

THE SUPREME COURT'S IMPACT ON IP RIGHTS IN 2015



BY JORDAN N. BODNER AND CAMILLE SAUER

The U.S. Supreme Court has generated quite a few closely-watched intellectual property decisions in 2014, analyzed in Banner & Witcoff's Spring and Fall 2014 Newsletters. The trend has continued during the start of the 2014-15 term, with decisions on the appropriate standard for reviewing a district court's factual findings in patent claim construction, whether issue preclusion applies to Trademark Trial and Appeal Board decisions, and whether the jury or the court resolves trademark tacking issues. In addition, the Supreme Court heard oral arguments in March 2015 for another two patent cases, with opinions expected to be released this summer.

PATENT CASES

TEVA PHARMACEUTICALS USA, INC. V. SANDOZ, INC.: FACTUAL FINDINGS REVIEWED FOR CLEAR ERROR

In *Teva Pharmaceuticals*, the Supreme Court held that when a district court resolves subsidiary factual issues in the course of patent claim construction, the Federal Circuit must defer to the district court by applying a "clear error" standard of review. *Teva* clarifies the important *Markman* decision¹, which held, nearly a decade ago, that the ultimate question of patent claim construction is a question of law and thus patent claim construction is reviewed *de novo*. *Teva* addresses how subsidiary fact finding by district courts in construing patent claims is to be reviewed.

The lawsuit began when Teva Pharmaceuticals (and other parties) sued Sandoz and others for patent infringement for marketing a generic version of the multiple sclerosis drug Copaxone. The patent claim at issue before the Supreme Court recited that a particular active ingredient has "a molecular weight of 5 to 9 kilodaltons." The district court concluded, based on evidence from experts, that the phrase was definite and that a skilled artisan would have understood that the term "molecular weight" referred to molecular weight as calculated using a peak average molecular weight method. On appeal, the Federal Circuit reviewed *de novo* all aspects of patent claim construction including the district court's determination of subsidiary facts, held that "molecular weight" was indefinite, and invalidated the patent.

The Supreme Court, on appeal, explained that *Markman* did not create an exception to Federal Rule of Civil Procedure 52(a)(6), which requires that a court of appeals must not set aside a district court's findings of fact unless they are clearly erroneous. Thus, this civil procedure rule and its "clearly erroneous" standard must be applied when a court of appeals reviews a district court's resolution of subsidiary factual matters made in the course of its construction of a patent claim. In construing a patent claim, a judge is engaged in much the same task as the judge would be in construing other written instruments, such as deeds, contracts, or tariffs. Referring to *Great Northern R. Co. v. Merchants Elevator Co.*, 259 U.S. 285 (1922), construction of written instruments can present a question solely of law, such as when the words are used in their ordinary meaning. But, where the words give rise to a factual dispute, such as

when the document uses technical words or phrases not commonly understood, extrinsic evidence may help to establish a usage of trade or locality.

The same reasoning applies to patent claim construction. Citing *Markman*, the Supreme Court said that subsidiary fact-finding is sometimes necessary in patent claim construction, a practice with "evidentiary underpinnings" that "falls somewhere between a pristine legal standard and a simple historical fact." Referring to additional case law and practical considerations, the Supreme Court reasoned that clear error review is particularly important where patent law is at issue, as it is a field where so much depends upon familiarity with specific scientific problems and principles not normally part of general knowledge and experience.

According to the Supreme Court, when only intrinsic evidence is reviewed (the patent and prosecution history), construction will be a pure determination of law and the correct standard is a *de novo* review. However, where extrinsic evidence is relied upon to understand, for example, the background science or the meaning of a patent claim term, subsidiary factual findings will be made about the extrinsic evidence. These are the "evidentiary underpinnings" discussed in *Markman* that must be reviewed for clear error.

The Supreme Court concluded by reiterating that, while underlying factual disputes that are part of patent claim construction can be overturned only if found to be clearly erroneous, the ultimate question of construction remains a legal question reviewed *de novo*.

TRADEMARK CASES

B&B HARDWARE, INC. V. HARGIS INDUSTRIES, INC.: PRECLUSIVE EFFECT OF TTAB DECISIONS

In *B&B Hardware*, the Supreme Court tackled the question of whether Trademark Trial and Appeal Board (TTAB) decisions preclude issues in subsequent district court proceedings. The Supreme Court held that "[s]o long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are materially the same as those before a district court, issue preclusion should apply."

"The Supreme Court clarified how patent claim construction is to be reviewed on appeal, when Trademark Trial and Appeal Board issue preclusion applies, and the role of the jury in trademark tacking priority questions."

In the case, Hargis sought federal registration for its trademark SEALTITE with the United States Patent and Trademark Office under the Lanham Act. B&B opposed the registration, arguing that it was too similar to its trademark SEALTIGHT. B&B also sued Hargis for trademark infringement in federal district court while the opposition proceeding was pending. The TTAB sided with B&B and concluded that SEALTITE should not be registered because of the likelihood of confusion between the two marks.

In the later district court infringement suit, B&B argued that the TTAB decision precluded Hargis from contesting likelihood of confusion. The district court disagreed on the ground that the TTAB is not an Article III court. The Eighth Circuit affirmed on other grounds, holding that issue preclusion does not apply because the TTAB and the district court use different

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factors to evaluate likelihood of confusion, the TTAB places too much emphasis on the appearance and sound of the marks, and different parties bear the burden of persuasion in the two proceedings.

A 7-2 majority of the Supreme Court reversed, holding that a court should give preclusive effect to TTAB decisions if the ordinary elements of issue preclusion are met. The Supreme Court rejected the district court's conclusion that agency decisions can never ground issue preclusion. Citing its 1991 decision in *Astoria Fed. Sav. & Loan Assn. v. Solimino*, the Supreme Court explained that issue preclusion applies to agency decisions unless "a statutory purpose to the contrary is evident." Next, the Supreme Court looked to the text and structure of the Lanham Act, finding that neither forbids issue preclusion. Justice Thomas authored a strong dissent, reasoning that the majority opinion raises potential constitutional concerns, first in depriving a trademark holder of the opportunity to have a core private right adjudicated in an Article III court, and second in transferring core judicial powers to an executive agency.

The Supreme Court next rejected the Eighth Circuit's conclusion that the likelihood of confusion factors were different, because the operative language of each statute is essentially the same. Similarly, procedural differences between TTAB proceedings and district court proceedings do not, by themselves, defeat issue preclusion. While many registration decisions will not satisfy the ordinary elements of issue preclusion, "[t]here is no categorical reason why registration decisions can never meet the ordinary elements of issue preclusion." Preclusion applies at least where the issues of the two cases are identical, in other words, where the mark owner uses its mark in ways that are materially the same as the usages included in its registration application.

HANA FINANCIAL, INC. V. HANA BANK: TRADEMARK TACKING AS AN INQUIRY FOR THE JURY

In the unanimous *Hana Financial* decision, the Supreme Court held that the determination of whether two trademarks may be tacked for purposes of determining priority is a question for the jury. "Tacking" is the practice of claiming early use of a trademark in spite of past modifications to the mark over time. If tacking is claimed and the trademark changes over time are minor, the modified mark retains the priority date of the original mark.

Hana Bank began operating as a financial company in Korea under the name of "Korea Investment Finance Corporation" in 1971. The name was changed to "Hana Bank" in 1991. In 1994, it began a service called "Hana Overseas Korean Club," providing financial services to Korean expatriates, specifically advertising the service in the United States. In 2000, "Hana Overseas Korean Club" was changed to "Hana World Center" and in 2000, it began operating as a bank in the United States under the name "Hana Bank." Hana Financial began using the name in commerce in 1995, and obtained a federal trademark registration in 1996. In 2007, Hana Financial sued Hana Bank, alleging trademark infringement of the "Hana Financial" mark. Hana Bank denied infringement by invoking the tacking doctrine to claim an earlier priority date.

The district court submitted the tacking question to the jury, which found for Hana Bank. The Ninth Circuit affirmed, holding that the tacking doctrine was an exceptionally limited and highly fact-sensitive matter for juries, not judges. Because the circuits were split as to whether tacking is properly a question for the judge or the jury, the Supreme Court granted certiorari.

The Supreme Court first considered that two marks may be tacked when they are "legal equivalents," meaning that they create the same commercial impression. Since commercial impression must be viewed through the eyes of an ordinary purchaser or consumer, the jury should generally be hearing and deciding upon the fact-intensive evidence.

Hana Financial put forth several arguments in support of why tacking should be a question for the judge. The Supreme Court found all four to be unpersuasive. For instance, while Hana Financial argued that the "legal equivalents" test involves a legal standard, the Supreme Court countered that it is a mixed question of law and fact that is typically resolved by juries. In response to Hana Financial's argument that leaving tacking questions to juries would eliminate the predictability of the outcomes of future trademark decisions, the Supreme Court saw no reason why this would be so and pointed out that jury decisions are routinely relied upon in tort, contract, and criminal justice systems to apply legal standards to facts without eliminating predictability. And,

although Hana Financial cited cases where judges have resolved tacking disputes, the Supreme Court explained that, unlike the present situation, those cases were resolved in bench trials, summary judgment, and the like — contexts in which it is undisputed that judges may resolve tacking disputes.

UPCOMING OPINIONS

The Supreme Court heard oral arguments for two patent cases in March 2015, with opinions expected to be released this summer:

- *Commil USA, LLC v. Cisco Systems*: The Supreme Court will consider whether the Federal Circuit erred in holding that a defendant's belief that a patent is invalid is a defense to induced infringement under 35 U.S.C. § 271(b).
- *Kimble v. Marvel Enterprises*: The Supreme Court will consider whether to overrule *Brulotte v. Thys Co.*, which held that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*." ■

1. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996)