

Intellectual Property and Tech Transactions Update

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Notable Developments

Supreme Court Holds Sovereign Immunity Shields States from Copyright Lawsuits

On March 23, 2020, the Supreme Court issued a decision in *Allen v. Cooper*, holding that states are immune from copyright lawsuits under the Eleventh Amendment of the U.S. Constitution, as Congress did not validly abrogate sovereign immunity when it enacted the Copyright Remedy Clarification Act of 1990.

In 1996, Intersal, Inc. (“**Intersal**”), a private research and marine salvage company, discovered the shipwreck of the Queen Anne’s Revenge off the coast of North Carolina. Videographer Frederick Allen and his company Nautilus Productions, LLC (“**Nautilus**”) were hired by Intersal to document the salvage operation of the shipwreck through video footage and still photographs. Allen, who holds registered copyrights in all such videos and photographs, alleged in 2013 that North Carolina infringed such copyrights by copying and publicly displaying the works online without permission. In a settlement agreement with Nautilus, North Carolina agreed to pay Nautilus \$15,000 and to display only non-commercial digital media bearing a watermark and a link to the department’s, Intersal’s and Allen’s websites. When North Carolina refused to stop using his footage and still photographs of the shipwreck salvage operation on its websites, Allen sued the state in the Eastern District of North Carolina for copyright infringement. North Carolina sought to dismiss the lawsuit on the basis of state sovereign immunity, which generally precludes suits against the states without their consent. However, such suits are permitted if Congress has enacted “unequivocal statutory language” abrogating the states’ immunity from suit. Allen argued that the Copyright Remedy Clarification Act of 1990 (the “**CRCA**”) removed the states’ sovereign immunity in copyright infringement cases because the CRCA allows for copyright owners to file infringement lawsuits against states. The district court held in favor of Allen, finding the CRCA demonstrated clear congressional intent to abrogate state sovereign immunity and that there was

a proper constitutional basis for that abrogation under Section 5 of the Fourteenth Amendment (freedom from takings; due process; equal protection). In 2018, the Fourth Circuit reversed the district court's holding on the grounds that the CRCA was unconstitutional, reasoning that Congress lacked the authority to limit state sovereign immunity under both Article I, Section 8 of the Constitution (the intellectual property clause) and Section 5 of the Fourteenth Amendment.

The Supreme Court unanimously affirmed and, in an opinion written by Justice Elena Kagan, held that North Carolina was shielded from the lawsuit by state sovereign immunity. The Court relied heavily on its previous 1999 holding in *Florida Prepaid Postsecondary Ed. Expense Bd. v. College Savings Bank*. Under *Florida Prepaid*, the Supreme Court struck down the Patent Remedy Act, which had provided that patent infringement lawsuits could be brought against states, holding that Congress could not abrogate sovereign immunity using its powers under Article I. Based on that precedent, the Court held in *Allen* that if Congress cannot abrogate state sovereign immunity with respect to patents, it cannot abrogate state sovereign immunity with respect to copyrights under its Article I powers. The Court also held that Congress could not justify an abrogation of state sovereign immunity through the CRCA as a means of enforcing Section 1 of the Fourteenth Amendment (via Congress's powers under Section 5) because there was not sufficient "congruence and proportionality" between the state violation and the congressional response. According to the Court, Congress did not provide enough evidence of intentional copyright infringement by states to justify the breadth of the CRCA.

The Supreme Court's ruling did potentially leave the door open for copyright owners to seek congressional recourse against state infringers in the future. Justice Kagan noted in her opinion that if Congress were to revisit the issue of copyright infringement by states and, at such time, was able to document substantial instances of due process violations, Congress may be able to enact "a tailored statute," justifiable under the Fourteenth Amendment, that "can effectively stop States from behaving as copyright pirates." All of the justices, with the exception of Justice Clarence Thomas (who produced a concurring opinion disagreeing with the Court's deference to and reliance on *stare decisis*), appeared open to this possibility.

Justice Stephen Breyer also concurred separately, joined by Justice Ruth Bader Ginsburg, stating that they joined the opinion out of deference to *stare decisis*, but noting that they had dissented from *Florida Prepaid* in 1999 based on their view that copyright owners should be entitled to some recourse against state infringers and that they continue to believe it was wrongly decided.

The Supreme Court's opinion can be found [here](#).

Federal Circuit Limits Ability of Patentees to Recover Damages when Patented Articles Are Unmarked

On February 19, 2020, the Federal Circuit issued an opinion in *Arctic Cat Inc. v. Bombardier Recreational Products Inc.* reducing the damages awarded to Arctic Cat Inc. ("**Arctic Cat**") for Bombardier Recreational Products Inc.'s ("**Bombardier**") willful infringement from \$46 million to \$18 million. Central to the court's holding was its interpretation of 35 U.S.C. § 287, requiring that patentees provide constructive notice to the public by marking the patented item being sold or actual notice to the alleged infringer pre-suit in order to collect damages for infringement. Failure to mark bars the patentee from recovering pre-suit damages unless the alleged infringer has otherwise received actual or constructive pre-suit notice of infringement from the patentee or licensee.

Prior to initiating the suit, Arctic Cat licensed two patents to Honda relating to personal watercraft thrust steering control systems. The license agreement did not require Honda to mark its product under § 287 and affirmatively stated that Honda did not have the obligation to mark. Honda practiced and sold products incorporating Arctic Cat's technology without marking and, in approximately September 2013, stopped production on products under Arctic Cat's license. In 2014, Arctic Cat filed suit in the U.S. District Court for the Southern District of Florida, accusing Bombardier of selling products from 2008 to 2014 that infringed the patents licensed to Honda.

At trial, the jury found Bombardier liable for willful infringement and awarded Arctic Cat royalties and damages beginning six years before Arctic Cat filed suit, which were then trebled for willful infringement. Bombardier appealed to the Federal Circuit, which affirmed the willfulness determination but vacated and remanded as to marking. The Federal Circuit held that Bombardier had identified unmarked patented items subject to § 287 and the district court erred in placing the burden on Bombardier to prove that the unmarked items do not practice the claimed invention.

On remand, Arctic Cat could not prove the unmarked items do not practice the claimed invention, but argued § 287 applies only to patented items sold, and once Honda ceased selling unmarked products in 2013, § 287 was no longer applicable. Moreover, Arctic Cat argued that although it did not provide notice through § 287's marking requirement, Bombardier was nonetheless liable because of the jury's willfulness finding. Summary judgment was granted in favor of Bombardier and Arctic Cat appealed.

On appeal the Federal Circuit affirmed the district court ruling, which was issued on remand, and issued two key holdings. First, if the accused infringer does not otherwise have constructive or actual notice of its infringement, then § 287 disallows recovery of pre-suit infringement damages, even if the patentee or its licensee ceased pre-suit sales of the patented item. Second, willful infringement is not a substitute for constructive or actual notice under § 287. Accordingly, because Honda did not mark the infringed products, Arctic Cat was barred from recovering pre-complaint damages.

The Federal Circuit's opinion can be found [here](#).

Supreme Court Hears Oral Arguments to Decide Whether Showing of Willful Infringement Is Necessary to Award Profits in Trademark Infringement Cases

On January 14, 2020, the U.S. Supreme Court heard oral arguments in *Romag Fasteners, Inc. v. Fossil, Inc.* to determine whether a showing of willfulness is required for a plaintiff to recover a defendant's profits in a trademark infringement suit. The Court's ruling is expected to resolve a six-to-six circuit split on this issue.

As discussed in our December 2019 Intellectual Property and Tech Transactions Update, Romag Fasteners, Inc. ("**Romag**") filed suit against Fossil, Inc. ("**Fossil**") in 2010 for patent and trademark infringement. A jury found Fossil liable for infringement, noting that none of Fossil's violations were willful, and awarded Romag a portion of Fossil's profits as damages. The district court struck the jury's award of the defendant's profits, holding that "a finding of willfulness remains a requirement for an award of defendants' profits in this Circuit." The Federal Circuit affirmed and the Supreme Court granted certiorari.

At issue before the Supreme Court is the interpretation of Section 35 of the Lanham Act, which provides that a plaintiff may recover a defendant infringer's profits, "subject to the principles of equity," upon a showing of trademark infringement under 15 U.S.C. § 1125(a). The Court's ruling will clarify whether a finding of willfulness is required for an award of an infringer's profits under this standard.

At oral argument before the Supreme Court, Romag made two main arguments. First, Romag argued that the phrase "principles of equity" in the Lanham Act suggests that courts should conduct a multi-factor analysis in which no one factor controls. While a defendant's mental state is one factor to be considered, Romag pointed to other traditional equitable factors which should also be included in the analysis. For example, Romag argued that courts should also consider whether other relief could adequately compensate the plaintiff and whether the defendant was unjustly enriched by its infringement.

Second, Romag argued that statutory interpretation suggests congressional intent not to require willfulness for an award of profits. Had Congress intended to impose such a threshold requirement, Romag stated, it would have written such prerequisite into the statute. Specifically, Romag pointed to a 1999 amendment to the Lanham Act in which Congress included a willfulness requirement for trademark dilution cases. If Congress was capable of adding an explicit reference to willfulness in the case of dilution, Romag argued, it follows that the omission of willfulness for infringement was intentional.

Fossil argued that the Court should adopt a categorical rule allowing recovery of an infringer's profits only once the plaintiff has made a threshold showing of willfulness. Fossil elaborated that courts have for over 200 years interpreted the phrase "principles of equity" to require willfulness and pointed to this centuries-old tradition in the case law as evidence in support of its proposed bright line rule.

In response to Romag's textual argument, Fossil argued that the 1999 amendment to the Lanham Act did not repeal the "principles of equity" language, which had long been interpreted to require willfulness, nor did Congress indicate that the amendment was intended to modify the willfulness requirement. According to Fossil, had Congress intended to deviate from the long tradition governing profit awards in trademark infringement cases, it would have said so explicitly, rather than relying on negative implication.

The Court's decision will be of particular importance because it will clarify whether profit awards—often the only meaningful remedy plaintiffs can receive given the difficulty in calculating actual damages—is predicated on a finding of the higher bar of willfulness. This outcome will have important practical and policy consequences in trademark disputes and settle a long-standing split among the lower courts.

The transcript of oral arguments before the Supreme Court can be found [here](#).

Supreme Court Prepares to Hear Oral Argument in Landmark *Google v. Oracle Software* Dispute

The U.S. Supreme Court is expected to hear oral argument in the long-running dispute, *Google, LLC v Oracle America, Inc.*, to determine whether copyright protection extends to a software interface and whether Google's use of a software interface in the context of creating a new computer program constitutes fair use. Oral arguments will stir up the decades-long debate over software copyright law and how the fair use defense will apply in the digital age. Although the Court was set to hear oral argument in March and render its decision by the end of June, oral argument has since been postponed in light of COVID-19 public health concerns. The Court recently announced that oral argument will be held in the fall of this year.

In September 2010, Oracle America, Inc. ("**Oracle**") filed suit in the U.S. District Court for the Northern District of California alleging that Google Inc. ("**Google**") infringed its copyrights under Section 102(b) of the Copyright Act by using elements of Oracle's Java operating system in its Android operating system. Oracle alleged that Google took parts of its Java application programming interface (API) —lines of pre-written computer code declarations created by Oracle to help programmers easily write in Java without rewriting their own code—and used such code without a license from Oracle to create the Android operating system. The district court found that the merger doctrine—the theory that a creative work is not copyrightable if there is only one or a limited number of ways to express the idea expressed in such work—applied and that Oracle's code was not copyrightable, but the jury hung on the fair use defense. On appeal in 2014, the Federal Circuit reversed the district court's holding and found that Oracle's code was copyrightable, but remanded on fair use.

On remand in May 2016, the jury found that Google's use of the code in the Android operating system is protected by copyright law's fair use doctrine. In March 2018, the Federal Circuit overturned the verdict and held that, as a matter of law, Google's use does not constitute fair use, finding that the Android operating system being "free of charge does not make Google's use of the Java API noncommercial." Further, the court rejected Google's argument that its implementation of the Java API in a mobile platform is sufficiently transformative such that the fair use defense applies, and instead, held that the use of the software by Google is nearly identical to its purpose in Java. Google petitioned the Supreme Court for certiorari, which was granted.

In Google's brief to the Supreme Court, Google argues that upholding the Federal Circuit's rejection of the application of the fair use defense would "upend the long-settled practice of computer software industry of reusing software interfaces." The brief continues that the merger doctrine applies because Google's reuse of Oracle's declarations from the Java libraries was necessary to recognize the Java

methods that Java developers use in developing smartphone applications. Further, Google argues for fair use, claiming that the character of the use is new, innovative and socially valuable; Google's use is functional in nature; Google used no more code than necessary; and its use caused no harm to the market for Oracle's work.

Oracle argues in its brief that Google's actions were unlawful plagiarism of Oracle's code into a competing product at scale. Oracle claims that the merger doctrine should not apply, as Google copied Oracle's code not out of necessity, but to be expeditious. Oracle continues that Google competes commercially with Oracle, reusing Oracle's original work instead of adding something new or transformative to the protected work, which Oracle argues precludes application of the fair use doctrine. Further, Oracle argues that Google's fair use defense fails, as Google's copying was for commercial purposes and was not transformative; Oracle's code is creative software, and thus deserves a higher degree of copyright protection as a "literary work"; and Google's Android harmed Oracle's access to actual and potential markets.

The Supreme Court's decision in this case is likely to provide much-needed clarity to the question of the appropriate weight to attribute to the non-exclusive factors of the fair use analysis under § 107 of the Copyright Act. Some commentators view this case as an opportunity for the Court to define a practicable standard for transformative use of copyrighted works in the age of digital works. Many interest groups have filed amici briefs in favor of Oracle arguing that a ruling in favor of Google would make it extremely difficult to determine when a use of copyrighted material is fair use, which would have a ripple effect on industries that rely on a fair use defense, including journalism. In contrast, amici briefs in support of Google argue that if the Court sides with Oracle, it threatens the status quo of the technology and software industries by overextending copyright law and ultimately restricting software development.

The brief for Google can be found [here](#) and the brief for Oracle can be found [here](#).

Supreme Court Prepares to Hear Oral Argument in Landmark Booking.com Trademark Dispute

The Supreme Court is expected to hear oral argument for *United States Patent & Trademark Office v. Booking.com B.V.*, a seminal trademark case with potentially far-reaching impact on commerce, and particularly e-commerce. Although the Court was set to hear oral argument in March and render its decision by the end of June, oral argument has since been postponed in light of COVID-19 public health concerns. The Court announced on April 13, 2020 that oral argument will be held telephonically in May on a date yet to be decided.

In 2011 and 2012, Booking.com B.V. ("**Booking.com**") filed trademark applications to register BOOKING.COM and permutations thereof with the United States Patent and Trademark Office ("**USPTO**"), which the USPTO rejected as generic. On appeal, the Trademark Trial and Appeal Board also rejected Booking.com's marks as generic. Subsequently, Booking.com initiated a judicial challenge in the U.S. District Court for the Eastern District of Virginia where Booking.com asserted that BOOKING.COM was descriptive or suggestive and thus eligible for trademark protection.

The district court determined that BOOKING.COM was a registrable descriptive mark that had secondary meaning in the context of hotel reservation services. Descriptive marks describe qualities or characteristics of the product or service to which the mark applies, and are only trademark-eligible if the public primarily associates the mark not with the product, but with the source of the product. The district court relied heavily upon a survey, known as a Teflon test, conducted by Booking.com, which indicated that approximately 75% of respondents identified BOOKING.COM as a brand name and not generic. The district court concluded that the combination of a generic top-level domain (i.e., ".COM") with a generic second-level domain (i.e., "BOOKING") can be a registrable descriptive mark and that BOOKING.COM was a registrable descriptive mark. The U.S. Court of Appeals for the Fourth Circuit affirmed and the USPTO petitioned for certiorari, which was granted.

In its brief to the Supreme Court, the USPTO's principal argument is based on *Goodyear's India Rubber Glove Manufacturing Co. v. Goodyear Rubber Co.*, a precedent dating from 1888 in which the Court held that simply appending words such as "company" or "Inc." cannot render trademark-eligible an otherwise-generic phrase. The USPTO argues that allowing registration of combinations of generic top-level and second-level domains would allow monopolization of language. The USPTO additionally attacks the lower courts' reliance on Booking.com's Teflon test survey.

In contrast, Booking.com argues in its brief that the government's approach is a *per se* rule against all marks that contain the first-level domain ".COM" and that the Lanham Act effectively repudiated *Goodyear* because the Lanham Act gave significance to how consumers perceived a mark at issue. In particular, the Lanham Act focuses on the "primary significance" of the mark at issue to consumers in order to distinguish generic marks from non-generic marks and, therefore, Booking.com argues, the lower courts' reliance on the Teflon test was appropriate.

The brief for the USPTO can be found [here](#) and the brief for Booking.com can be found [here](#).

The Impact of Brexit on Intellectual Property Law

Following the result of a 2016 referendum, the United Kingdom ("UK") left the European Union ("EU") on January 31, 2020, in a move commonly referred to as "Brexit." Pursuant to the formal withdrawal arrangements agreed to between the UK and the EU, the UK will be subject to a transition period until December 31, 2020 (the "**Transition Period**"), during which there will be no change to the UK's legal framework and EU rules will continue to apply. On January 29, 2020, the UK Intellectual Property Office ("**UK IPO**") put forth guidance on the implications of Brexit on various intellectual property rights regimes.

Trademarks

According to the UK IPO's guidance, EU trademarks are not immediately impacted by Brexit, as the UK will continue to be part of the EU trademark system until the end of the Transition Period. On January 30, 2020, the UK IPO announced that, upon the end of the Transition Period, it will automatically convert all existing EU trademarks and registered designs into "comparable UK rights," essentially creating a new UK trademark to parallel the existing EU trademark. Those with pending EU trademark and registered design applications at the end of the Transition Period will have nine months to apply for the same protections in the UK. Once the Transition Period ends, new applicants will have to apply for trademark and registered design protection separately in the UK and the EU. Trademark rights that have been exhausted in both the European Economic Area ("**EEA**") and the UK prior to the end of the Transition Period will remain exhausted in both territories. However, it remains unclear how EU and UK trademark law will interact with respect to the concept of exhaustion of rights overall and whether trademark rights that have been exhausted in the EEA but not in the UK by the end of the Transition Period will be exhausted in the UK as well.

As for trademark licenses and security interests, the UK IPO stated that any license of or security interest in an original EU trademark will continue to have legal effect in the UK and will be treated as if it applies to the corresponding UK trademark, but that such licenses and security interests will not automatically be registered with the UK IPO.

Patents

Because the European Patent Office (the "**EPO**") is independent from the European Union, the UK's EPO membership will remain unaffected even after the Transition Period ends. Therefore, according to the UK IPO's guidance, existing European patents validated in the UK will continue to be enforceable in the UK. In addition, European patent applications designating the UK may continue to be filed, and granted European patent applications can continue to be validated in the UK.

Copyright

Unlike in the U.S., copyright is not a registered right in the EU. The determination of whether a copyrighted work receives reciprocal protection in the EU (or the UK) is governed by international treaties on copyright, such as the Berne Convention and the TRIPS Agreement, which will continue to apply to the UK. Because much of UK copyright law is derived from the EU copyright framework, the UK introduced copyright regulations in 2019 to correct references to EU law and maintain UK copyright law.

According to the UK IPO's guidance, after the end of the Transition Period, the UK will no longer be required to follow EU precedent, although all EU copyright law and judgments from the last 50 years will remain UK law unless and until the UK Parliament and courts begin to diverge from EU law in their decision-making. Thus, there will be no immediate impact on copyright law in the UK. Reciprocal protection between the UK and EU will continue as well, although some reciprocal rights between the UK and EU defined by cross-border copyright arrangements, such as those covering online content services and databases, will be the subject of further negotiations during the Transition Period.

New U.S.-China Trade Agreement May Establish Broader Protections for Pharmaceutical Patent Holders in China

On January 15, 2020, the U.S. and the People's Republic of China ("**China**") signed a preliminary economic and trade agreement which, among other things, proposes changes to China's intellectual property regime, particularly in the pharmaceutical space. The trade deal generally seeks to bring China's patent paradigm in line with U.S. law and is expected to benefit branded pharmaceutical companies by requiring China to (i) establish procedures to resolve patent disputes with generic drug makers before the generic products are approved and enter the market, (ii) provide patent term extensions and adjustments to extend the life of pharmaceutical patents and (iii) allow pharmaceutical patent applicants to rely on supplemental data to satisfy certain requirements of patentability.

Pre-regulatory approval suits

Under the Drug Price Competition and Patent Term Restoration Act (the "**Hatch-Waxman Act**"), U.S. patent owners can bring suit over allegedly infringing generic drugs before such products receive regulatory approval, allowing them to block infringing generics from entering the market. Under the current patent regime in China, however, patent owners must wait until allegedly infringing generic drugs are approved and enter the market before they can file suit.

Under the trade deal, China agreed to implement "effective mechanism[s] for [the] early resolution of patent disputes," better harmonizing its system with that of the U.S. More specifically, the deal requires China to establish a nationwide system notifying pharmaceutical patent holders of generic drug marketing applications and allowing them to "seek, prior to the marketing approval of an allegedly infringing product, civil judicial proceedings and expeditious remedies for the resolution of disputes concerning the validity or infringement of an applicable patent."

This change is expected to benefit both the Chinese pharmaceutical industry and foreign pharmaceutical companies seeking to do business in China, by providing more robust protection of their patent rights in Chinese markets. While commentators suggest that the reform will likely lead global pharmaceutical companies to invest more in China, they also note that this provision lacks specificity and concrete deadlines, making it unclear exactly how and when its objectives will be implemented.

Patent term extensions and adjustments

The trade deal also contemplates that China will provide patent term extensions and adjustments for certain patents. American patent law already provides processes to extend the life of a patent in instances where the patent or drug approval process was delayed, including for delays in patent prosecution and regulatory approval. Under the trade deal, China agrees to adopt a similar mechanism by

“provid[ing] patent term extensions to compensate for unreasonable delays that occur in granting the patent or during pharmaceutical product marketing approvals.”

Extending patent terms is of particular importance to pharmaceutical companies because drugs are often unable to generate substantial revenue during the early years of their patent terms, in large part due to the time-consuming process required to get the product to market. Extending the life of a patent therefore gives its owner continued protection during its most profitable years and means that patent-holders can retain exclusivity and block competitors from entering the market for even longer.

Supplemental data

Lastly, the trade agreement allows patent applicants in China to rely on supplemental data, such as test results, to establish the requirements of patentability. This change further mirrors the existing patent prosecution process in the U.S., which already allows the use of such data.

The trade deal is expected to be beneficial to both foreign and domestic pharmaceutical companies in China and signals that China is willing to provide patent protections similar to the U.S. regime. The trade deal, however, requires that China take steps towards implementing these provisions, including the promulgation of an action plan further detailing timelines for the adoption of these provisions. It remains to be seen what timeline China proposes and what form the new Chinese patent regime ultimately takes.

The full text of the trade agreement 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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