Supreme Court Cases Impacting Corporate America

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Introduction of Panelists

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2018 – 2019 Term In Review

- Full Court Bench since 2017.
- Issues addressed this term included:
  - the census and citizenship questions, gerrymandering, the First Amendment, racial discrimination in prosecution, separation of church and state, double jeopardy and antitrust class actions.
- Many decisions were impactful to corporations.
- Focus of this discussion will be on the Tax and Intellectual Property cases that we believe will have an impact on businesses.

Iancu v. Brunetti (Trademark Case)

588 U.S. __ (2019).

Brunetti Facts

- Erik Brunetti applied to register the trademark for a clothing line called “FUCT”.
- The Patent and Trademark Office denied Brunetti’s trademark application citing the Lanham Act’s prohibition on the registration of “immoral or scandalous” trademarks.
    - The PTO examining attorney and the PTO’s Trademark Trial and Appeal Board found FUCT to be “vulgar” and therefore unregistrable. On review, the Board stated the mark was “highly offensive” and “vulgar” and it had “decidedly negative sexual connotations”.
- Brunetti brought a facial challenge to the “immoral or scandalous” bar in the Court of Appeals which invalidated the provision and the Supreme Court granted certiorari.

Issues Addressed

- **Whether the "immoral or scandalous" criteria in the Lanham Act is viewpoint-neutral or viewpoint-based?**
- In *Matal v. Tam*, the Supreme Court declared unconstitutional the Lanham Act's band on registering marks that "disparage" any "person[], living or dead."
    - The justices in *Tam* agreed on two propositions:
        - If a trademark registration bar is viewpoint-based, it is unconstitutional.
        - The disparagement bar was viewpoint based.
- Viewpoint discrimination is an "egregious form of content discrimination" and is "presumptively unconstitutional".

Arguments and Analysis

Brunetti

- The Lanham Act provision prohibiting the registration of "immoral or scandalous" trademarks violates the First Amendment on its face.
- Expressive material is "immoral" when it is "inconsistent with rectitude, purity, or good morals"; "wicked"; or "vicious".
  - The Act permits registration of marks that champion society's sense of morality, but not marks that denigrate those concepts.
- Material is scandalous when it gives offense to the conscience or moral feeling.

Government

- Lanham Act's "immoral or scandalous" can be read to be viewpoint-neutral
- Proposed a narrowing of the statutory bar to "marks that are offensive [or] shocking because of their mode of expression, independent of any views they express".
- Court could not accept this proposal because the Government's interpretation would require the Court to fashion a new law, not interpret the statute Congress enacted.

Supreme Court’s Ruling

- 6-3 decision in favor of Brunetti
- **Holding:** Lanham Act’s provision prohibiting “immoral or scandalous” trademarks violates the First Amendment.
    - Provision is viewpoint-based.
    - The Act permits registration of marks when their messages accord with, but not when their messages defy, society’s sense of decency or propriety.
    - The statute, on its face distinguishes between two opposed sets of ideas, those aligned with conventional moral standards and those hostile to them, those inducing societal notions of approval and those provoking offense and condemnation.
    - Provision is substantially overbroad and thus violates the First Amendment.

Impact of *Iancu v. Brunetti*

- Broad free speech implications.
- Trademarks that could be pronounced differently or that may have been on the border of "immoral or scandalous" can no longer be prohibited on that basis.
- Dissent's view may be an invitation for Congress to issue new legislation, upholding a ban on marks that are "scandalous".
    - Concern that the term "scandalous" may also be inherently subjective.

Fourth Estate Public Benefit Corp. v. Wall-Street.com (Copyright Case)

586 U.S. __ (2019).

Fourth Estate Facts

- Fourth Estate Pub. Benefits Company (FEPBC) is a news organization that licensed news articles to Wall-Street.com (Wall-Street).
- A licensing agreement between the two companies required Wall-Street to take down all articles licensed from FEPBC from its website after the agreement was cancelled.
- Wall-Street cancelled the agreement and left the FEPBC articles on website.
- Fourth Estate sued for copyright infringement.
- Fourth Estate had filed applications to register the articles with the U.S. Copyright Office (Copyright Office), but the Register of Copyrights had not yet acted on those applications.
- The District Court dismissed the compliant, and the Eleventh Circuit affirmed, holding that "registration… has [not] been made" under §411(a) until the Copyright Office registered a copyright.

Issue Addressed

- **Has "registration … been made" in accordance with [Title 17] as soon as the claimant delivers the required application, copies of the work, and fee to the Copyright Office; or has "registration… been made" only after the Copyright office Reviews and registers the Copyright?**
  - Circuits had been split on this issue for years.

Arguments and Analysis

- Under the Copyright Act of 1976, as amended, a copyright author gains “exclusive rights” in her work immediately upon the work’s creation.
- A copyright owner may institute a civil action for infringement of those rights but only after complying with §411(a)’s requirement that “registration… has been made”.
    - Registration is an administrative exhaustion requirement that must be satisfied before suing to ensure ownership rights.
- FEPBC argues that registration occurs when a copyright owner submits a proper application for registration (the “application approach”).
- Wall-Steet advocates the “registration approach”, proffering that registration occurs only when the Copyright office grants registration of a copyright.
- The statute’s requirements can only be read to focus on an action by the Copyright office, as “registration” of the work.

Supreme Court’s Ruling

- Unanimous decision in favor of Wall-Street.com.
- **Holding**: Registration occurs, and a copyright claimant may commence an infringement suit, when the Copyright Office registers a copyright. Upon registration of the copyright, however, a copyright owner can recover for infringement that occurred both before and after registration.

Impact of *Fourth Estate v. Wall-Street.com*

- Will likely reduce forum-shopping in copyright litigation, as there is no longer a circuit split.
- Creates additional incentive for early registration of copyrights.

Helsinn Healthcare v. Teva Pharmaceuticals USA (Patent Case)

586 U.S. __ (2019).

Helsinn Healthcare Facts

- Helsinn Healthcare makes drug Aloxi, a drug that treats chemotherapy-induced nausea and vomiting.
  - Helsinn acquired the right to develop Aloxi's active ingredient, palonosetron.
- While developing the drug, Helsinn entered into two agreements with MGI Pharma (its marketing partner for the drug): a license and a supply and purchase agreement.
  - The license agreement granted MGI the right to distribute, promote, market and sell 0.25 mg and 0.75 mg doses of palonosetron in the U.S., in exchange for up front and future royalty payments.
  - Under the supply and purchase agreement, MGI agreed to purchase from Helsinn any palonosetron product approved by the FDA.
- Helsinn announced the agreements in a joint press release and MGI reported the agreements in its SEC filings.
- Two years after Helsinn and MGI entered into the agreements, on January 30, 2003, Helsinn filed a provisional patent application covering the 0.25 mg and 0.75 mg doses of palonosetron.

Helsinn Healthcare Facts (continued)

- Helsinn filed four patent applications over the next 10 years claiming priority back to January 30, 2003.
    - The last patent was filed in May 2013, the “219 patent”.
- In 2011, Teva Pharmaceutical Industries, Ltd. (TEVA) sought approval from the FDA to market a generic 0.25 mg palonosetron product.
- Helsinn then sued Teva for infringing its patents, including the “219 patent”.
- Teva, in defense, asserted that the “219 patent” was invalid because the 0.25 mg dose was “on sale” more than one year before Helsinn filed the provisional patent application was submitted.

Helsinn Healthcare Facts (continued)

- The Leahy-Smith America Invents Act (AIA) bars the receipt of a patent for an invention that was:
  - "described in a printed publication, or in public use, *on sale,* or otherwise available to the public before the effective filing date of the claimed invention", and
  - Excluding any disclosures made within a year before the effective filing date of the patent application ("prior art").
    - 35 U.S.C. § 102(a)(1).
- The District Court determined that the "on sale" provisions did not apply. Concluding that under the AIA an invention is not "on sale" unless the sale or offer made the claimed invention available to the public.
  - Because the companies disclosure did not disclose the 0.25 mg dose, the court held that the invention was not "on sale".
- The Federal Circuit reversed, concluding that if the existence of the sale is public, the details of the invention need not be publicly disclosed in the terms of sale.
  - The sale between Helsinn and MGI was publicly disclosed, so the on-sale bar applied.
- The Supreme Court granted certiorari.

Issue Addressed

- "Whether, under the AIA, an inventor's sale of an invention to a third party who is obligated to keep the invention confidential qualifies as prior art for purposes of determining the patentability of the invention"?

Arguments and Analysis

- Every patent statute since 1836 has included an on-sale bar.
- The AIA statute retained the on-sale bar and added the catchall phrase “or otherwise available to the public”.
    - These changes did not alter the meaning of the “on sale” bar.
- In *Pfaff*, the Court held that the on-sale bar applies when two conditions are satisfied:
    - The product is the subject of a commercial offer for sale, and
    - The invention is ready for patenting.
- A sale or offer for sale need not make an invention public.
- Public use or sale, not public knowledge precludes the invention from being patentable.

Supreme Court’s Ruling

- Unanimous decision in favor of Teva.
- **Holding:** An inventor’s sale of a claimed invention to a third party can qualify as prior art under the AIA even when the third party is obligated to keep the invention confidential.
  - The Federal Circuit which has “exclusive jurisdiction” over patent appeals has long held that “secret sales” can invalidate a patent.
  - By adding new language, “or otherwise available to the public” Congress did not, and did not intend, to change the meaning of the term “on sale”.

Impact of *Helsinn Healthcare v. Teva Pharmaceuticals*

- Reaffirmation of established “on-sale bar” laws.
- Secret sales of inventions can invalidate a patent or bar an invention’s patent eligibility.

South Dakota v. Wayfair (Tax Case)

585 U.S. __ (2018).

Facts of the Case

- South Dakota enacted a law requiring out-of-state sellers to collect and remit sales tax as if the seller had a physical presence in the State.
    - Citing erosion of the sales tax base, revenue losses and imminent harm.
    - The Act applied to sellers that deliver more than $100,000 of goods or services in the State on an annual basis or engage in 200 or more separate transactions for the delivery of goods/services into the State.
    - Respondents including Wayfair, Overstock and Newegg, with no employees or real estate in South Dakota, easily met the minimum sales or transactions requirements of the Act, but none collected the sales tax.
- South Dakota sought a declaratory judgment action in state court that the requirements of the Act were valid and applicable to the respondents and sought an injunction requiring them to register for licenses to collect and remit sales tax.
- Respondents moved for summary judgment, arguing that the Act was unconstitutional.
- The trial court granted summary judgment to the Respondents and the South Dakota Supreme Court affirmed citing that Quill remained the controlling precedent on Commerce Clause limitations on the interstate collection of sales and use taxes.
- The Supreme Court granted cert.

Issue Addressed and Arguments

- **Can a state require retailers with no physical presence in the state to collect and remit sales taxes for goods sold to customers within the state**?
- States authority to regulate interstate commerce is marked by two primary principles:
  - regulations may not discriminate against interstate commerce; and
  - not impose undue burdens on interstate commerce.
- Under *Complete Auto Transit, Inc. v. Brady*, state taxes will be upheld so long as they:
  - Apply to an activity with substantial nexus to the taxing state
  - Are fairly apportioned
  - Do not discriminate against interstate commerce, and
  - Are fairly related to the services the state provides.

Issue Addressed and Arguments (Cont.)

- Prior to *Complete Auto*, the Supreme Court held in *Bellas Hess* that "a seller whose only connection with customers in the State is by common carrier or … mail" lacked the requisite minimum contacts required by the Due Process Clause and the Commerce Clause.
  - Unless the retailer maintained a physical presence in the State, the State lacked the power to require a retailer to collect a local tax.
- In *Quill*, the Supreme Court overruled the due process holding in *Bellas Hess*, grounding the physical presence rule in Complete Auto's requirement that a tax have a "substantial nexus".

Supreme Court's Ruling

- 5-4 decision in favor of South Dakota.
- **Holding:** Because the physical presence rule of Quill is unsound and incorrect, *Quill Corp. v. North Dakota* and *National Bellas Hess, Inc. v. Department of Revenue of Ill.* are overruled.
    - The physical presence rule is not a necessary interpretation of *Complete Auto's* nexus requirement.
    - *Quill* creates a judicially engineered tax shelter for businesses that limit their physical presence in a State but sell their goods and services to the State's consumers.
    - Modern e-commerce does not align analytically with a test that relies on physical presence as defined in *Quill*.
    - In absence of *Quill* and *Bellas Hess*, the first prong of *Complete Auto* test simply asks whether the tax applies to an activity with a substantial nexus to the taxing State.
        - Here the nexus is clearly sufficient.

Impact of *South Dakota v. Wayfair*

- States have already dramatically changed their sales tax statutes.
  - Expected that most states will adopt economic nexus rules by end of year.
- Large impact on e-commerce.
- Online retailers must now comply with many state/local jurisdictions in which their products or services are delivered.
- Substantial increase in additional sales and use taxes collected.
  - All but 5 states impose sales taxes (New Hampshire, Oregon, Montana, Alaska (state-level) and Delaware).

Lamps Plus, Inc. v. Varela (Contract Case)

587 U.S. __ (2019)

Lamps Plus Facts

- In 2016, a hacker tricked an employee of Lamps Plus into disclosing tax information about 1,300 Lamps Plus employees (including Varela).
- Subsequently a fraudulent tax return was filed in Varela’s name.
- Varela filed a putative class action against Lamps Plus in Federal District Court on behalf of the compromised employees.
- Lamps Plus sought to compel individual arbitration on an individual basis relying on the arbitration clause in Varela’s employment contract.
- District Court rejected individual arbitration and authorized class arbitration.
- Lamps Plus appealed and the Ninth Circuit affirmed.

Issue Addressed

- **Under the Federal Arbitration Act (FAA), can a general arbitration provision provide the necessary contractual basis for a court to compel class arbitration?**

Arguments and Analysis

- Arbitration is strictly a matter of consent.
- Class arbitration “sacrifices the principal advantage of arbitration – its formality – and makes the process slower, more costly, and more likely to generate procedural morass than final judgment”.
  - Because of this, the Supreme Court has held that courts may not infer consent to participate in class arbitration absent an affirmative “contractual basis for concluding that the party agreed to do so”.
    - *Stolt-Nielsen S.A. v. Animal Feeds Int’l Corp. 559 U.S. 662.*
- Silence is insufficient.
- Like silence, ambiguity does not provide a sufficient basis to conclude that parties to an arbitration agreement agreed to sacrifice the principal advantage of arbitration.
- The court cannot compel class arbitration.

Supreme Court's Ruling

- 5-4 decision in favor of Lamps Plus
- **Holding:** Under the FAA, an ambiguous arbitration agreement does not provide the necessary contractual basis to compel class arbitration.
- Rejected California's law of interpretation
  - California law preempted by FAA

Impact of *Lamps Plus v. Varela*

- Contract must be crystal clear that parties agreed to class arbitration.
- Easier for employers and businesses to avoid class arbitration.

On the Horizon: 2019 – 2020 Term

- Altitude Express v. Zarda and Bostock v. Clayton County (Discrimination based on sexual orientation)
  - A case in which the Court will decide whether Title VII of the Civil Rights Act of 1964, which prohibits against employment discrimination "because of . . . sex" encompasses discrimination based on an individual's sexual orientation.
- Babb v. Wilkie (Age discrimination)
  - A case in which the Court will decide whether a provision of the Age Discrimination in Employment Act of 1967 (ADEA) that protects federal employees aged 40 years from age discrimination, 29 U.S.C. § 633a(a), requires a plaintiff to prove that age was a but-for cause of the challenged personnel action.
- Lucky Brand Dungarees Inc. v. Marcel Fashions Group Inc. (Permissible litigation defenses)
  - A case in which the Court will decide whether, when a plaintiff asserts new claims, federal preclusion principles can bar a defendant from raising defenses that were not actually litigated and resolved in any prior case between the parties.
- Retirement Plans Committee of IBM v. Jander (Erisa claims)
  - A case in which the Court will decide whether generalized allegations that the harm of an inevitable disclosure of an alleged fraud generally increases over time satisfy the "more harm than good" pleading standard for ERISA claims the Court established in Fifth Third Bancorp v. Dudenhoeffer.
- Romag Fasteners, Inc. v. Fossil, Inc. (Willful infringement and damages awards)
  - A case in which the Court will decide whether, under Section 35 of the Lanham Act, willful infringement is a prerequisite for an award of an infringer's profits for a violation of Section 43(a).

QUESTIONS?

Thank you for attending.