinn and MGI announced these agreements in a joint press release, and MGI reported them in public filings with the Securities and Exchange Commission—although neither disclosed the specific dosages of palonosetron.

In 2003, Helsinn filed a provisional patent application over the 0.25 mg and 0.75 mg doses of palonosetron. It subsequently filed several patent applications claiming priority to this provisional. In 2011, Teva Pharmaceutical Industries, Ltd. and Teva Pharmaceuticals USA, Inc. sought approval from the FDA to market a generic 0.25 mg palonosetron product. Helsinn then sued Teva for patent infringement, but Teva argued that the patent was invalid because the 0.25 mg dose was "on sale" more than one year before Helsinn filed the 2003 application.

The district court found that the "on sale" provision was inapplicable because the 0.25 mg dose was not disclosed to the public. But the Federal Circuit disagreed, holding that the AIA's on-sale bar applied regardless of whether the sale's details were publicly disclosed.

The Supreme Court affirmed. Explaining that the patent laws had included an on-sale bar since 1836, it reasoned that its precedents had suggested that a sale need not make an invention available to the public, and that the Federal Circuit had expressly held that "secret sales" may invalidate a patent. And the Court presumed that Congress adopted the settled judicial construction of "on sale" when enacting the same language in the AIA. Thus, the Court concluded that "an inventor's sale of an invention to a third party who is obligated to keep the invention confidential can qualify as prior art under §102(a)."

The Supreme Court's opinion can be found **here**.

Supreme Court Settles Circuit Split on Copyright Registration Requirement

On March 4, 2019, in *Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC, et al.*, the U.S. Supreme Court held that completing an application for copyright registration does not entitle its holder to bring a copyright infringement suit in federal court. Instead, the Court determined that the United States Copyright Office must register a copyright before a claimant sues, resolving a circuit split on this issue. The Fifth and Ninth Circuits had previously determined that a completed copyright application satisfies 17 U.S.C. § 411(a)'s registration requirement for a claimant to bring suit for copyright infringement. The Supreme Court sided with the Tenth and Eleventh Circuits, however, which had instead concluded that the USCO must issue a copyright registration in order for the claimant to bring suit.

Fourth Estate, an online news organization, licensed works of journalism to Wall-Street.com under a license agreement that required that Wall-Street.com remove Fourth Estate's content from its website prior to Wall-Street.com's termination of such agreement. Despite this requirement, Wall-Street.com terminated the agreement and continued to display Fourth Estate's content, prompting Fourth Estate to sue for copyright infringement in the District Court for the Southern District of Florida.

Section 411(a) mandates that "no civil action for infringement of the copyright in any United States work shall be instituted until . . . registration of the copyright claim has been made[.]" The district court interpreted "registration" to refer to issuance of registration by the USCO and dismissed Fourth Estate's action, reasoning that Fourth Estate had merely alleged that it had filed an application, not that the USCO had acted on it. The Eleventh Circuit affirmed. The Fifth and Ninth Circuits, however, had previously interpreted "registration" to refer to the completion of a copyright application, without requiring the USCO to have acted on such application.

In a unanimous opinion written by Justice Ginsburg, the Supreme Court affirmed the Eleventh Circuit's decision, declaring that § 411(a) does require registration by the USCO as a prerequisite to bringing an infringement claim in federal court. It concluded that this approach "reflects the only satisfactory reading of §411(a)'s text."

The Court clarified that § 411(a) still contains an exception allowing a claimant to bring an infringement claim once the USCO *refuses* a registration. Considering this provision, the ultimate question is thus whether or not the USCO has acted upon a registration application—either by granting or refusing the registration—before a claimant brings suit. Additionally, the Court confirmed that claimants may bring infringement suits regarding certain works entitled to preregistration once the USCO has completed such preregistration.

Furthermore, the Court clarified that, upon registration, a copyright owner can still recover for prior infringement. While it acknowledged the growing wait time for registration processing by the USCO (now currently five months), the Court determined that this is an issue for Congress to solve, not the judiciary. The Court's decision has prompted the Chairman and Ranking Member of the Senate Judiciary Committee's Subcommittee on Intellectual Property, as well as the Chairman and Ranking Member of the House Committee on the Judiciary, to write letters inquiring about this concern to the Acting Register of Copyrights.

The Court's opinion potentially leaves open questions about what suffices to allege adequate registration in a complaint, as well as about whether a complaint may be satisfactorily amended after the USCO has acted on an application.

The Supreme Court's opinion can be found **here**.

European Parliament Approves Directive on Copyright in the Digital Single Market

On March 26, 2019, the European Parliament adopted a new directive intended to modernize copyright rules and provide copyright protection for rights holders across digital platforms. The directive on copyright in the Digital Single Market (the "**Directive**") disrupts the existing European Union copyright regime with two contentious changes: (1) eliminating the safe harbor that shelters online service providers from liability for copyright infringement by end users and (2) granting news publishers additional copyright protection for online service providers' use of their content.

Prior to the passage of the Directive, the existing copyright regime in the EU provided a "safe harbor" for online service providers against allegations of copyright infringement arising from the conduct of their end users. The former framework required online service providers to respond to requests from copyright holders to take down infringing content, but did not impose any other affirmative obligations or liability on such providers. The European regime was in line with the Digital Millennium Copyright Act (the "**DMCA**") in the United States, which provides a similar safe harbor for online service providers. With the passage of the Directive, the EU significantly departs from this existing framework by imposing an obligation for certain service providers to monitor their platforms to avoid copyright infringement liability.

Among other changes, under Article 17, the Directive establishes direct copyright infringement liability for for-profit service providers that store and display copyright-protected works or other protected subject matter uploaded by users, defined in Article 2(6) as "online content-sharing service providers." Providers of certain electronic communications services, online marketplaces and cloud services are exempted from the definition of online content-sharing service providers. Under the Directive, online content-sharing service providers are required to obtain authorizations from copyright and other rights holders to make protected content available on their platforms. If a service provider fails to obtain such authorization, under Article 14(4), it would be liable for infringing actions of users unless it can demonstrate that it has (1) made "best efforts" to obtain authorization from the copyright holder, (2) made "best efforts" to ensure that works appropriately identified by the copyright holder are not made available on the providers' platform and (3) "expeditiously" taken down infringing content upon notice from the copyright holders and made "best efforts" to prevent future uploads. An online content-sharing service provider that has provided services for less than three years in the EU and that has an annual revenue of below €10 million has reduced compliance obligations under the Directive, unless the average number of monthly unique visitors to such provider's platform exceeds five million. This provision further requires that online content-sharing service providers put in place complaint and redress mechanisms to address take-down requests and removal disputes.

Furthermore, in Article 15, the Directive provides new ancillary rights to news publishers. For a period of two years from January 1st of the year following the date of publication of a work, publishers shall have the exclusive reproduction right and the exclusive right to make works available to the public in connection with the use of publications by for-profit, on-demand services. However, these rights do not apply to (1) hyperlinking, (2) the publication of individual words or "very short" extracts of a press publication or (3) private or non-commercial uses of such a publication. Moreover, such rights of press publishers shall not affect the rights held by authors of any content incorporated in press publications, and the Directive provides that such authors, including journalists, shall receive an appropriate share of the revenues received by press publishers under the Directive.

The Directive also introduces a number of other guiding paradigms and policies. Under Articles 18 and 22, EU member states must ensure authors and performers receive fair remuneration and have the right to revoke a copyright license on the basis of the lack of exploitation of the licensed work. In Title II, the Directive also provides for additional exceptions to existing copyright regulations, including enabling certain text and data mining activities for research organizations and cultural heritage institutions for scientific research, using copyright-protected materials in teaching activities and preserving cultural heritage collections. Other provisions of the Directive are directed at facilitating collective licensing organizations and establishing new license negotiation mechanisms, in Articles 12 and 13, respectively.

Following the European Parliament adoption, on April 15, 2019 the Council of the European Union also approved the Directive. An EU directive does not have direct effect, however; rather, EU member states must pass domestic legislation within 24 months in order to enact the policies set forth therein.

Among other changes adopted, the Directive represents a shift away from the current regime in which online service providers are not liable for users' infringing acts so long as they reasonably comply with take-down requests from copyright holders. While the Directive mandates that compliance with the new requirements shall not result in the prevention of fair use of works and other non-infringing user content, commentators have speculated that legislation enacted by EU member states with a strict interpretation of Article 17 could result in the use of over-broad content filters to block uploads of content identified as infringing. Additionally, the implementation of new safeguards in the EU to prevent copyright infringement online may influence legislators in the United States to consider similar revisions to the DMCA. The details of implementation and the extent to which service providers' liability will expand under the new law, however, is unclear. No member state has yet passed domestic legislation implementing the Directive, so there is uncertainty as to how EU copyright standards will evolve.

The text of the Directive can be found **here**.

Supreme Court Finds Ban on Scandalous and Immoral Trademarks Unconstitutional

On June 24, 2019, in *Iancu v. Brunetti*, the U.S. Supreme Court held that the Lanham Act's bar on "scandalous" and "immoral" trademarks is unconstitutional and violates the First Amendment. The decision marks the second time since 2017 that the Supreme Court has struck down a ban on a category of trademarks as unconstitutional.

Erik Brunetti, founder of the clothing brand Fuct, sought to register an intent-to-use application for the mark "FUCT" in 2011. The USPTO examining attorney refused registration of the mark under § 2(a) of the Lanham Act, finding the mark was vulgar and comprised immoral or scandalous matter. Brunetti appealed the decision to the TTAB, which upheld the examining attorney's decision. On appeal, the Federal Circuit unanimously reversed the TTAB decision in 2017, holding that § 2(a)'s prohibition on the registration of immoral or scandalous trademarks should be reviewed under a strict scrutiny standard due to its regulation of the expressive speech components of a trademark. Under this standard, the Federal Circuit found that "[t]here is no dispute that § 2(a)'s bar on the registration of immoral and scandalous marks is unconstitutional." Additionally, it found that even if the case was treated as a regulation of purely commercial speech under an intermediate scrutiny framework, § 2(a)'s bar on immoral and scandalous marks is unconstitutional because "the government does not have a substantial interest in protecting the public from scandalousness and profanities."

In a 6-3 opinion written by Justice Kagan, the Supreme Court affirmed the Federal Circuit's decision, declaring that § 2(a) violates the First Amendment by applying "viewpoint-based," rather than "viewpoint-neutral," criterion to trademark applications. The decision harkens back to 2017's *Matal v. Tam*, in which the Court unanimously held that § 2(a)'s ban on "disparaging" trademarks violated the First Amendment. The Court in *Tam* declared that viewpoint-based trademark restrictions are unconstitutional and that the disparagement bar was viewpoint-based. Here, the Court likewise held that the bars on scandalous and immoral marks are viewpoint-based, as the USPTO favored marks "aligned with moral standards" and disfavored those "hostile to them."

The USPTO argued the government could avoid this constitutional pratfall by striking down only "marks that are offensive [or] shocking to a substantial segment of the public because of their *mode* of expression, independent of any views that they may express." However, the Court rejected this argument, as "the statute as written does not draw the line at lewd, sexually explicit, or profane marks. Nor does it refer only to marks whose 'mode of expression,' independent of viewpoint, is particularly offensive." According to the Court, to accept the USPTO's statutory interpretation argument "is not to interpret the statute Congress enacted, but to fashion a new one."

Justice Kagan's opinion was joined by Justices Thomas, Ginsburg, Alito, Gorsuch and Kavanaugh.

Chief Justice Roberts and Justices Breyer and Sotomayor each penned opinions concurring in part and dissenting in part, arguing for splitting the "immoral" and "scandalous" prongs of § 2(a). While each of the dissenting Justices felt the "immoral" category of marks was viewpoint-discriminatory and therefore unconstitutional, they argued that "scandalous" mark restrictions could in fact be applied in a more limited, viewpoint-neutral fashion, such as examining the mark's mode of expression.

Congress could respond by enacting a more narrowly tailored restriction on trademarks that are offensive solely because of their mode of expression. While Justice Kagan expressly reserved judgment on whether such a law would pass constitutional muster, in his concurring opinion, Justice Alito diverged from the majority, stating that "our decision does not prevent Congress from adopting a more carefully focused statute that precludes the registration of marks containing vulgar terms that play no real part in the expression of ideas." It remains to be seen whether Justice Sotomayor's fear of a race to file "the most vulgar, profane, or obscene words and images imaginable" will come to fruition and whether Congress chooses to take up the issue.

The Supreme Court's opinion can be found **here**.

Senators Propose Bill to Reform Rules Regarding Patent Eligibility

On May 22, 2019, a bipartisan group of senators released a draft bill which seeks to reform the current 35 U.S.C. § 101 patent eligibility paradigm—and which would abrogate the seminal case law that established judicial exceptions to patentable subject matter.

The draft bill proposes modifications to the U.S. Patent Act in order to clarify what is patentable and how patent eligibility determinations should be undertaken. For example, the proposed modification to § 101(b) states that patent eligibility should be determined "only while considering the claimed invention as a whole, without discounting or disregarding any claim limitation." Additionally, the draft bill introduces new provisions that would (1) include an express presumption in favor of patent eligibility, (2) abolish the judicially-created exceptions to patentable subject matter, (3) modify the interpretation of § 101 claims and (4) provide a specific definition for the term "useful." Specifically, the proposal would eliminate "abstract ideas," "laws of nature," and "natural phenomena" as exceptions to patentable subject matter. Moreover, any case law that established or interpreted those exceptions—including *Alice Corp. v. CLS*

Bank International, *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* and *Association for Molecular Pathology v. Myriad Genetics, Inc.* and their progeny—would be overruled.

In June 2019, the Senate Judiciary Subcommittee on Intellectual Property held three days of hearings regarding the current state of § 101 patent eligibility, focusing on the proposed language in the draft bill and the overarching goals of § 101 reform. One prevailing theme of the hearings was the panelists' and stakeholders' desire for clarity and predictability in determining patent eligibility. Both supporters and opponents of § 101 reform criticized the vagueness and breadth of the draft bill's proposed language, and the subcommittee's chair acknowledged the need to further refine the language.

The subcommittee's chair indicated that it may prepare a final bill as early as mid-July 2019. It remains to be seen whether the bill will advance in its current form or with significant deviations.

The draft bill can be found **here**.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

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