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Hot Topics in IP: Litigation under the DTSA and Recent Supreme Court Decisions

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Executive Summary

The paper examines recent trends in IP litigation, focusing on the impact of the Defend Trade Secrets Act (DTSA) and recent U.S. Supreme Court decisions. Enacted in May 2016, the DTSA created a federal civil cause of action for trade secret misappropriation. The white paper highlights the differences between the DTSA and state Uniform Trade Secrets Acts after 18 months of federal court litigation. The paper also examines the impact recent Supreme Court decisions have had on IP litigation involving copyrights and patents. The paper's authors conclude by considering what lies ahead for IP litigation.

The Defend Trade Secret Act

The Defend Trade Secrets Act of 2016 (DTSA) was signed into law on May 11, 2016. Touted as the most significant development in intellectual property law in decades, the DTSA created a federal civil cause of action for trade secret misappropriation by amending the Economic Espionage Act, a criminal statute prohibiting the theft of trade secrets.

Prior to the DTSA, trade secrets were exclusively protected by state law. Although all but two states (New York and Massachusetts) have enacted some version of the Uniform Trade Secrets Act (UTSA), there are some material differences among the state laws. The DTSA was intended to a make the litigation of misappropriation claims more efficient, uniform, and effective for trade secret owners. This paper highlights litigation trends that have developed since the statute's enactment.

General observations. In the first six to nine months after the DTSA took effect, only a handful of newly filed cases asserting a claim for trade secret misappropriation added a cause of action under the DTSA. Since then, however, the number of complaints asserting DTSA claims has continued to rise. The large majority of new trade secret cases filed in federal district courts also include a cause of action under the DTSA. However, very few plaintiffs assert misappropriation claims exclusively under the DTSA.

Because the DTSA cases are in still in the initial stages of litigation, the majority of court decisions involve rulings on motions to dismiss and discovery disputes. Yet some observations can be made from these early decisions. The most significant issue courts have had to wrestle with is whether and to what extent the DTSA can reach a defendant's misappropriation that began prior to enactment of the statute. Courts have reached different conclusions on this issue, including whether the doctrine of continuing misappropriation applies. A couple of courts also have considered whether the controversial doctrine of inevitable disclosure, applicable in some state jurisdictions, can support an injunction under the DTSA.

However, because the DTSA does not preempt state law and is similar to the UTSA in many respects, most courts have opted to evaluate most pleading issues—such as whether a plaintiff has adequately identified a protectable trade secret or has sufficiently alleged a misappropriation by the defendant—on state law grounds, considering the language of the applicable UTSA provision and interpretive case law where appropriate. Only a handful of courts have addressed issues unique to the DTSA, such as the ex parte civil seizure provision, the interstate commerce requirement, and the provision protecting whistleblowers.

Continuing misappropriation. As previously noted, the DTSA took effect on May 11, 2016, the day President Obama signed it into law. The DTSA only covers acts occurring "on or after the date of the enactment of this Act." In early litigation under the DTSA, a timing issue has frequently arisen, regarding whether and to what extent misconduct begun by the defendant before the enactment date is actionable under the federal statute. The case law has been consistent regarding the applicability of the statute to acts of theft or wrongful disclosures that continued to occur after enactment, but it is less clear whether continuing misconduct consisting entirely of *use* of information that was taken before enactment will satisfy the timing requirement.

Generally, district courts analyzing the applicability of the DTSA to misappropriations that occurred before the DTSA was enacted have held that the DTSA applies to misappropriations that began prior to the DTSA's enactment if the misappropriation continued to occur after the enactment date. For example, in *Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Group., Inc.*, S.D.N.Y., No. 15-cv-211, Sept. 23, 2016, in which the court found viable a continuing misappropriation claim that began pre-enactment because the DTSA defined misappropriation as the "disclosure *or use* of a trade secret," and the complaint alleged that the defendants "continue[d] to use" the trade secrets after the DTSA was enacted.

> *In early litigation under the DTSA, a timing issue has frequently arisen, regarding whether and to what extent misconduct ... is actionable under the federal statute.*

In *Adams Arms, LLC v. Unified Weapon Systems, Inc.*, M.D. Fla., No. 8:16-cv-1503-T-33AEP, Sept. 27, 2016, the court allowed a weapons manufacturer to pursue a DTSA claim against a competitor based only on acts occurring after the DTSA's enactment. The court excluded from the claim any potential liability based on the pre-enactment acquisition of the plaintiff's trade secrets.

The defendant in *Adams Arms* argued that because some of the conduct at issue occurred before the effective date of DTSA, there was a single continuing misappropriation and therefore, that none of the conduct was actionable. The defendant relied on language in DTSA's statute of limitation provision stating that "[f]or purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation." However, the court held that that language applied only to determinations of *timeliness* of a DTSA claim and did not preclude a DTSA claim based on acts that occurred *after* the effective date of the statute. In that case, there were allegations that specific information had been disclosed (apparently for the first time) after the effective date of the DTSA. Therefore, the court allowed the claim to go forward.

The court stated:

> Other cases have, without question, applied the DTSA to misappropriations that occurred before and continued after the statute's enactment. *See Allstate Insurance Co. v. Rote*, 16-cv-1432, 2016 WL 4191015, at *1-5 (D. Or. Aug. 7, 2016) (granting preliminary injunction in DTSA case where the defendant left her job before the DTSA was enacted but remained in possession of alleged trade secrets after the DTSA's enactment); *Henry Schein, Inc. v. Cook*, 191 F. Supp. 3d 1072, 1076-78 (N.D. Cal. 2016) (same with temporary restraining order).

In *Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group*, E.D. Pa., No. 16-2499, March 24, 2017, the court decided that a construction company could pursue DTSA claims against a competitor and various subsidiaries in connection with an alleged scheme to steal the construction company's confidential information. The scheme was initiated before the DTSA was enacted, but the alleged theft continued after the date of enactment. The court held that extending the DTSA to "continuing violations" did not make the statute an unconstitutional *ex post facto* law.

With respect to constitutionality, the court in *Brand Energy* noted that the Supreme Court had established a test for determining whether a statute could apply retroactively. Courts first determined whether Congress had expressly prescribed the statute's proper reach. In this case, the court concluded that Congress had not done so. The Act applied to the "misappropriation of a trade secret … for which any act occurs on or after the date of the enactment of this Act." That language was susceptible to different readings, according to the court. It could be read as applying to misappropriations that occurred on or after the date of enactment. Alternatively, the phrase "for which any act occurs" could be read to mean that related acts of misappropriation that began pre-enactment were also actionable "so long as any act of misappropriation occurs after the enactment date." Consequently, the express language of the statue did not, by itself, resolve the dispute.

In the absence of an express congressional command, the court applied the normal rules of statutory construction to discern the Act's intended "temporal reach." The court concluded that DTSA was applicable to this case. Significantly, the legislative history manifested Congress's clear intent to apply the Act to the type of continuing misappropriation that the plaintiff had alleged. Congress, the court explained, had expressed its specific intent to model the DTSA in large part after the UTSA, and for many DTSA provisions it borrowed heavily from the UTSA other state trade secrets laws. Congress intended the DTSA to apply in substantially the same way as the states' trade secrets laws, but with a much broader geographic and jurisdictional reach.

Nevertheless, the court noted, the DTSA's "effective date" provision was very different from the other statutes. For example, Congress omitted language from the UTSA that would have precluded the DTSA from applying to misappropriations that occurred pre-enactment. It also omitted language that would have made the DTSA inapplicable to acts of misappropriation that began before—but continued after—the effective date of the Act. If Congress had wanted to prevent the application of DTSA to continuing misappropriations that had begun pre-enactment, it could have "rubberstamped" the UTSA timing language into the DTSA, the court explained. Congress, however, expressed its intent to apply the Act to continuing misappropriations that had begun prior to—but continued after—its enactment, the court concluded.

In *Avago Technologies U.S. Inc. v. nanoPrecision Products, Inc.*, N.D. Cal., No. 3:16-cv-03737-JCS, Jan. 31, 2017, a supplier of fiber optic communications modules filed patent applications that allegedly were based on confidential information that was disclosed to the supplier during meetings involving the possibility of a business relationship. The information allegedly was covered by nondisclosure agreements. The court rejected a DTSA counterclaim by the company asserting ownership of the confidential data, holding that "all of the actionable conduct alleged in the counterclaim" occurred prior to the DTSA's effective date, making the DTSA inapplicable. The wrongful conduct alleged—the supplier's receipt of the counter-claimant's confidential information—ended when meetings between the parties ended in 2012, well prior to the enactment of the DTSA. The court rejected the argument that the DTSA applied to the continued *use* of misappropriated confidential information after the DTSA's enactment. In the court's view, the situation presented in this case was different from than in *Adams Arms*. According to the court, there was no authority suggesting that the DTSA allowed a misappropriation claim to be asserted based on the continued use of information that was disclosed prior to the effective date of the statute. Nor was it sufficient to allege that the same information was disclosed "again" in subsequent patent applications. The first disclosure, by definition, implied that the information was previously, but no longer, secret.

Inevitable disclosure. The inevitable disclosure doctrine is a state-law doctrine that allows an employer to use circumstantial evidence to obtain an injunction barring a former employee from taking a similar job with a competitor when that employment would necessarily require the former employee to wrongfully use or disclose the former employer's trade secrets of which the employee has knowledge (*see, e.g.*, *Spirax Sarco, Inc. v. SSI Engineering, Inc.*, E.D.N.C., No. 5:14-CV-519-F, April 17, 2015). The doctrine is regarded to have been articulated by the Seventh Circuit in the case of *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262. In that case, the Seventh Circuit held that a plaintiff can prove a claim of trade secret misappropriation by demonstrating that a defendant's new employment will inevitably lead the defendant to rely on the plaintiff's trade secrets. "Inevitability" generally requires the defendant's new job to involve responsibilities that are identical or nearly identical to those performed for the former employer. Because the jobs are so similar, the reasoning goes, the defendant would necessarily have to use or disclose trade secrets to do the new job. In evaluating whether the facts justify this circumstantial-evidence inference, courts consider: "(1) the level of competition between the former employer and the new employer; (2) whether the employee's position with the new employer is comparable to the position he held with the former employer; and (3) the actions the new employer has taken to prevent the former employee from using or disclosing trade secrets of the former employer"

The doctrine has been rejected by some states (*e.g.*, California; *see Parrish v. Latham & Watkins*, Cal. Sup. Ct., No. S228277, Aug. 8, 2017) for the public policy reason that applying the doctrine would essentially amount to an unfair noncompetition restriction on employees. The DTSA is widely regarded to have precluded application of the inevitable disclosure doctrine. However, because of the tendency of litigants to file mixed federal- and state-law trade secrets misappropriation claims, and of courts to analyze state-law and DTSA claims together, there has been some apparent confusion on the matter.

In the DTSA's "Remedies" provision, 18 U.S.C. §1836(b)(3), the DTSA follows the UTSA in providing that a court may grant an injunction "to prevent any actual *or threatened* misappropriation" (emphasis added). However, the injunction cannot (1) "prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows" or (2) "otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business."

Commentators (*see, e.g.,* Halligan, Krotoski, Stevens and Toren, *Defend Trade Secrets Act of 2016 Handbook* §6.02) have interpreted this language as precluding application of the inevitable disclosure doctrine in DTSA cases to enjoin a person's employment, since the doctrine (at least as applied by some courts) allows an injunction based only on circumstantial evidence stemming from the employee's "knowledge" of the employer's trade secrets. However, because the DTSA does not preempt state law, the federal statute would not preclude application of the doctrine under state law where it is available. Two court decisions have cast some doubt on whether availability of the doctrine in a state might "shoehorn" it into a DTSA claim, although neither case says so explicitly.

Molon Motor. The doctrine was applied by a federal district court in Illinois in a case involving claims under both the DTSA and the Illinois Trade Secrets Act (ITSA). In *Molon Motor and Coil Corp. v. Nidec Motor Corp.*, N.D. Ill., No. 1:16-cv-03545, May 11, 2017, the court held that an engineer who worked as the head of quality control for a manufacturer of electric motors could have misappropriated trade secrets by copying confidential business information onto a thumb drive without authorization. The manufacturer adequately alleged that a competing company—which hired the engineer as its own head of quality control after he left employment with the complaining manufacturer—acquired or made use of the asserted trade secrets.

After noting, "The federal and Illinois claims can be discussed together because the pertinent definitions of the two acts overlap," the court decided that, at least at the pleadings stage, disclosure and use of the trade secret information could be inferred under the "inevitable disclosure" doctrine, given the essentially identical responsibilities taken on by the former employee when he went to work for the competitor. The plaintiff alleged that the new employer was a direct and "serious" competitor, and that the former employee's new position was very similar to his former job. Allowing the case to go forward, the court found that at the pleadings stage, it was plausible that, as a quality control engineer, the former employee would inevitably use the plaintiff's design secrets to perform quality control duties for his new employer. However, because of the mixed nature of the claims—and because the inevitable disclosure doctrine is well-established to be applicable to ITSA claims—it is unclear from this decision whether the court would have applied the doctrine to a DTSA claim brought by itself.

Fres-co Systems. Although the phrase "inevitable disclosure" was not used, the U.S. Court of Appeals for the Third Circuit seemingly applied the doctrine in *Fres-co Systems USA, Inc. v. Hawkins*, 3d Cir., No. 16-3591, June 1, 2017 (not precedential). The plaintiff, Fres-co Systems USA, Inc., provided flexible packaging services for a variety of businesses and products, including coffee packaging. The defendant sales representative had signed a confidentiality and noncompetition agreement. During his time at Fres-co, the sales rep was responsible for Fres-co's West Coast coffee packaging customers, and his 12 largest customers accounted for an average of over $1 million each in revenue per year for Fres-co. In August 2016, the sales rep began working for Transcontinental Ultra Flex, Inc., Fres-co's direct competitor. Shortly thereafter, Fres-co sued the sales rep and Transcontinental alleging, among other things, misappropriation of trade secrets under the Pennsylvania Uniform Trade Secret Act and the federal Defend Trade Secrets Act. The district court granted Fres-co a preliminary injunction barring the sales rep from disclosing Fres-co's confidential information and from soliciting any of the top 12 coffee packaging accounts that he had served while working at Fres-co. The order also required him to return any Fres-co materials remaining in his possession and restrained him from using or disclosing Fres-co's "confidential and proprietary business information and/or trade secrets" in his possession.

On appeal to the Third Circuit, the appellate court reversed the grant of preliminary injunction because the district court failed to properly consider any of the preliminary injunction factors other than irreparable harm. With respect to that factor, however, the Third Circuit ruled that the lower court did not abuse its discretion. The appellate court noted that under the DTSA, "threatened" misappropriation may be enjoined. (The court did not mention the language in the DTSA precluding injunctive relief based "merely on the information the person knows.") Given the substantial similarities between the sales rep's work for Fres-co and his intended work for Transcontinental, the Third Circuit held that the district court was well within its discretion to conclude that the sales rep would likely use his confidential knowledge to Fres-co's detriment.

As in *Molon Motor,* it is not entirely clear whether the court's reasoning in *Fres-co Systems* regarding inevitable disclosure was rendered under just the state UTSA or also DTSA. This case raises the question of whether the doctrine could apply in DTSA cases brought in states that have rejected the doctrine. The court in *Fres-co* cited as support for its holding the lead opinion from the Third Circuit regarding the application of the doctrine to Pennsylvania law (*Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 114 (3d Cir. 2010)), although it stopped short of saying explicitly that the doctrine applied to DTSA claims. However, the decision arguably relied on language from both statutes, raising the possibility that it could have applied to the case even if it had been rejected by Pennsylvania courts.

Sufficiency of evidence. Even if the doctrine applies, courts will not find in favor of a plaintiff unless there is adequate circumstantial evidence that disclosure will happen. In an action brought under the Illinois Trade Secrets Act and the DTSA, the court rejected the plaintiff's conclusory reliance on the inevitable disclosure doctrine because plaintiff Cortz, Inc.—a pool and spa products company—did not present evidence of any "past violations" in relation to its alleged trade secrets, and there was credible testimony that defendant Murphy—a former purchasing director for the company—did not do the same work for the competitor he joined that he did for the plaintiff: negotiating vendor pricing as a re-buyer.

> Thus, what remains is Cortz's conjecture that Murphy might use Cortz's alleged trade secrets in his new position because Cortz uses eleven of the fourteen vendors Murphy works with when Murphy builds orders for Doheny Enterprises.
>
> It is well-established, however, that an "employer's fear that its former employee will use the trade secrets in his new position is insufficient to justify application of the inevitable disclosure doctrine." *Triumph Packaging Grp.*, 834 F. Supp. 2d at 809.

Cortz, Inc. v. Doheny Enterprises, Inc., N.D. Ill., No. 17 C 2, July 11, 2017.

***Ex parte* seizure.** The DTSA allows a district court to issue an *ex parte* order for the seizure of property "to prevent the propagation or dissemination of the trade secret that is the subject of the action," but "only in extraordinary circumstances." 18 U.S.C. § 1836(b)(2)(A)(i). The DTSA's *ex parte* civil seizure provision, which is patterned on the Lanham Act's civil seizure remedies for trademark counterfeiting, remains controversial. Despite safeguards added to the statute, critics point to the potential for abuse.

The DTSA sets forth eight requirements that must be met in order to obtain an *ex parte* order. The materials must be seized by a qualified official and remain in the custody of the court, which is required to hold a hearing within seven days. The statute includes additional provisions intended to protect the person against whom the seizure is sought, including providing a cause of action and remedies for wrongful seizure. The DTSA tasked the Federal Judicial Center with creating a set of best practices to guide courts in meeting their obligations under the *ex parte* seizure provision. In June 2017, the FJC released its preliminary Trade Secret Seizure Best Practices guidance, almost a year before the statutory deadline, in order to assist district courts.

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Several district courts have denied applications for *ex parte* seizure orders. Courts are far more willing to grant motions for a temporary restraining order or a preliminary injunction and/or expedited discovery under Federal Rule of Civil Procedure 65. Because of their confidential and secretive nature, *ex parte* seizure orders are not publicly available, making it difficult to use and impeding the effectiveness of the remedy. To date, only one court is known to have granted an *ex parte* seizure request. In *Mission Capital Advisors, LLC v. Romaka*, S.D.N.Y., No. 16 Civ. 5857, July 29, 2016, the federal district court in New York City issued an *ex parte* order to seize customer contact information retained by the former employee of a financial firm, but only after the defendant failed to appear at a TRO hearing and evaded prior court orders to produce the materials.

Whistleblower immunity. Section 1833(b)(1) of the DTSA provides for criminal and civil immunity for anyone who discloses a trade secret to the government or in a court filing: (1) if the disclosure is made in confidence to a federal, state, or local government official, directly or indirectly, or to an attorney, and it is made for purpose of reporting or investigating a violation of law, and (2) disclosures made in a complaint or other document filed under seal in a judicial proceeding. The DTSA does not immunize acts that are "otherwise prohibited by law, such as the unlawful access of material by unauthorized means." 18 U.S.C. §1833(b)(5).

In addition, the DTSA requires employers to provide a notice of the immunity provisions to be set forth in any "any contract or agreement with employee that governs the use of a trade secret or other confidential information." 18 U.S.C. §1833(b)(3). Failure to provide this notice will prohibit an employer from recovering exemplary damages or attorney fees under the DTSA, but does not preclude other remedies or injunctive relief. An employer will be deemed to be in compliance if the employer provides a cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law. The statute's definition of the term "employee" includes any individual performing work as a contractor or consultant for an employer.

So far, there has been only one reported case construing the DTSA's whistleblower provision. In *Unum Group v. Loftus*, D. Mass., No. 4:16-cv-40154-TSH, Dec. 6, 2016, the court held that a former employee of benefits provider Unum Group—who admitted to removing documents containing trade secret information—was not entitled to dismissal of federal and state trade secret misappropriation claims based on a whistleblower defense because he had not filed a lawsuit against Unum and offered no evidence to support his allegations of unlawful conduct.

The defendant had been employed by Unum since 1985 and, in 2004, was promoted to director of individual disability insurance benefits. In September 2016, he was interviewed by Unum's in-house counsel as part of an internal investigation into claims practices. The following Sunday afternoon, he was captured on surveillance video leaving Unum's facility with two boxes and a briefcase. He also was seen removing documents on a few other occasions.

Unum made numerous requests to the defendant and his attorney throughout October for the return of the laptop and documents. The laptop was returned on October 24, but the documents were not returned. Unum sued the employee for trade secrets misappropriation in violation of the DTSA and the Massachusetts Trade Secrets Act. The employee sought dismissal of Unum's federal and state law claims for trade secret misappropriation on the grounds that he turned over the documents he removed from Unum to his attorney to report and investigate a violation of law. Loftus did not deny that the documents he removed contained trade secrets; instead he argued that he was immune from any liability for trade secret misappropriation pursuant to 18 U.S.C. §1833(b). Section 1833(b) shields individuals from liability under any federal or state trade secret law for disclosure of a trade secret made "in confidence … to an attorney … solely for the purpose of reporting or investigating a suspected violation of law." The employee, however, offered no evidence to support his whistleblower defense. The record contained no facts to support or reject his affirmative defense at the pleadings stage.

"There has been no discovery to determine the significance of the documents taken or their contents, and [the employee] has not filed any potential lawsuit that could be supported by information in those documents," the court said. Further, the court could not determine whether he turned over all of Unum's documents to his attorney, which documents he took and what information they contained, or whether the documents had been used for any purpose other than investigating a potential violation of law. Accordingly, the court declined to dismiss the claims on the basis of a whistleblower defense.

IP Litigation under Recent Supreme Court Decisions

While we are just beginning to see the effect of the DTSA on trade secret litigation, a few U.S. Supreme Court decisions also could alter the IP litigation landscape. The Supreme Court's decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC,* 137 S. Ct. 1514, already has prompted dozens of defendants in pending and newly filed patent cases to file motions seeking venue transfers. We also are beginning to see litigation arising out of the Court's decisions in *Star Athletica, L.L.C. v. Varsity Brands, Inc.,* 137 S. Ct. 1002—refining the scope of copyright protection for design elements separable from a useful function—and *Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523—shielding downstream users and sellers from manufacturers' patent infringement claims.

Copyright: *Star Athletica* and protection for "useful articles." In *Star Athletica, L.L.C. v. Varsity Brands, Inc.,* 137 S. Ct. 1002, March 22, 2017, the U.S. Supreme Court held that designs for cheerleading uniforms owned by Varsity Brands, Inc., were copyrightable because the graphic elements of those designs were separable from the utilitarian function of a cheerleading uniform. In a split decision, the Court held that a feature incorporated into the design of a useful article is eligible for copyright protection if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article, and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article into which it is incorporated.

In the Court's view, the surface decoration features of Varsity's uniforms—including stripes, chevrons, zigzags, and color blocks—were separable from the uniforms and could qualify as two-dimensional works of art under Section 101 of the Copyright Act. The designs were protectable, even though when they were imagined as separate works, as they essentially consisted of two-dimensional pictures of cheerleading uniforms. The Court affirmed a decision of the U.S. Court of Appeals in Cincinnati holding that the designs were copyrightable and opening the door for Varsity to pursue infringement claims against a competitor.

The decision could broaden copyright protection for fashion designs—which generally are not covered by copyright—if features of the designs are "works of art" in themselves. The Copyright Office, in its draft revisions of the *Compendium of U.S. Copyright Office Practices, Third Edition*, has provided preliminary guidance for claims involving useful articles in light of the decision in *Star Athletica*, which reflects the potential for fashion designs to be protected by copyright.

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> Although the copyright law does not protect the shape or design of clothing, and although fabric and textiles have useful functions (*e.g.,* providing varying degrees of warmth and protection), designs imprinted in or on fabric are considered conceptually separable from the utilitarian aspects of garments, linens, furniture, or other useful articles. Therefore, a fabric or textile design may be registered if the design contains a sufficient amount of creative expression.

Compendium (Draft), Sec. 924.3(A)(1).

The *Star Athletica* separability test has been invoked in other cases to give copyright protection to other types of products that serve both utilitarian and decorative functions. For example, in *Design Ideas, Ltd. v. Meijer, Inc.*, C.D. Ill., June 20, 2017, the court determined that a stylized clothespin—the "Sparrow Clip"—created by home and office accessories maker Design Ideas was a useful article, but the clothespin's decorative design was physically and conceptually separable from the utilitarian aspect of the work. The Sparrow Clip portrayed a perching bird with a distinct and creative pose, posture, and overall expression. In the court's view, these elements were separable from the object's function and were copyrightable.

In *Jetmax Ltd. v. Big Lots, Inc.* S.D.N.Y., Aug. 28, 2017, the court decided that an ornamental light set composed of a series of molded, decorative tear shaped covers with a wire frame over the covers could be eligible for copyright protection and the light set's manufacturer could go forward with copyright infringement claims against a competing manufacturer and discount retailer Big Lots for making and selling an allegedly similar light set. Applying the two-part *Star Athletica* test to the Tear Drop Light Set, the court determined that the set's decorative covers had sculptural qualities that could be identified separately from and could exist independently of the function of the lights. The primary purpose of the cover was artistic, the court said. If the covers were removed, the remainder of the product was a functioning, but unadorned, light string.

Patent: *Impression Products* and the "patent exhaustion" doctrine. In a case involving inkjet toner cartridges, the Supreme Court held that under the "patent exhaustion" doctrine, manufacturer Lexmark International's patent rights were exhausted upon Lexmark's first authorized sale, either domestically or abroad, of its products to end users. Lexmark therefore, could not sue a company that refilled and resold Lexmark cartridges, despite Lexmark's efforts to place restrictions on purchasers' use and transfer of the products. Also known as the "first sale" doctrine, the exhaustion doctrine provides that the authorized sale of a patented product generally exhausts the patent holder's patent rights and prohibited suits against downstream users for patent infringement. In *Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523, May 30, 2017, the Court held that the doctrine applied both to (1) remanufactured inkjet cartridges that had originally been sold outside of the U.S. and (2) cartridges that were first sold in the U.S. under Lexmark's discounted Return Program, in violation of the program's restrictions. With respect to the latter, the Court rejected the argument that Lexmark could sell its toner cartridges while retaining patent rights over certain actions by the purchaser, such as resales. While Lexmark might have contract remedies against the buyers who violated an agreement not to resell the products, it did not retain any patent rights once the goods were lawfully sold, the Court explained.

This decision represents another expansion of protections downstream users and sellers enjoy from IP infringement liability. The case followed a landmark 2012 holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, March 29, 2013, in which the Court held that copyright infringement claims against an importer and reseller of textbooks lawfully acquired abroad were protected from infringement claims by the Copyright Act's "first sale" doctrine.

It remains to be seen what effects this decision will have on patent holders' business practices, but recent case law is providing some insight as to how the case could affect licensing relationships. In *Miics & Partners Am., Inc. v. Toshiba Corp.*, D. Del., No. 14-cv-803 (RGA), Aug. 11, 2017, the court noted the applicability of the patent exhaustion doctrine, as articulated in *Lexmark*, to sales of patented products by licensees. "That licensee's sale is treated, for purposes of patent exhaustion, as if the patentee made the sale itself," the federal district court in Delaware said. "The result: The sale exhausts the patentee's rights in that item." The Supreme Court made it clear that a patentee's authority to limit *licensees* did not mean that patentees can use licenses to impose post-sale restrictions on *purchasers* that are enforceable through the patent laws.

In *Miics & Partners*, a patent holder argued that licensees did not comply with the terms of licenses when they sold patented LCD components to third parties for placement in end-user products. The court disagreed, stating that the licenses limited the ability of the licensees to manufacture end-user products *themselves*, but there was nothing in the licenses that limited to whom the licensees can sell the licensed products. Reasoning that *Lexmark* was an outgrowth of in the law's preference against restraints on alienation, the Delaware court opined that a reading of a license agreement that purports to restrict alienation would be disfavored. Regardless, the court said, the licenses at issue unambiguously contained no such restriction. Because the licensees did not violate the terms of the license agreement, they were granted summary judgment of no infringement.

In *Chrimar Sys. v. Alcatel-Lucent Enter. USA Inc.,* E.D. Tex., Civ. Action No. 6:15-CV-00163-JDL, Aug. 3, 2017, the Eastern District of Texas took the position that a patentee did not exhaust its patent rights when it licensed the patents-in-suit to a supplier of the accused infringer, who then sold the products to the accused infringer. The relevant license provisions defined "unlicensed products" as any products the supplier sold to a company currently involved in litigation with the patent holder. Because the patent holder was in litigation with the accused infringer, the supplier's sales to the accused infringer were not authorized by the license. Citing the Supreme Court's statement in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109, 2112 (2008) that exhaustion is triggered only by a sale authorized by the patent holder, the Eastern District of Texas determined that because the supplier's sales were not authorized, they did not exhaust the patentee's rights. The court reasoned that the case did not involve a post-sale restriction, as in *Lexmark,* but rather a sale that exceeded the scope of the license agreement and was therefore not authorized.

Patent: *TC Heartland* and patent venue. On May 22, 2017, in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514, May 22, 2017, a unanimous Supreme Court overturned 27 years of Federal Circuit precedent allowing patent owners to file suit anywhere an infringing product was sold or shipped. In 1990, the Federal Circuit, in *VE Holding Corp. v. Johnson Gas Appliance Co*., 917 F.2d 1574, held that the narrow definition of "resides" established in the patent venue statute, 28 U.S.C. § 1400(b), was supplanted by the broader scope of corporate residence set forth in the general venue statute, 28 U.S.C. § 1391(c). (1990). In 1988, Congress amended § 1391(c) to provide that a corporate defendant "resides" in any judicial district where it is subject to personal jurisdiction.

In reversing the Federal Circuit's decision denying TC Heartland's mandamus petition based on *VE Holding*, the Supreme Court held that § 1400(b) is the exclusive provision controlling venue in patent cases and that it remains unaltered by subsequent amendments to § 1391(c). Section 1400(b) provides that a patent infringement action may be brought " in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." *The High* Court also reaffirmed an earlier decision, *Fourco Glass Co. v. Transmirra Products Corp*., 353 U. S. 222 (1957), holding that a domestic corporation "resides" only in its state of incorporation. The Federal Circuit had reasoned that *Fourco Glass* was superseded by the 1988 amendment to § 1391(c).

While *TC Heartland* definitively resolved that § 1400(b) controls venue in patent cases, the decision already has spawned new areas of conflict. In pending cases, district courts have reached different conclusions regarding retroactive application and waiver. The other major issue that already has caused sharp division of opinions is the meaning of the undefined phrase "has a regular and established place of business" in the second prong of § 1400(b). While it's too early to predict how these issues ultimately will be resolved, battle lines are beginning to form.

Waiver and retroactive application.—In pending cases that have moved beyond the pleading stage, district courts have split on the question of whether a defendant may rely on TC Heartland to challenge venue. Ordinarily, a defendant waives the defense of improper venue by failing to timely assert it. However, an intervening change in law generally provides an exception to the waiver rule. District courts have reached different conclusions regarding whether TC Heartland constitutes an intervening change in law sufficient to trigger an exception to waiver.

Some district courts have found that *TC Heartland* constitutes an intervening change in patent venue law that provides an exception to waiver. In *OptoLum, Inc. v. Cree, Inc.*, D. Ariz., No. CV-16-03828-PHX-DLR, July 24, 2017, the federal district court in Phoenix described *TC Heartland* as a "sea change" reversing nearly 30 years of case law relying on *VE Holdings.* The court pointed out that *VE Holding* did not purport to "overrule" *Fourco Glass*, but instead determined whether Congress intended to do so when it amended § 1391(c). The federal district courts in Reno, Nev. (*CG Technology Development, LLC v. FanDuel, Inc.*), Atlanta, Ga. (*Ironburg Inventions Ltd. v. Valve Corp.*), and Wilmington, Del. (*Boston Scientific Corp. v. Cook Group, Inc*.) have determined that after so many years of deference to *VE Holdings*, litigants in patent cases could not reasonably have been expected to raise a venue defense prior to *TC Heartland.*

Many other district courts have held that *TC Heartland* is not an intervening change in law that qualifies as an exception to waiver. The federal district court in Alexandria, Va., in *Cobalt Boats, LLC v. Sea Ray Boats, Inc*., was the first to find that *TC Heartland* did not excuse defendants' failure to raise a venue defense, which was available to them when they filed their pleadings. In iLife Technologies, Inc. v. Nintendo of America, Inc., No. 3:13-cv-04987, June 27, 2017, the federal district court in Dallas explained that *TC Heartland* did change existing law because the Court merely confirmed that its 1957 *Fourco* decision always was and still is good law. Thus, litigants who relied on the Federal Circuit's *VE Holding* decision over *Fourco* in the past 27 years have done so at their own peril.

To date, the Federal Circuit has declined to grant mandamus relief from district court orders denying motions for transfer of venue. In three cases that were close to trial (*In re Nintendo of America, Inc., In re Hughes Network Systems, LLC*, and *In re Sea Ray Boats, Inc.),* the appeals court did not address whether *TC Heartland* effected a change in law, holding only that the district courts did not abuse their discretion in finding that the defendants had waived their right to move for relief due to improper venue.

"Regular and established place of business."— Federal district judge Rodney Gilstrap in the Eastern District of Texas was the first to issue a decision interpreting the phrase "regular and established place of business" in § 1400(b). On June 29, 2017, in *Raytheon Co. v. Cray, Inc.*, E.D. Texas, 2:15-cv-01554-JRG, June 29, 2017, Judge Gilstrap established a four-factor test for court to use when determining a company's "regular and established place of business" in the "modern era": (1) physical presence, including the presence of employees; (2) the company's internal and external representations that it had a presence in the district; (3) benefits derived from the district, including sales revenue; and (4) targeted interaction with potential customers, consumers, users, or entities in the district.

Judge Gilstrap determined that the Eastern District of Texas was an appropriate venue for a patent infringement suit brought by defense contractor Raytheon Co. against Cray, Inc. Raytheon alleged that Cray "committed acts of induced infringement" in the district by selling an accused XC40 supercomputer that would be used throughout the University of Texas System. The court held that Cray had "a regular and established place of business" in the district because a Cray sales executive had worked remotely from his residence in the district for seven years. Cray's appeal of the court's ruling is currently pending before the Federal Circuit. It remains to be seen whether the court will grant Cray's mandamus petition for extraordinary relief directing transfer of the case to the Western District of Wisconsin.

The Supreme Court's *TC Heartland* decision, though not decided on policy grounds, was widely expected to dramatically reduce the number of cases filed in the Eastern District of Texas, the forum most favored by non-practicing patent assertion entities ("PAEs"). The case had been closely watched by patent practitioners, corporations of all sizes, academics, and lawmakers, amid growing concerns that nearly half of all patent cases were being handled by a single judicial district.

Judge Gilstrap's *Raytheon* decision has re-ignited heated debate. The decision was raised during a July hearing of the House Judiciary Committee's Subcommittee on Courts, Intellectual Property, and the Internet. At the hearing, titled "The Impact of Bad Patents on American Businesses," full Committee Chairman Bob Goodlatte (R-Va) and Subcommittee Chairman Darrell Issa (R-Calif) both criticized Judge Gilstrap's ruling as an attempt to upend the Supreme Court's ruling in *TC Heartland*. Former Federal Circuit Chief Judge Paul R.

Michel, who appeared as a witness, said he favors shifting cases from the Eastern District of Texas to other courts, but noted that it was too soon to determine the practical effects of *TC Heartland* and whether further adjustments of venue law would be needed. Judge Michel observed that Congress could help matters by clarifying how the district courts should interpret the statutory phrase "regular and established place of business." If the Federal Circuit fails to add clarity to the outstanding patent venue issues, lawmakers in both houses and on both sides of the aisle stand ready to act on Judge Michael's suggestion.

Conclusion: A Look Ahead

The impact of the DTSA on trade secret jurisprudence will expand as cases continue to wind their way through the summary judgment, trial, and remedies phases, and the inevitable appeals. It remains to be seen if the DTSA will provide trade secret owners with the more effective enforcement tools they were hoping for. The issue of patent venue is certain to continue to take center stage in IP litigation in the foreseeable future, and as the new issues raised by *TC Heartland* are resolved by the Federal Circuit, the Supreme Court, or Congress. The *Lexmark* decision could affect the way companies structure their business relationships with distributors, both domestically and abroad, with greater care being taken to control which sales are "authorized." In addition, it could lead to manufacturers choosing to market their products to consumers under license agreements, rather than structuring the transactions as "sales," in order to skirt the exhaustion doctrine. Finally, we could see more cases in the near future further broadened copyright protection for fashion designs—which generally are not covered by copyright—if features of the designs are "works of art" in themselves. ■

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