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WHAT'S INSIDE

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TRADEMARK

Justices to answer whether 'scandalous' trademarks can be registered

By Patrick H.J. Hughes

The U.S. Supreme Court has agreed to answer whether the Constitution allows the Patent and Trademark Office to continue refusing to register trademarks comprising "immoral" or "scandalous matter."

Iancu v. Brunetti, No. 18-302, cert. granted, 2019 WL 98541 (U.S. Jan. 4, 2019).

The agency filed its certiorari petition Sept. 7, arguing that the restriction on immoral and scandalous content in Section 2(a) of the Lanham Act, 15 U.S.C.A. 1052(a), should remain intact.

The justices removed the bar on "marks that might disparage" in *Matal v. Tam*, 137 S. Ct. 1744 (2017), but the PTO says there is a distinction between disparaging and scandalous trademarks.

REUTERS/Jim Young

The U.S. Supreme Court Justices are pictured here. Seated (L-R): Associate Justice Stephen Breyer, Associate Justice Clarence Thomas, Chief Justice of the United States John G. Roberts, Associate Justice Ruth Bader Ginsburg and Associate Justice Samuel Alito, Jr. Standing behind (L-R): Associate Justice Neil Gorsuch, Associate Justice Sonia Sotomayor, Associate Justice Elena Kagan and Associate Justice Brett M. Kavanaugh.

The PTO is asking to overturn the U.S. Court of Appeals for the Federal Circuit's decision to compel the agency to register a "Fuct" trademark for clothing. *In re Brunetti*, 877 F.3d 1330 (Fed. Cir. 2017).

The trademark registration applicant, Erik Brunetti, failed to convince the Federal Circuit that the mark did not meet the PTO's definition of "scandalous." But the three-judge panel said the mark was registrable because barring such marks violated the First Amendment.

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EXPERT ANALYSIS

Timing precedential patent decisions at the Federal Circuit

Laura Lydigsen, Judy He and Andrea L. Shoffstall of Brinks, Gilson & Lione offer guidance on how long a patent litigant can expect the U.S. Court of Appeals for the Federal Circuit to issue a decision.

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Timing precedential patent decisions at the Federal Circuit

By Laura Lydigsen, Esq., Judy He, Esq., and Andrea L. Shoffstall, Esq.
Brinks, Gilson & Lione

"When will the court decide my case?"

This is one of the most frequent questions we hear once a case is argued before the Federal Circuit. Unfortunately for the inquirer, there is never a certain answer because there is no set time limit for the court's decisions.

While the court typically issues non-precedential decisions promptly within 1-30 days of argument, the time for issuance of precedential decisions varies greatly.

This article summarizes data on time to decision for precedential patent cases from 2014 to 2017, including some of the factors that may impact time to decision such as the identity of the authoring judge and existence of a separate dissent or concurrence. Look for updated data in the Fourteenth Edition of *Patents and the Federal Circuit*.

TYPES OF DECISIONS ISSUED BY THE FEDERAL CIRCUIT

The Federal Circuit's opinions are generally divided between non-precedential and precedential decisions. The vast majority of the court's opinions are non-precedential and can be further divided into the following three categories:

(1) Non-precedential Rule 36 summary affirmances: The court may choose to issue a 1-sentence summary affirmance in argued cases where any one of the five conditions enumerated in Fed. Cir. Rule 36 applies and a written opinion would not have precedential value. These decisions typically issue within 1 week of argument, and often within just a day. But like just about everything in law, there are exceptions to the 1-week rule of thumb for issuance of these affirmances.[1]

(2) Non-precedential decisions in non-argued cases: With the exception of frivolous appeals,[2] the court consistently issues written opinions in cases that are not argued. These opinions tend to be 2-5 pages in length and are common in the court's docket of pro se appeals from the U.S. Court of Veterans Claims and U.S. Merit System Protection Board.

(3) Non-precedential decisions in argued cases: These decisions may be similar in length and content to precedential decisions and typically issue within 1 month of the date argued.

There is good reason for the court taking longer to issue precedential decisions than the above types of non-precedential decisions. The Federal Circuit's policy is to limit precedent to decisions that meet specific criteria, e.g., test cases, issues of first impression, new rules of law, clarification of an existing rule of law, actual or apparent conflicts in the court's precedent, etc.[3]

"The purpose of a precedential disposition is to inform the bar and interested persons other than the parties."[4] To fulfill that purpose, "the authoring judge circulates the opinion and any concurring or dissenting opinions, with a transmittal sheet, to each judge" on the full court who then "will have seven working days (twelve working days for opinions circulated during the summer period) to review."[5]

TIME FOR ISSUANCE OF PRECEDENTIAL PATENT DECISIONS

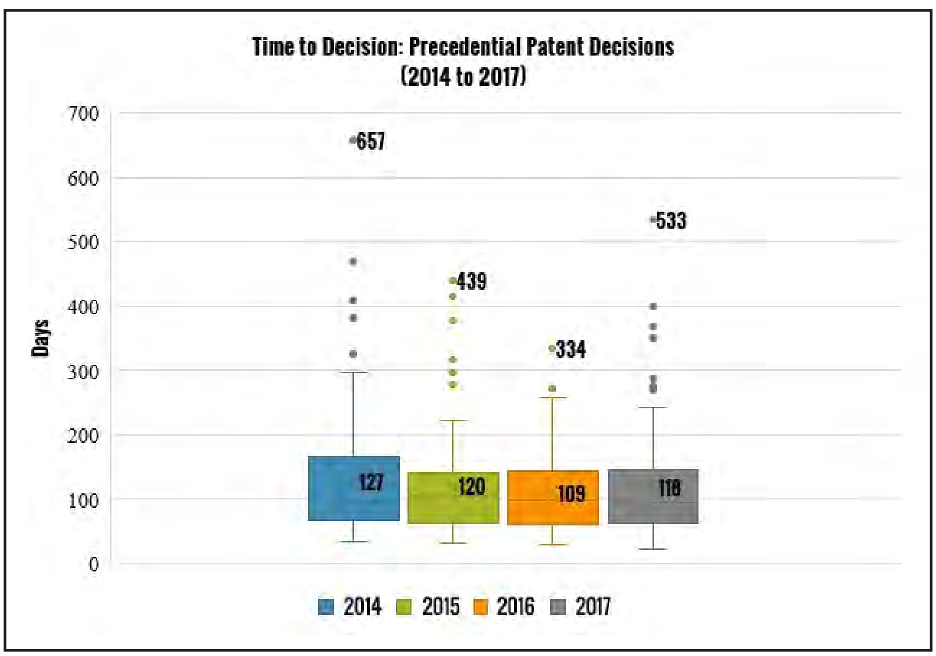
Below is a snapshot of the average time from argument to issuance of precedential decisions for patent cases at the Federal Circuit from 2014 to 2017.

En banc decisions, decisions resulting from the return of a case after a Supreme Court order granting certiorari, vacating, and remanding ("GVR"), and decisions reissued in revised form after a panel grant of rehearing were excluded from the data set used to calculate time to decision.

As shown below, the average time to decision for each of these four years was: 127 days (2014); 120 days (2015); 109 days (2016); and 118 days (2017).

Across all four years, the average time to decision at the Federal Circuit for precedential patent cases was 119 days (i.e., approximately 4 months) and the median was 98 days (i.e., approximately 3.3 months).

Outliers certainly exist and are not excluded from the above data set. The cases with the longest time from argument to decision in each of the four years covered were:



- *elcommerc.com v. SAP AG*[6] (2014): 657 days;
- *JVC Kenwood Corp. v. Nero, Inc.*[7] (2015): 439 days;
- *Cardpool, Inc. v. Plastic Jungle, Inc.*[8] (2016): 334 days; and
- *Bosch Automotive Service Solutions, LLC v. Matal*[9] (2017): 533 days.

Often there is a ready explanation for decisions taking such a long time to issue from argument.

For example, Bosch involved an appeal from the Patent Trial and Appeal Board's ("PTAB") denial of a motion to amend, which issued shortly after the Federal Circuit's en banc decision on the PTAB's standard for motions to amend in *Aqua Products, Inc. v. Matal*, suggesting that the panel may have held the decision until after *Aqua Products* was resolved.[10]

However, there is not always an obvious explanation for why particular decisions take substantially longer than average to issue.

Although *elcommerce.com v. SAP AG*[11] covered multiple issues, including jurisdiction, venue, claim construction, and indefiniteness issues, the last of which drew a dissent from Judge Wallach, the court routinely decides cases of similar complexity in far less than 657 days.[12]

Both the *JVC* and *Cardpool* panels affirmed 3-0 in a straightforward single-issue decision, one from a grant of summary judgment (JVC) and the other from a denial of a motion under Fed. R. Civ. P. 60(b) (*Cardpool*).

For the public, which is not privy to the judges' deliberations, the reason some decisions take exceptionally long under the court's standards is destined to remain unclear.

THE JUDGE WITH THE MOST PRECEDENTIAL PATENT DECISIONS FROM 2014 TO 2017 IS…

Our data indicates that Judge Moore authored the most non-en banc precedential patent decisions from 2014 to 2017, with 45 decisions total. Chief Judge Prost closely followed with 44 decisions, 18 of which issued in 2014.[13]

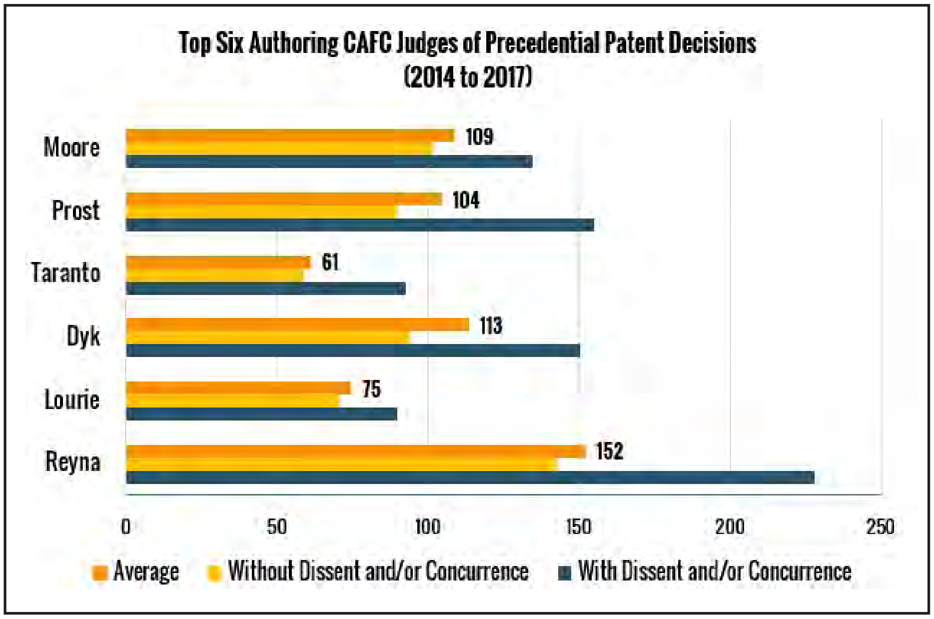
Judges Taranto, Dyk, Lourie, and Reyna each follows closely.

Judges Who Authored the Most Precedential Patent Decisions at the Federal Circuit (2014 to 2017)

Judges	Number of Decisions
Moore	45
Prost	44
Taranto	42
Dyk	41
Lourie	37
Reyna	36

RELATIVE TIME TO DECISION BY JUDGE

The following chart illustrates how dissenting and concurring opinions impacted the time to decision for each of the six judges who authored the most precedential patent decisions between 2014 and 2017.



Even within this subset of the court, the average time to decision from argument varied greatly. For example, the average time to decision for Judge Reyna was more than twice that of Judge Taranto.

A few other interesting trends to note:

- Of these six judges, the length of time to decision for opinions authored by Judge Reyna appears to have been the most affected by the presence of a dissenting or concurring opinion. On average, his time to decision was around 152 days; with dissenting or concurring opinions, his average was extended by 76 days. By contrast, the presence of dissenting and concurring opinions added only 15 days to the time to decision for Judge Lourie.[14]
- Judges Prost and Moore shared similar averages for their time to decision, i.e., around 104 and 109 days, respectively, after oral arguments.
- Judges Taranto and Lourie had the fastest average times to decision (approximately 61 and 75 days, respectively).

It is important to note that this data set does not account for the relative complexity of the cases each judge decided. This data set also does not include the court's non-patent cases, many of which involve complicated issues.

It is entirely possible that a judge whose average time to decision for a precedential patent decision was relatively long may have a very short average time to decision for other areas' of the court's jurisprudence in the same time period.

SO … WHAT IS THE ANSWER? WHEN WILL THE COURT DECIDE MY CASE?

The answer we give to that original question of "When will the court decide my case?" is always "it depends."

Once enough time has elapsed to make a non-precedential decision unlikely, the answer we give is "approximately 3 months," but with a big asterisk.

Our 3-month approximation is consistent with the 99-day median for our data adjusted for the fact that our data includes outliers like *elcommerce*. The asterisk is necessitated by wide variability possible around that median.

The make-up of the panel and the likelihood of a separate opinion can give you some pointers on whether to adjust up or down from that median, but not much more.

Please look for our data through 2018, including statistics on en banc decisions, in the Fourteenth Edition of *Patents and the Federal Circuit* (Bloomberg Law, to be published Sept. 2019) by Robert L. Harmon, Cynthia A. Homan, and Laura A. Lydigsen.[15] **WJ**

NOTES

[1] *E.g.,* Nos. 16-2249 (12 days), 17-2571 (15 days), 16-2560 (18 days).

[2] *See, e.g.,* Arunachalam v. Fremont Bancorp., 672 Fed. Appx. 994 (Fed. Cir. 2017).

[3] Federal Circuit Internal Operating Procedure ("IOP") #10, ¶ 4 (Nov. 14, 2008). For a complete listing of the fourteen types of dispositions that qualify for precedential treatment, see IOP # 10, ¶ 4(a)-(o).

[4] IOP #10, ¶ 2 (Nov. 14, 2008).

[5] *Id.* at ¶ 5. With respect to non-precedential opinions, "the authoring judge sends the opinion and any concurring or dissenting opinions to the administrative services office (ASO) for copying and delivery to the clerk for issuance." *Id.*

[6] 745 F.3d 490 (Fed. Cir. 2014).

[7] 797 F.3d 1039 (Fed. Cir. 2015).

[8] 817 F.3d 1316 (Fed. Cir. 2016).

[9] 878 F.3d 1027 (Fed. Cir. 2017) (citing *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017) (en banc)).

[10] 878 F.3d at 1346.

[11] 745 F.3d 490.

[12] Judge Pauline Newman authored the majority opinions in *elcommerce*, *JVC*, and *Cardpool*.

[13] Our data indicates that 11 of Chief Judge Prost's 2014 precedential patent decisions issued after she succeeded former Chief Judge Rader on May 31, 2014.

[14] These calculations were determined by taking each judge's average time to decision with a dissent or concurrence and subtracting the judge's overall average time to decision.

[15] The authors would like to thank the many attorneys of Brinks Gilson & Lione who have contributed to updating *Patents and the Federal Circuit* between 2014 and the present. The data they compiled over the years served as the foundation for this article. In addition, thanks goes to William H. Burgess.

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Nasdaq can proceed with patent lawsuit against IEX, ruling says

(Reuters) – Nasdaq Inc. can proceed with a lawsuit accusing rival exchange operator IEX Group of patent infringement, a federal judge in New Jersey ruled Jan. 4.

***Nasdaq Inc. et al. v. IEX Group*, No. 18-cv-3014, 2019 WL 102408 (D.N.J. Jan. 4, 2019).**

U.S. District Judge Brian Martinotti said IEX will have to face claims for direct and willful patent infringement for allegedly using Nasdaq's technologies to open its own electronic trading platform in 2013, but he dismissed claims that IEX also induced users to infringe Nasdaq's patents.

In a statement Jan. 7, IEX said it disputes claims that it infringes Nasdaq's patents and looks forward to seeking a judgment on a complete record. A spokesman for Nasdaq declined to comment.

Filed in March of last year, the lawsuit accused Manhattan-based IEX of hiring four Nasdaq technology employees familiar with Nasdaq's patented technology to develop IEX's electronic trading platform, which was introduced in 2013 and became an official national stock exchange in 2016.

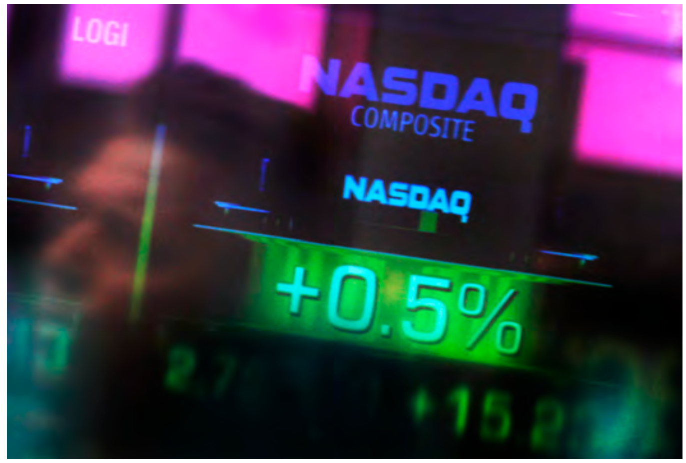
The lawsuit accuses IEX of infringing on seven Nasdaq patents, including order processing and the use of a computer system to disseminate updated data on securities to remote trading terminals.

The lawsuit is seeking damages and an order for IEX to stop unauthorized use of Nasdaq's technology. It alleged direct, induced and willful infringement, saying at least one former Nasdaq employee involved in building IEX's trading system likely knew about Nasdaq's patents.

In a motion to dismiss in May 2018, IEX said its exchange has a fundamentally different architecture from Nasdaq's and does not infringe on the company's patents. Nasdaq failed to allege specific facts supporting claims for direct, induced or willful infringement, IEX said.

The lawsuit was the latest in a series of attempts by Nasdaq to stop progress "toward a fairer and more transparent market" that eliminates the advantage of high-speed trading firms that Nasdaq serves, IEX said.

IEX also said one of the technologies in dispute, used to disseminate updated information to trading terminals, was ineligible for a patent because it involved the abstract idea of comparing data sets using conventional computers. Courts have long held that abstract ideas cannot be patented, IEX said.



REUTERS/Shannon Stapleton

In a motion last July opposing dismissal, Nasdaq said its complaint had "robust and particularized" allegations showing that IEX infringed its patents.

Nasdaq rejected the argument that its technology for updating information for traders was ineligible for a patent. The technology is not an abstract idea but a computer system allowing for the efficient dissemination of information on what quantities of securities are available for purchase or sale and at what price at any given moment, Nasdaq said.

In the Jan. 4 order, Judge Martinotti agreed that Nasdaq presented sufficient details to explain how IEX's exchange infringed on each of its seven patents.

Based on the criteria outlined by the U.S. Supreme Court in 2014 in *Alice Corp. v. CLS Bank International*, 573 U.S. 208 (2014), its patent for disseminating updated price information was not an abstract idea but involved specific features of a computer system, the judge said.

Nasdaq, however, failed to show how IEX induced or encouraged any third parties to infringe on the exchange's patent, Judge Martinotti said. WJ

(Reporting by Dena Aubin)

Related Filings:
Opinion: 2019 WL 102408
Opposition to motion to dismiss: 2018 WL 3913017
Motion to dismiss: 2018 WL 3913019
Complaint: 2018 WL 1128083

PTO asks Supreme Court to overturn Federal Circuit's attorney fee ruling

By Patrick H.J. Hughes

The director of the Patent and Trademark Office is asking the U.S. Supreme Court to overturn a decision that let biotech firm NantKwest Inc. off the hook for attorney fees the PTO incurred while defending a patent rejection.

Iancu v. NantKwest Inc., No. 18-801, petition for cert. filed, 2018 WL 6788571 (U.S. Dec. 21, 2018).

Patent applicants are required by statute to pay for the PTO's litigation "expenses," and that should include attorney fees, PTO Director Andrei Iancu says in a certiorari petition filed Dec. 21.

When the PTO rejects a patent application, the applicant has two options: appeal the rejection or have a district court decide if the invention is patentable in a civil action against the PTO's director under Section 145 of the Patent Act, 35 U.S.C.A. § 145.

> Some statutes define "expenses" to include attorney fees, but the fact that Section 145 is not so explicit should not imply otherwise, the petition says.

Section 145 says "all the expenses of the proceedings shall be paid by the applicant," without regard to which side prevails in the litigation.

The PTO argued that those expenses include its attorney fees, but U.S. District Judge Gerald Bruce Lee of the Eastern District of Virginia said this was not the case. *NantKwest Inc. v. Lee*, 162 F. Supp. 3d 540 (E.D. Va. 2016).

On appeal, a split three-judge panel of the U.S. Court of Appeals for the Federal Circuit sided with the PTO. *NantKwest Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017).

NantKwest asked for the full Federal Circuit to consider the issue. The en banc court reversed based on the "American rule," which it said requires parties to pay for their own attorney fees unless there is a "specific and explicit" statutory directive to the contrary. *NantKwest Inc. v. Iancu*, 898 F.3d 1177 (Fed. Cir. 2018).

'ALL THE EXPENSES'

The certiorari petition recounts the history of Section 145 of the Patent Act, a provision that has allowed judicial review of patent examination rejections since 1836.

"The text, structure, purpose and history of Section 145 all confirm that the phrase 'all the expenses of the proceedings' encompasses money paid to USPTO personnel who work on Section 145 litigation," the petition says.

Some statutes define "expenses" to include attorney fees, but the fact that Section 145 is not so explicit should not imply otherwise, the petition says.

The Supreme Court has never held that Congress must specifically say that expenses include attorney fees for an agency to recoup money spent on attorneys during litigation, the petition says.

The PTO also says there is a policy reason for having its attorney fees paid.

If applicants who file suit under Section 145 do not have to pay for it, others who use the PTO's services will have to pay indirectly through increased application fees and other expenses, the petition says.

Attorney fees are "expenditures that Congress determined are properly chargeable to the particular applicants … who forgo a direct appeal and instead cause the USPTO to incur significant additional expense," Iancu says. WJ

Attorneys:
Petitioner: Sarah Harris, Joseph Matal, Thomas W. Krause and Thomas L. Casagrande, U.S. Patent and Trademark Office, Alexandria, VA; Mark Freeman, Charles Scarborough and Jaynie Lilley, Justice Department, Washington, DC

Related Filings:
Petition for certiorari: 2018 WL 6788571
Federal Circuit en banc opinion: 898 F.3d 1177
Federal Circuit opinion: 860 F.3d 1352
District Court opinion: 162 F. Supp. 3d 540
Complaint: 2013 WL 6860200
PTAB decision: 2013 WL 5798589

See Document Section A (P. 19) for the petition for certiorari.

Generics maker appeals ruling over patent for dosing antipsychotic drug

By Amy Grossberg, Esq.

Generic drugmaker Hikma Pharmaceuticals USA Inc. says the U.S. Court of Appeals for the Federal Circuit was wrong to rule that rival Vanda Pharmaceuticals USA Inc. has a valid patent covering a personalized method of dosing the antipsychotic medication Fanapt.

Hikma Pharmaceuticals USA Inc. et al. v. Vanda Pharmaceuticals USA Inc., No. 18-817, petition for cert. filed, 2018 WL 6819525 (U.S. Dec. 20, 2018).

In a petition for certiorari filed Dec. 20, Hikma urges the U.S. Supreme Court to reverse the appellate panel's ruling, saying it flouted high court precedent by letting Vanda maintain its exclusive rights under a patent that merely applies a natural law without adding an "inventive concept."

The appeals court in April upheld an injunction barring Hikma from making or selling a generic version of Fanapt, called iloperidone, until Vanda's patent expires in 2027. *Vanda Pharm. Inc. v. West-Ward Pharm. Int'l Ltd.*, 887 F.3d 1117 (Fed. Cir. 2018).

Eatontown, New Jersey-based Hikma, formerly known was West-Ward Pharmaceuticals Corp., is a subsidiary of London-based Hikma Pharmaceuticals PLC.

The stakes are significant because Washington, D.C.-based Vanda reported Jan. 7, 2018, that Fanapt sales totaled about $75 million in 2017.

According to a Reuters report, that amount was almost half the company's revenue at the time. If Vanda loses the patent exclusivity and Hikma can market a presumably cheaper generic version, Vanda could face substantial losses.

PATENT, FDA APPROVAL AND GENERIC APPLICATION

Vanda owns U.S. Patent 8,586,610, titled "methods for the administration of iloperidone," which covers a way of treating people with schizophrenia by adjusting iloperidone dosage based on a genetic test to determine how well they are expected to metabolize the drug, according to the appeals court opinion.

The claimed method involves getting a biological sample from a person with schizophrenia and testing it for activity of a gene that encodes an enzyme that breaks down iloperidone to determine whether the person is a "poor metabolizer" of the drug, the opinion said.

The Food and Drug Administration approved Vanda in 2009 to sell Fanapt, based partly on the invention disclosed in the patent, which reduces the risk of a potentially dangerous heart rhythm problem, the opinion said.

Hikma later filed an abbreviated new drug application, or ANDA, with the FDA to market a generic version of Fanapt in various dosages under Section 505(j) of the Federal Food, Drug and Cosmetic Act, 21 U.S.C.A. § 355(j).

PROPOSED GENERIC ENJOINED

Vanda sued Hikma for patent infringement in the U.S. District Court for the District of Delaware in 2014.

After a bench trial, U.S. District Judge Gregory Sleet ruled in Vanda's favor, concluding that Hikma induced infringement of the patent by filing the ANDA. *Vanda Pharm. Inc. v. Roxane Labs. Inc.*, 203 F. Supp. 3d 412 (D. Del. 2016).

The judge permanently enjoined Hikma from infringing the patent, including by making or selling a generic iloperidone product described in the ANDA, until the patent expires Nov. 2, 2027.

PATENT-ELIGIBLE CLAIMS

Hikma appealed, and the Federal Circuit panel ruled 2-1 that Vanda's patent was valid and infringed.

Hikma had argued the subject matter of the patent was not eligible for protection because the patent contained nothing inventive, but was merely directed to natural laws concerning the relationship among iloperidone, the metabolism factor and the heart rhythm problem, citing *Mayo Collaborative Services v. Prometheus Laboratories Inc.*, 566 U.S. 66 (2012).

The majority rejected the argument and distinguished *Mayo*, in which the Supreme Court invalidated patents on a method for achieving the optimal dosage of certain drugs to treat particular gastrointestinal disorders by administering the drugs and monitoring the level of metabolites in the patient's blood to see if adjustment was necessary.

In an opinion written by U.S. Circuit Judge Alan D. Lourie, the majority said the patent in *Mayo* was directed to subject matter ineligible for a patent: a diagnostic method based on a natural law involving how the drugs are metabolized.

By contrast, the majority said, Vanda's patent goes beyond the natural correlation between the metabolism genotype and the risk of the heart rhythm problem.

It involves treatment steps applying the relationships among the drug, the genotype and the heart rhythm problem, the majority said, "a specific method of treatment for specific patients using a specific compound at specific doses to achieve a specific outcome."

In dissent, Chief U.S. Circuit Judge Sharon Prost disagreed with the majority's conclusion that Vanda's patent included something inventive enough to avoid invalidation under *Mayo*.

CLOSE THE 'FLOODGATES'

In its petition, Hikma urges the justices to grant review and reverse, saying the majority of the Federal Circuit panel was wrong to say this case is different from *Mayo*, "effectively rendering *Mayo* a dead letter."

It is especially important for the high court to grant review because the U.S. Patent and Trademark Office issued a memorandum shortly after the panel's opinion instructing patent examiners to consider as eligible for patenting "method of treatment" patents like Vanda's that apply natural relationships, the petition says.

In addition, the PTO memo said method-of-treatment claims need not include "nonroutine or unconventional steps" to be patent-eligible.

"The PTO's reading of the decision below promises method-of-treatment claims a free pass under Section 101 [of the Patent Act, 35 U.S.C.A. § 101], opening the floodgates to such claims," Hikma warns. WJ

Related Filings:
Petition: 2018 WL 6819525
Federal Circuit opinion: 887 F.3d 1117
District Court opinion: 203 F. Supp. 3d 412

PATENT

Government not a 'person' at the PTO, IP groups tell the Supreme Court

By Patrick H.J. Hughes

The U.S. Supreme Court should find that the U.S. Postal Service does not qualify as a "person" permitted to challenge patents before the Patent and Trademark Office, according to a pair of amicus briefs from the country's largest intellectual property membership organizations.

Return Mail Inc. v. U.S. Postal Service et al., No. 17-1594, amicus brief filed, 2018 WL 6706083 (U.S. Dec. 17, 2018).

Return Mail Inc. v. U.S. Postal Service et al., No. 17-1594, amicus brief filed, 2018 WL 6716162 (U.S. Dec. 17, 2018).

The U.S. Court of Appeals for the Federal Circuit erred when it granted the federal government's petition to have the PTO review Return Mail Inc.'s patent for processing undeliverable mail, the briefs say.

While the American Intellectual Property Law Association and the Intellectual Property Owners Association support neither party in the dispute the high court has agreed to resolve, the IP groups say the justices have to rule out the government as a person in cases filed under the 2011 Leahy-Smith America Invents Act.

Congress wanted review proceedings to bar government agencies from filing petitions or the AIA would have specified otherwise, the amicus briefs say.

RETURN TO SENDER

Birmingham, Alabama-based Return Mail is the exclusive licensee of U.S. Patent No. 6,826,548, which covers a system for scanning undeliverable mail and updating address information for intended recipients.

Return Mail said the USPS had been using the '548 patent without a license since 2006 when the agency installed a new address change service.

In 2007 the USPS persuaded the PTO to re-examine the '548 patent, which passed the ex parte re-examination process in January 2011.

In April 2014 the USPS filed a petition for CBM review of the '548 patent. Return Mail objected, saying the AIA conditions had not been met.

The PTAB said the USPS met these conditions and agreed to institute the review. *U.S. Postal Serv. v. Return Mail Inc.*, No. CBM2014-00116, 2014 WL 5339212 (P.T.A.B. Oct. 16, 2014).

Congress wanted review proceedings to bar government agencies from filing petitions or the America Invents Act would have specified otherwise, the amicus briefs say.

In February 2011, Return Mail filed a lawsuit in the Federal Court of Claims, saying the U.S. government was liable for using the method described in the '548 patent.

Meanwhile, Congress enacted the AIA, which provided a new patent review proceeding called a covered business method, or CBM, review, intended to curb complaints that the PTO had issued patents that covered business methods already in use.

Congress placed several conditions for patents to be eligible for CBM review, including a standing requirement in Section 18(a)(1)(B) of the AIA, Pub. L. No. 112-29, § 18(a)(1)(B).

FEDERAL CIRCUIT AFFIRMS

In 2-1 decision, the Federal Circuit affirmed the PTAB ruling, saying the government had standing to appeal because it had been accused of infringement. *Return Mail Inc. v. U.S. Postal Serv.*, 868 F.3d 1350 (Fed. Cir. 2017).

Return Mail failed to convince the Federal Circuit that it had not actually filed a patent infringement suit. Rather, the accusation was one "grounded in eminent domain," Return Mail had argued.

"Nothing in the text of Section 18(a)(1)(B) indicates an intent to restrict 'infringement' to suits that fall under the Patent Act," U.S. Circuit Judge Sharon Prost wrote for the majority.

U.S. Circuit Judge Pauline Newman, in her dissent, wrote that the controversy was not whether the case was "infringement," but whether the government could be considered a "person" as defined under Section 18(a)(1)(B).

"It is … reasonable to assume that Congress … knew that 'person' did not include the United States, lest additional complexities appear in the path of enactment of the America Invents Act," Judge Newman wrote.

Return Mail filed its certiorari petition in May. The justices granted the petition in October. *Return Mail Inc. v. U.S. Postal Serv.*, 139 S. Ct. 397 (2018).

STATUTORY INTERPRETATIONS

AIPLA's amicus brief recounts a history of courts recognizing that the default meaning of the term "persons" excludes government agencies.

For instance, the Supreme Court in *U.S. Postal Service v. Flamingo Industries (USA) Ltd.*, 540 U.S. 736 (2004), said specifically that the Postal Service was not a "person" under the Sherman Act, AIPLA points out.

Because Congress did not expand the meaning of the word, the default definition should be used, AIPLA says.

IPOA gives several reasons, in addition to traditional statutory interpretations, for why the government should be excluded from filing CBM review petitions.

Estoppel principles, for example, are directed to private parties to prevent abusive litigation. There is no per se rule against estopping the government from filing repeated invalidity petitions with the PTAB, so Congress probably intended for Section 18(a)(1)(B) not to apply to the Postal Service, IPOA says.

"If this court affirms the Federal Circuit's statutory interpretation, which abrogates the statutory estoppel provisions for a particular class of petitioner, Congress' careful balance of considerations in enacting the AIA will be frustrated," IPOA's brief says. WJ

Attorneys:
Petitioner: Richard L. Rainey, Kevin F. King, Michael S. Sawyer and Nicholas L. Evoy, Covington & Burling, Washington, DC

Respondents: Noel J. Francisco and Joseph J. Hunt, Solicitor General's Office, Washington, DC; Mark R. Freeman and Courtney L. Dixon, Justice Department, Washington, DC

Related Filings:
Amicus brief (IPOA): 2018 WL 6706083
Amicus brief (AIPLA): 2018 WL 6716162
Certiorari petition: 2018 WL 2412130
Federal Circuit opinion: 868 F.3d 1350
PTAB decision: 2014 WL 5339212
Complaint: 2011 WL 1036712

COPYRIGHT

J-Lo infringed photo of herself, copyright suit says

By Patrick H.J. Hughes

Singer and actress Jennifer Lopez violated copyright law when she posted a picture of herself on Instagram, according to a lawsuit filed by the photographer who shot the image.

REUTERS/Mario Anzuoni

Singer and actress Jennifer Lopez

Stewart v. Lopez et al., No. 18-cv-12019, complaint filed, 2018 WL 6694705 (S.D.N.Y. Dec. 19, 2018).

New York City photographer Michael Stewart filed the copyright infringement suit Dec. 19 in the U.S. District Court for the Southern District of New York.

The suit names Lopez and her film and TV production company, Nuyorican Productions Inc., as defendants.

Stewart says he took the photo of Lopez walking around New York and licensed it to The Daily Mail.

The British tabloid published the photo with a June 29 story about Lopez's outfit and application of makeup on her way to a meeting.

Stewart says he owns the photo and registered it with the U.S. Copyright Office.

When Lopez, who often goes by J-Lo, posted, or authorized the posting of, a copy of the photo on her Instagram page, she infringed Stewart's exclusive right to reproduce and publicly display his work in violation of Sections 106 and 501 of the Copyright Act, 17 U.S.C.A. §§ 106 and 501, the suit says.

Stewart says the infringing act entitles him to actual damages based on anything Lopez may have gained from the infringement, or statutory damages up to $150,000, pursuant to Section 504 of the Copyright Act, 17 U.S.C.A. § 504.

He also seeks prejudgment interest, costs and attorney fees. WJ

Attorneys:
Plaintiff: Richard Liebowitz, Liebowitz Law Firm PLLC, Valley Stream, NY

Music groups, former copyright head ask high court to give costs to Oracle

By Patrick H.J. Hughes

The National Music Publishers' Association and the Recording Industry Association of America have filed an amicus brief supporting Oracle USA Inc. in a copyright fight over nontaxable costs currently before the U.S. Supreme Court.

Rimini Street Inc. et al. v. Oracle USA Inc. et al., No. 17-1625, amicus brief filed, 2018 WL 6716160 (U.S. Dec. 20, 2018).

Rimini Street Inc. et al. v. Oracle USA Inc. et al., No. 17-1625, amicus brief filed, 2018 WL 6716159 (U.S. Dec. 20, 2018).

The Supreme Court is considering whether to honor a jury's decision to make software service firm Rimini Street Inc. pay for Oracle's expert witnesses and consultants in an infringement suit. The U.S. Copyright Office says barring such awards would bring predictability to infringement litigation.

Former Register of Copyrights Ralph Oman agrees with the music groups in his brief, in direct contrast with the current Copyright Office's administration, which backs Rimini.

> "If petitioners' constricted interpretation were to prevail, it would ... undermine the practical ability to take action against music piracy," the music groups say.

Oman, who headed the office from 1985 to 1993 and served on a Senate judiciary committee when the Copyright Act of 1976 was enacted, says Congress intended for costs to be awarded as part of "a potent arsenal of remedies" to compensate artists for the infringement of their works.

Musicians are particularly vulnerable, the NMPA and RIAA say. "If petitioners' constricted interpretation were to prevail, it would ... undermine the practical ability to take action against music piracy," they say.

THE CONTROVERSY

Oracle waged its copyright infringement suit against Rimini in 2010. After Oracle won, it was awarded $12 million for costs.

Rimini appealed and the 9th U.S. Circuit Court of Appeals affirmed the award. *Oracle USA Inc. v. Rimini St. Inc.*, 879 F.3d 948 (9th Cir. 2018).

Rimini filed its certiorari petition in May, relying on cases in other circuits that conflict with the 9th Circuit's decision. The Supreme Court agreed in September to resolve the split.

AN 'ARSENAL OF REMEDIES'

The NMPA and the RIAA recognize the circuit split and agree with Rimini that it needs to be resolved. However, they say other circuits should change their practices and follow the 9th Circuit's lead.

The music groups' brief cites *BMG Rights Management (US) LLC v. Cox Communications Inc.*, 234 F. Supp. 3d 760 (E.D. Va. 2017), where the U.S. District Court for the Eastern District of Virginia refused to award BMG costs for expert fees even though Cox Communications was found liable for willful contributory copyright infringement.

The brief also points to a New York case, *Capitol Records Inc. v. MP3tunes LLC*, No. 07-cv-9931, 2015 WL 7271565 (S.D.N.Y. Nov. 12, 2015), in which a music company, after winning a "lengthy trial" against an online service, was denied compensation for expert fees.

"These cases illustrate why the ability to seek full costs — that is, the true costs of litigation — is necessary to preserve the proper balance of incentives in the copyright system," the brief says.

These incentives let those in the music industry combat large-scale infringement with less risk of having to pay exorbitant prices for litigation, the music groups say.

Oman agrees, explaining in his brief that a musician factors in costs when deciding whether to bring an infringement suit, and this expense can even affect an author's decision to create.

"As a matter of common sense, a copyright holder will not incur the expense of litigation if she will pay more than she can recover," Oman says.

While Oman admits the impact of awarding costs on innovation is hard to quantify, he says that removing part of a copyright holder's "arsenal of remedies" would thwart Congress' intention to give artists incentive to create and "benefit the public as a whole."

The Supreme Court heard oral argument from both sides and the government on Jan. 14. WJ

Attorneys:
National Music Publishers' Association & RIAA: Jacqueline C. Charlesworth, Covington & Burling, New York, NY; Beth S. Brinkmann and Rafael Reyneri, Covington & Burling, Washington, DC

Ralph Oman: Andrew Gass, Latham & Watkins, San Francisco, CA; Melissa Arbus Sherry, Sarang Vijay Damle and Eric J. Konopka, Latham & Watkins LLP, Washington, DC

Related Filings:
Amicus brief (NMPA and RIAA): 2018 WL 6716160
Amicus brief (Oman): 2018 WL 6716159
Petition for certiorari: 2018 WL 2558418
9th Circuit opinion: 879 F.3d 948
District Court opinion: 209 F. Supp. 3d 1200
Complaint: 2010 WL 739367

Cards Against Humanity grabs domain for website with links to other games

By Patrick H.J. Hughes

The company behind the popular Cards Against Humanity game has convinced the World Intellectual Property Organization to give it ownership of a domain name that led internet users to a website with links to other games.

Cards Against Humanity LLC v. Registration Private, Domain Shield, No. D2018-2320, 2018 WL 6731548 (WIPO Arb. Dec. 18, 2018).

WESTLAW JOURNAL/Staff

The WIPO Arbitration and Mediation Center said Cards Against Humanity LLC, which produces the self-proclaimed "party game for horrible people," proved cardsagainsthumanity.org was being used for a bad-faith purpose.

Chicago-based Cards Against Humanity, which operates a site at cardsagainsthumanity.com, filed a complaint with WIPO in October after discovering a website at the disputed domain.

It complained that the website was "fraudulent" because it created the false impression that it was affiliated with the game's creator.

The complaint said the website included "Cards Against Humanity" marks that infringed the game's trademarks that the firm registered in the U.S. beginning in 2013.

The disputed domain itself incorporates the name of the game in its entirety, apart from the .org generic top-level domain, according to the WIPO panel, which consisted of a sole panelist.

The .org generic top-level domain is generally used for nonprofit organizations, although there are no domain registration rules that require nonprofit status.

The rules set by the Uniform Domain Name Dispute Resolution Policy, or UDRP, require a complainant to show it possesses rights to a trademark that is confusingly similar to the disputed domain.

The complainant then must show the registrant has no rights or legitimate interests in that domain name and that it had been used in bad faith.

Even with the .org gTLD, the disputed domain was confusingly similar to the registered Cards Against Humanity trademarks, the panel said.

The game's creator provided evidence that the website at the disputed domain had displayed ads that linked to Amazon listings of games that compete with Cards Against Humanity, the panel said.

This showed the registrant, an anonymous entity that registered the disputed domain with a Canadian registrar, had no legitimate interest in the domain, the panel said.

The game's creator also sufficiently demonstrated that the disputed domain was being used to capitalize on the goodwill associated with the game and the game's trademarks, and this was a bad faith use, the panel said. WJ

Related Filings:
Decision: 2018 WL 6731548

Feds, IP groups flood Supreme Court with briefs in bankruptcy trademark dispute

By Donna Higgins

A trademark owner cannot revoke a licensee's right to use the trademark by rejecting its license agreement under the Bankruptcy Code's contract rejection scheme, the U.S. government has told the nation's highest court.

Mission Product Holdings Inc. v. Tempnology LLC, No. 17-1657, amicus briefs filed, 2018 WL 6618027 (U.S. Dec. 17, 2018).

"If a landlord has rented a family an apartment and has agreed to pay the utilities, the landlord cannot later terminate the family's lease simply by refusing to pay the cable bill," the government says in an amicus brief. "The same principle applies to agreements that authorize the use of intellectual property."

The government is supporting Mission Product Holdings Inc. in its effort to overturn a decision from the 1st U.S. Circuit Court of Appeals that said Mission lost its right to use Chapter 11 debtor Tempnology's trademarks once Tempnology rejected the parties' pre-bankruptcy license agreement as an executory contract. *Mission Prod. Holdings v. Tempnology (In re Tempnology),* 879 F.3d 389 (1st Cir. 2018).

An executory contract is one that requires continued performance by both sides.

The government's filing was one of six amicus briefs the U.S. Supreme Court recently received in the case, which will require the high court to decide how trademark licenses are handled in bankruptcy actions.

Four of those briefs — from the government, a group of law professors, the New York Intellectual Property Law Association and the International Trademark Association — support Mission's arguments.

The other two, from the American Intellectual Property Law Association and the Intellectual Property Owners Association — seek to draw the justices' attention to aspects of the case without supporting either side.

NO 'SPECIAL BANKRUPTCY POWER'

Under Section 365(a) of the Bankruptcy Code, 11 U.S.C.A. §365(a), a bankruptcy trustee can assume or reject a debtor's pre-bankruptcy executory contracts, depending on whether the benefits of continued performance outweigh the burdens to the bankruptcy estate.

Section 365(g) of the Bankruptcy Code, 11 U.S.C.A. § 365(g), states that rejection is treated as a breach by the debtor if certain conditions are met. The other party to the contract is then entitled to file a claim for damages in the bankruptcy case.

The question for the high court is whether rejection of a trademark license agreement also strips the licensee of the right to use the mark.

Section 365(n) of the Bankruptcy Code, 11 U.S.C.A. § 365(n), protects the rights of intellectual property licensees, but the code's definition of "intellectual property" set forth in Section 101(35A) does not expressly include trademarks.

The justices granted Mission's certiorari petition to resolve a split between the 1st Circuit's holding and a decision from the 7th Circuit that said a licensee's trademark rights survive rejection of the agreement in bankruptcy. *Sunbeam Prods. v. Chi. Am. Mfg.,* 686 F.3d 372 (7th Cir. 2012).

Mission says the high court should side with *Sunbeam* and reject the 1st Circuit's decision, which relied on an outdated case from the 4th Circuit, *Lubrizol Enterprises Inc. v. Richmond Metal Finishers Inc.,* 756 F.2d 1043 (4th Cir. 1985).

Congress enacted Sections 365(n) and 101(35A) in response to the *Lubrizol* decision, Mission says.

"As the great majority of courts and scholars have recognized, rejection is not a special bankruptcy power to terminate or rescind a contract," Mission said in its opening brief. "Nor does it allow the trustee to revoke interests in property that the debtor granted to a counterparty under the contract before bankruptcy."

Tempnology said in an earlier Supreme Court filing that the 1st Circuit's decision was correct.

"The Bankruptcy Code's strong policy of permitting a debtor to free itself of ongoing obligations under a contract … and the right to reject such obligations applies to the burden of policing trademarks," the debtor said in its opposition to Mission's petition for review.

AVOIDANCE OR REJECTION

In its amicus brief, the government emphasizes that outside of bankruptcy, Tempnology could not have unilaterally revoked Mission's trademark license.

"In particular," the government argues, "Tempnology could not have revoked that license simply by refusing to perform its own obligations to monitor the mark."

The only way for a trustee to undo a pre-bankruptcy contract is through a different Bankruptcy Code provision allowing trustees to "avoid" certain types of transfers and recoup their value for the bankruptcy estate, the government says.

The code limits these avoidance powers, and a trustee cannot invoke them to undo a trademark license just because the estate would benefit financially by licensing the trademark to someone else, the government argues.

The 1st Circuit's approach allow trustees to circumvent those limits on avoidance, it says.

"Under the court of appeals' approach, the only practical difference between 'avoidance' and 'rejection' of a trademark license is that "rejection" would allow the licensee to file a prepetition claim for damages while avoidance would not," the government says.

INDEPENDENT OBLIGATION

The American Intellectual Property Law Association is urging the Supreme Court to hold that a trademark licensee's rights under applicable nonbankruptcy law should control whether its right to use the mark survives the licensor's rejection of the agreement.

"Rejection by the debtor of an executory contract constituting a trademark license is only a breach," the association says in its brief supporting neither party. "In the absence of the Bankruptcy Code specifically addressing trademark licenses, the effect of the breach must be decided under applicable non-bankruptcy law and the language of the contract."

The 1st Circuit held that a licensee's rights are always terminated following rejection, based on the trademark owner's continuing obligation to police the use of its mark, AIPLA says.

That approach was incorrect because the duty to monitor a trademark's use does not arise under the terms of a license agreement, but is instead an independent obligation arising under trademark law, the organization says.

The Intellectual Property Owners Association, also supporting neither party, says the 1st Circuit's approach imposes "a serious burden" on trademark licensees, forcing them to bear the risk that licensors will file for bankruptcy and reject their agreements.

"It makes trademark licenses more difficult and expensive to negotiate, adding unnecessary roadblocks to economically efficient deals that the law should generally incentivize," the group says. WJ

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Respondent: Daniel W. Sklar, Nixon Peabody, Manchester, NH; Lee Harrington and George Skelly, Nixon Peabody, Boston, MA

Related Filings:
Intellectual Property Owners Association amicus brief: 2018 WL 6618026
United States amicus brief: 2018 WL 6618027
New York Intellectual Property Law Association amicus brief: 2018 WL 6618028
Law professors' amicus brief: 2018 WL 6618029
International Trademark Association amicus brief: 2018 WL 6618030
American Intellectual Property Law Association amicus brief: 2018 WL 6618031
Petitioner's opening brief: 2018 WL 6584717

TRADEMARK

American Express blocks 'Amerixpress' trademark registration

By Patrick H.J. Hughes

American Express has convinced the Trademark Trial and Appeal Board to reject an applicant's attempt to register an "Amerixpress" trademark for importation services related to a nutritional supplement business.

American Express Marketing & Development Corp. v. Vo, Opposition Nos. 91230559 and 91232714, 2018 WL 6579270 (T.T.A.B. Dec. 13, 2018).

Given the fame and strength of federally registered American Express marks, consumers would likely believe Amerixpress supplements and services were in some way associated with the credit card giant even if the goods and services are different, the TTAB said in a Dec. 13 decision.

Side by side, the American Express and Amerixpress marks would be discernable, the TTAB said. But in a normal marketplace, customers do not usually have the opportunity to carefully examine these marks in minute detail, it said.

When viewed alone, the Amerixpress mark is likely to not only cause confusion but also dilute the distinctive quality of American Express' brand, the TTAB said.

AMERICAN EXPRESS LOSES SUMMARY JUDGMENT MOTION

Tung V. Vo filed in 2016 applications to register an Amerixpress mark for "import agency services" and an Amerixpress LLC mark for a slew of nutritional supplements and "export agency services for the goods of others."

American Express' marketing and development unit, as owner of nine American Express marks, filed oppositions to Vo's applications.

After the TTAB consolidated the proceedings, American Express moved for summary judgment, claiming the fame of its brand — a factor that plays a dominant role in a trademark opposition — was beyond question.

Vo, on the other hand, said American Express' marks were well-known in the financial industry but not famous to purchasers of nutritional products.

The TTAB in May denied the summary judgment motion, saying there were genuine factual disputes over similarities between the marks and the goods and services they represented. *Am. Express Mktg. & Dev. Corp. v. Vo*, Opposition Nos. 91230559 and 91232714, 2018 WL 2331715 (T.T.A.B. May 21, 2018).

REUTERS/Kai Pfaffenbach

CONSUMER RECOGNITION

Considering evidence about the American Express brand, including more than $2 billion in annual advertising expenditures, the TTAB found the credit card company's marks were sufficiently famous to entitle them to a "very broad scope of protection."

As to the likelihood that there could be confusion between the marks, the TTAB considered the factors outlined in *In re E.I. DuPont de Nemours & Co.*, 476 F.2d 1357 (C.C.P.A. 1973).

Under the *DuPont* factors, which include trade channel similarities and the nature of services sold under the marks, the TTAB found consumers would find a mark as famous as American Express to be "more similar than dissimilar" to the Amerixpress mark.

While the marks represent different goods and services, the applicant's supplements might be sold through American Express' mail order service to the customers who use American Express charge cards, the TTAB said. This shows potential consumer confusion, it said.

The degree of consumer recognition also demonstrates that the Amerixpress marks would dilute the credit card company's marks through blurring.

Potential purchasers of Amerixpress products will be "immediately reminded of the famous mark … even if they do not believe that the goods come from the famous mark's owner," the TTAB concluded. WJ

Related Filings:
Decision: 2018 WL 6579270
Decision denying summary judgment:
2018 WL 2331715
Opposition to summary judgment motion:
2017 WL 6612379
Motion for summary judgment:
2017 WL 5893182

TRADE SECRETS

10th Circuit nixes firm's bid to enjoin ex-worker for alleged trade secret theft

By Dave Embree

A Colorado oil and gas staffing firm has failed to convince a federal appeals panel to enjoin a former employee it says stole confidential data from a work laptop after resigning and using that information to recruit customers for a competitor.

DTC Energy Group Inc. v. Hirschfeld et al., No. 18-1113, 2018 WL 6816903 (10th Cir. Dec. 28, 2018).

A three-judge panel of the 10th U.S. Circuit Court of Appeals on Dec. 28 refused to issue a preliminary injunction in part because the former employee no longer retained the confidential data, having surrendered the laptop to a third-party forensics company.

ALLEGED TRADE SECRET THEFT

Adam Hirschfeld began working as a sales associate for Denver-based oil and gas staffing firm DTC Energy Group Inc. in 2013, according to the panel's opinion.

Hirschfeld was later named DTC's business development manager, and he signed an employment agreement that included confidentiality and nonsolicitation provisions prohibiting him from using DTC's proprietary information for his or other companies' benefit and from recruiting customers for any competing staffing firm, the opinion said.

The nonsolicitation provision was written to extend for one year after the end of Hirschfeld's employment, unless he resigned because of a change in ownership in the firm, according to the opinion.

In January 2016, DTC entered a limited agreement with Ally Consulting LLC, another oil and gas staffing firm, to provide only administrative services, the opinion said.

Nonetheless, Hirschfeld allegedly began soliciting customers for Ally after his father became a part owner of the company, the opinion said.

In May 2017, after one of DTC's owners sold his interest in the firm, Hirschfeld resigned, citing the change in ownership for his resignation, according to the opinion.

When he left the company, Hirschfeld allegedly took a thumb drive that contained thousands of confidential files and a laptop computer that allowed him to continue to access the firm's Dropbox account, the opinion said.

Hirschfeld then accepted a position as Ally's business development manager and allegedly used the stolen information to solicit DTC customers on behalf of his new employer, according to the opinion.

MOTION FOR PRELIMINARY INJUNCTION

DTC sued Hirschfeld and Ally in July 2017 in the U.S. District Court for the District of Colorado, accusing Hirschfeld of breach of contract and both defendants of trade secret theft.

Hirschfeld surrendered the laptop and thumb drive to a third-party forensics company as part of a litigation hold for the case, the opinion said.

In September 2017 DTC asked the court to issue a preliminary injunction that would prohibit Ally from continuing to employ Hirschfeld, servicing any customer that had worked with Hirschfeld or making any use of the stolen files.

U.S. District Judge Philip A. Brimmer denied the motion in a March 2018 order.

He ruled that DTC did not demonstrate a likelihood of irreparable harm stemming from the alleged trade secret theft because neither Hirschfeld nor Ally had retained copies of the confidential files after surrendering the laptop and thumb drive for forensic analysis.

Additionally, Judge Brimmer said DTC was unlikely to succeed on the merits of its breach-of-contract claim because the nonsolicitation clause from Hirschfeld's employment agreement did not apply after he resigned based on the change in ownership.

DTC appealed.

NO IRREPARABLE HARM

Writing for the 10th Circuit panel, U.S. Circuit Judge Mary B. Briscoe affirmed the District Court's order.

Judge Briscoe agreed that the alleged trade secret theft did not create a likelihood of irreparable harm for DTC because both Hirschfeld and Ally had testified that they no longer retained any copies of the stolen files.

She also agreed with Judge Brimmer's ruling that DTC's breach-of-contract claim fell short because the employment agreement's nonsolicitation clause became inoperative due to the firm's change in ownership.

"Moreover, even if Hirschfeld was bound by his employment agreement's nonsolicitation provisions after he resigned, the provisions expired one year after his resignation, at the end of May 2018," Judge Briscoe wrote.

U.S. Circuit Judge Carolyn B. McHugh wrote a concurring opinion, emphasizing that past breaches can support a finding of irreparable harm for purposes of a preliminary injunction, but that DTC had failed to present sufficient evidence of ongoing harm in this case. WJ

Attorneys:
Appellant: Charles W. Weese, John H. Bernetich and Devin C. Daines, Lewis, Bess, Williams & Weese, Denver, CO

Appellees: C. Forrest Morgan III, Morgan & Associates, Denver, CO; David B. Seserman, Seserman Law LLC, Denver, CO

Related Filings:
10th Circuit opinion: 2018 WL 6816903
District Court order: 2018 WL 1138295
Motion for preliminary injunction: 2017 WL 7360950
First amended complaint: 2017 WL 7361011

See Document Section B (P. 31) for the 10th Circuit opinion.

'Scandalous' trademarks

CONTINUED FROM PAGE 1

In November, after the PTO filed its plea to the Supreme Court, Brunetti filed a brief agreeing that the issue needed to be resolved by the country's highest court. However, Brunetti says the bar should be removed.

Brunetti's primary argument is that the restriction on scandalous marks is viewpoint discriminatory.

To further his argument, Brunetti explains that the PTO rejected his mark despite having registered some marks that use the F-word, provided it was misspelled or not spelled out, such as a "FCUK" mark and a "WTF is up with my love life?" mark.

"We may see a glut of profane and sexually explicit trademark applications," Dorsey & Whitney attorney J. Michael Keyes said.

Sterne, Kessler, Goldstein & Fox attorney Monica Riva Talley said "the court has consistently taken the position that obscenity is not constitutionally protected free speech."

The reason the PTO made inconsistent findings was because, according to Brunetti, the bar on scandalous marks "is not a content-neutral rule."

REACTIONS

J. Michael Keyes, an attorney at Dorsey & Whitney who was not involved in the case, says the high court might have taken the case because it sees a principle difference between the "disparaging" and "scandalous" provisions, or it may just want to clarify the *Tam* case.

"If the court upholds the Federal Circuit decision, we may see a glut of profane and sexually explicit trademark applications filed at the USPTO, which is what the government appears to be concerned about and why it wants the Federal Circuit's decision reversed," Keyes said.

"Yes, there may be some that will file vulgar trademark applications. But trademarks are registerable only if they are used to sell goods or services in commerce. While vulgar and/or sexually explicit trademarks may appeal to a small fringe of the overall consuming population, it seems unlikely that such trademarks are somehow going to catch on in mainstream commerce," he said.

Monica Riva Talley, an attorney from Sterne, Kessler, Goldstein & Fox who also was not involved in the case, predicts that the Supreme Court will uphold the prohibition.

"The court has consistently taken the position that obscenity is not constitutionally protected free speech, so it would seem to follow that a prohibition on registering immoral or scandalous marks (which does not preclude the owner from using such marks) would similarly not violate the First Amendment," she said.

"Unlike the bar on disparaging marks, which the court found to be viewpoint discriminatory, restrictions on profanity and sexual images are viewpoint neutral." WJ

Attorneys:
Petitioner: Sarah Harris, Joseph Matal, Christina J. Hieber, Thomas L. Casagrande, Mary Beth Walker and Molly R. Silfen, U.S. Patent and Trademark Office, Alexandria, VA

Related Filings:
Respondent's brief: 2018 WL 5978075
Petition for certiorari: 2018 WL 4331883
Federal Circuit opinion: 877 F.3d 1330
TTAB decision: 2014 WL 3976439

CASE AND DOCUMENT INDEX

IANCU

2018 WL 6788571 (U.S.) (Appellate Petition, Motion and Filing)
Supreme Court of the United States.

Andrei IANCU, Under Secretary of Commerce for Intellectual Property and Director, United States Patent and Trademark Office, petitioner,
v.
NANTKWEST, INC.
No. 18-801.
December 21, 2018.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

Petition for a Writ of Certiorari

Sarah Harris, General Counsel.

Joseph Matal, Acting Solicitor.

Thomas W. Krause, Deputy Solicitor.

Thomas L. Casagrande, Associate Solicitor, United States Patent and Trademark Office, Alexandria, Va. 22314.

Noel J. Francisco, Solicitor General.

Joseph H. Hunt, Assistant Attorney, General.

Malcolm Stewart, Deputy Solicitor General.

Matthew Guarnieri, Assistant to the Solicitor, General.

Mark Freeman, Charles Scarborough, Jaynie Lilley, Attorneys, Department of Justice, Washington, D.C. 20530-0001, SupremeCtBriefs@usdoj.gov, (202) 514-2217.

***I QUESTION PRESENTED**

When the United States Patent and Trademark Office (USPTO) denies a patent application, the Patent Act gives the unsuccessful applicant two avenues for seeking judicial review of the agency's decision. The applicant may appeal directly to the Federal Circuit, 35 U.S.C. 141, which "shall review the decision from which an appeal is taken on the record before the [USPTO]," 35 U.S.C. 144. Alternatively, the applicant may bring a civil action against the Director of the USPTO in district court, where the applicant may present additional evidence. 35 U.S.C. 145. If the applicant elects to bring such an action, "[a]ll the expenses of the proceedings shall be paid by the applicant." *Ibid*. The question presented is as follows:

Whether the phrase "[a]ll the expenses of the proceedings" in 35 U.S.C. 145 encompasses the personnel expenses the USPTO incurs when its employees, including attorneys, defend the agency in Section 145 litigation.

***III TABLE OF CONTENTS**

TABLE OF AUTHORITIES

Statutes and regulations:

Miscellaneous:

***1** The Solicitor General, on behalf of the Director of the United States Patent and Trademark Office, respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the en banc court of appeals (App., *infra,* 1a-55a) is reported at 898 F.3d 1177. The opinion of the court of appeals panel (App., *infra,* 56a-87a) is reported at 860 F.3d 1352. The opinion of the district court (App., *infra,* 88a-100a) is reported at 162 F. Supp. 3d 540.

JURISDICTION

The judgment of the court of appeals was entered on July 27, 2018. On October 5, 2018, the Chief Justice extended the time within which to file a petition for a writ ***2** of certiorari to and including November 23, 2018. On November 14, 2018, the Chief Justice further extended the time to and including December 21, 2018. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 145 of the Patent Act provides:

> An applicant dissatisfied with the decision of the Patent Trial and Appeal Board in an appeal under section 134(a) may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia if commenced within such time after such decision, not less than sixty days, as the Director appoints. The court may adjudge that such applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the Patent Trial and Appeal Board, as the facts in the case may appear and such adjudication shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant.

35 U.S.C. 145. Other pertinent statutory provisions are reproduced in the appendix to this petition. App., *infra,* 159a-166a.

STATEMENT

1. a. The United States Patent and Trademark Office (USPTO) is "responsible for the granting and issuing of patents." 35 U.S.C. 2(a)(1). When an applicant seeks a patent, the USPTO assigns an examiner to study the application and determine whether a patent ***3** should issue. 35 U.S.C. 131; 37 C.F.R. 1.104. An applicant who is dissatisfied with the examiner's decision may appeal to the Patent Trial and Appeal Board (Board), a unit within the USPTO. See 35 U.S.C. 6(b)(1), 134. In turn, an applicant who is dissatisfied with the Board's decision may seek judicial review through either of two avenues: a direct appeal to the Federal Circuit or a civil action in district court. 35 U.S.C. 141,145.

In a direct appeal under 35 U.S.C. 141, the Federal Circuit "review[s] the [Board's] decision *** on the record before the" USPTO. 35 U.S.C. 144. The court of appeals must apply the deferential standards of review prescribed by the Administrative Procedure Act, 5 U.S.C. 701 *et seq.,* and may set aside the USPTO's findings of fact only if they are "unsupported by substantial evidence," 5 U.S.C. 706(2)(E). See *Dickinson v. Zurko,* 527 U.S. 150,152 (1999).

Alternatively, an unsuccessful applicant may "have remedy by civil action against the Director" of the USPTO in the United States District Court for the Eastern District of Virginia, 35 U.S.C. 145, with a subsequent appeal to the Federal Circuit, 28 U.S.C. 1295(a)(4)(C). In a Section 145 action, unlike in a direct appeal, the applicant may conduct discovery and may introduce evidence that the USPTO had no opportunity to consider. See *Kappos v. Hyatt,* 566 U.S. 431, 444 (2012). If the applicant introduces new evidence, "the district court must make *de novo* factual findings that take account of both the new evidence and the administrative record before the PTO." *Id.* at 446.

Section 145 states that "[a]ll the expenses of the proceedings shall be paid by the applicant." 35 U.S.C. 145. That requirement applies "regardless of the outcome" of the suit. ***4** *Hyatt v. Kappos,* 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc), aff'd, 566 U.S. 431 (2012). No analogous expense-recoupment provision applies when an unsuccessful applicant instead opts for a direct appeal to the Federal Circuit.

b. Section 145 is the current embodiment of a statutory provision that has authorized judicial review of the decisions of the USPTO (or its predecessor, the Patent Office) since 1836, when Congress first created an agency responsible for the examination of patents. See Act of July 4, 1836 (1836 Act), ch. 357, § 16, 5 Stat. 123; see generally *Hoover Co. v. Coe,* 325 U.S. 79, 84-87 (1945). To finance the agency's operations, Congress created a "patent fund," into which applicants were required to pay fees for examinations. 1836 Act § 9, 5 Stat. 121. The fund was used "for the payment of the salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office." *Ibid.* An applicant who was dissatisfied with the agency's decision could seek review before a board of examiners, § 7, 5 Stat. 119-120, and in some circumstances could obtain judicial review by filing a "bill in equity," § 16, 5 Stat. 124. In 1839, Congress extended the bill-in-equity provision "to all cases where patents are refused for any reason whatever." Act of Mar. 3,1839 (1839 Act), ch. 88, § 10, 5 Stat. 354. Congress also directed that, in any case where a disappointed applicant invoked the bill-in-equity mechanism, "the whole of the expenses of the proceeding shall be paid by the applicant, whether the final decision shall be in his favor or otherwise." *Ibid.*

Congress has since amended various aspects of the Patent Act's scheme for judicial review. See *Hoover Co.,* 325 U.S. at 85-87. Throughout that period, however, the statutory scheme has both (a) afforded disappointed patent applicants the option of initiating a type ***5** of court proceeding in which the applicant could introduce new evidence, and (b) required any applicant who chose that route to pay all the expenses of that proceeding. See Act of July 8, 1870, ch. 230, § 52, 16 Stat. 205; Rev. Stat. § 4915 (2d ed. 1878); Act of Mar. 2, 1927, ch. 273, § 11, 44 Stat. 1336-1337; 35 U.S.C. 63 (1946). In the Patent Act of 1952, ch. 950, 66 Stat. 792, Congress replaced the term "bill in equity" with "civil action," while mandating that "[a]ll the expenses of the proceedings shall be paid by the applicant," § 145, 66 Stat. 803.

In the Lanham Act, 15 U.S.C. 1051 *et seq.,* Congress has enacted a materially identical provision for unsuccessful applicants for a trademark registration. Before 1962, the Lanham Act simply incorporated by cross-reference the procedures of Section 145. See 15 U.S.C. 1071 (1958) (authorizing proceedings "under sections 145 and 146 of Title 35 *** under the same conditions, rules, and procedures as are prescribed in the case of patent appeals"); see also Act of Oct. 9, 1962, Pub. L. No. 87-772, § 12, 76 Stat. 771-772 (amending this provision). In its current form, the Lanham Act states that a disappointed applicant for a trademark registration may "have remedy by a civil action" in district court in lieu of a direct appeal to the Federal Circuit. 15 U.S.C. 1071(b)(1). The statute further directs that, "[i]n any case where there is no adverse party, a copy of the complaint shall be served on the Director, and, unless the court finds the expenses to be unreasonable, all the expenses of the proceeding shall be paid by the party bringing the case, whether the final decision is in favor of such party or not." 15 U.S.C. 1071(b)(3).

c. The USPTO has invoked the expense provisions of Section 145 and its predecessors, as well as the counterpart ***6** provisions in the Lanham Act, to recover a variety of expenses that the agency has incurred when disappointed applicants have elected to proceed in district court rather than taking a direct appeal. *E.g., Sandvik Aktiebolag v. Samuels,* No. 89-cv-3127, 1991 WL 25774, at *1-*2 (D.D.C. Feb. 7, 1991) (expert witness fees); *Cook v. Watson,* 208 F.2d 529, 530-531 (D.C. Cir. 1953) (per curiam) (printing expenses); *Robertson v. Cooper,* 46 F.2d 766, 769 (4th Cir. 1931) (travel expenses for agency attorneys). The USPTO has always exercised discretion, however, in determining whether to seek the full extent of expenses permitted by the statute. See, *e.g.,* Edwin M. Thomas, *Recent Suits Against the Commissioner Under R. S. 4915,* 22 J. Pat. Off. Soc'y 616, 618 (1940) (noting that the USPTO "seldom exercise[s]" its statutory right to require an applicant to pay the expenses of an appeal by the agency if the applicant prevails in district court).

In 2013, the USPTO began seeking to recover the personnel-related expenses (including money paid to paralegals and attorneys) that the agency incurs in proceedings under 35 U.S.C. 145 and 15 U.S.C. 1071(b). That change in agency practice responded to two developments. First, in the Leahy-Smith America Invents Act, Congress directed the agency to set its fees so as "to recover the aggregate estimated costs to the [USPTO] for processing, activities, services, and materials relating to patents *** and trademarks." Pub. L. No. 112-29, § 10(a)(2), 125 Stat. 316; see SUCCESS Act, Pub. L. No. 115-273, § 4, __ Stat. __ (extending USPTO's fee-setting authority to 2026).[1] Accordingly, the USPTO has established ***7** fee schedules that are designed to recover the aggregate costs of its operations, including the costs the agency incurs in examining patent and trademark applications. See, *e.g.,* 37 C.F.R. 1.17, 2.6. Second, proceedings under Sections 145 and 1071(b) have grown increasingly expensive, and the single largest expense to the USPTO is often the time that agency employees must devote to those matters - as was true in this case. See App., *infra,* 100a.

2. The present dispute arises from a Section 145 proceeding brought by respondent's predecessor-in-interest as assignee of a patent application drawn to a method of treating cancer cells, which the Board rejected as obvious and therefore unpatentable. See App.,

infra, 102a-105a, 130a-139a. During the USPTO examination process, the applicant had "relied solely on the testimony" of the putative inventor. *Id.* at 140a. In the Section 145 proceeding, however, respondent relied on a new expert witness, and the USPTO retained an expert to respond; both experts produced extensive reports and participated in lengthy depositions with USPTO attorneys. See *id.* at 140a-142a. In addition, the district court held a hearing on several motions filed by the parties. See, *e.g.,* D. Ct. Docs. 33, 35-36, 38, 40 (May 11, 2015), 50-53 (May 26, 2015), 54-55 (June 2, 2015), 73 (July 15, 2015).

The district court granted summary judgment to the USPTO on the issue of patentability, App., *infra,* 146a, and the court of appeals affirmed in an unpublished decision, *id.* at 101a-128a.

3. After the USPTO prevailed at summary judgment, the agency moved for reimbursement of $111,696.39 in expenses under Section 145, comprising $78,592.50 in personnel costs for the time two USPTO attorneys and ***8** a paralegal had spent on the proceeding and $33,103.89 in expert-witness expenses. D. Ct. Doc. 79, at 8, 12 (Sept. 16, 2015). The USPTO calculated its personnel expenses as a pro rata share of the relevant employees' salaries. See *id.* at 11-12. Two experienced USPTO attorneys had spent nearly 1000 hours defending the agency in the district-court proceeding. *Ibid.* The USPTO declined to request other expenses, such as the agency's travel expenses, that it had incurred as a result of the litigation. See *id.* at 7.

The district court granted the USPTO's request for reimbursement of expert-witness fees but denied the request for reimbursement of personnel expenses. App., *infra,* 88a-100a. In distinguishing between the two types of expenses, the court stated that the phrase "[a]ll the expenses of the proceedings" in Section 145 is not sufficiently " 'specific and explicit' " to encompass the USPTO's attorney and paralegal personnel expenses, given the presumption under the "American Rule *** that each litigant pays his own attorneys' fees." *Id.* at 90a-92a (quoting *Baker Botts L.L.P. v. ASARCO LLC,* 135 S. Ct. 2158, 2164 (2015)).

4. A divided panel of the court of appeals reversed. App., *infra,* 56a-87a. The panel majority assumed without deciding that the American Rule is relevant to interpreting 35 U.S.C. 145, under which the applicant's obligation to pay the expenses of the proceedings does not turn on which party prevails. App., *infra,* 60a-61a. Even accepting that premise, however, the panel majority concluded that Section 145 "authorizes an award of fees" because " 'expenses' here includes attorneys' fees." *Id.* at 61a. The panel majority based that conclusion on evidence of ordinary usage in 1839, when Congress first required plaintiffs in suits like this one to pay ***9** the attendant expenses, *id.* at 62a; the history and purpose of the statute, *id.* at 62a-63a; and this Court's precedent, including the Court's observation that the "nontaxable expenses" borne by litigants, as distinct from taxable costs, include "expenses *** for attorneys," *id.* at 63a-64a (quoting *Taniguchi v. Kan Pac. Saipan, Ltd.,* 566 U.S. 560, 573 (2012)) (emphasis omitted).[2]

Judge Stoll dissented. App., *infra,* 72a-87a. She would have held that the American Rule applied and that Section 145 does not overcome the presumption against fee-shifting. *Id.* at 72a-73a.

5. Acting *sua sponte,* the en banc court of appeals vacated the panel opinion and reheard the case. App., *infra,* 156a-158a. After rehearing, the court affirmed the district court's denial of the USPTO's motion for personnel expenses, holding in a 7-4 decision that the term "expenses" in Section 145 does not encompass the USPTO's "attorneys' fees." *Id.* at 1a-55a.

a. The en banc majority first held that "the American Rule applies to § 145," even though the agency's entitlement to reimbursement of its expenses for a particular suit does not turn on whether it is a prevailing party. App., *infra,* 11a-16a. The majority recognized ***10** that the Fourth Circuit had rejected an analogous premise in *Shammas v. Focarino,* 784 F.3d 219 (2015), cert. denied, 136 S. Ct. 1376 (2016), which had "interpreted [the] nearly identical provision of the Lanham Act, 15 U.S.C. § 1071(b)(3)," to authorize the USPTO to recover its personnel expenses. App., *infra,* 9a, 12a-13a; see *Shammas,* 784 F.3d at 227 (concluding that Section 1071(b) "requires a dissatisfied ex parte trademark applicant who chooses to file an action in a district court challenging the final decision of the PTO, to pay, as 'all the expenses of the proceeding,' the salaries of the PTO's attorneys and paralegals attributed to the defense of the action").

In the majority's view, Section 145 "lacks the 'specific and explicit' congressional authorization required to displace the American Rule." App., *infra,* 16a. The majority acknowledged that the word "expenses" can "refer to *** attorney's fees," *id.* at 28a, and that dictionaries contemporaneous to the 1839 enactment of Section 145's first statutory antecedent broadly defined "expense" to include "the disbursing of money," *id.* at 17a (citation omitted). The majority dismissed that evidence as "vague," however, and looked instead to "Congress's usage of the terms 'expenses' and 'attorneys' fees' in other statutes." *Id.* at 18a. It noted that some statutes authorize the award of both " 'expenses' " and " 'attorneys' fees,' " whereas others "define expenses to include attorneys' fees, but they do so explicitly." *Id.* at 18a-20a. The majority concluded that the term "expenses" in this statute is at best "ambiguous" with respect to attorney's fees, and that Section 145 therefore is not specific enough to overcome the American Rule's presumption against fee-shifting, particularly when compared ***11** to other Patent Act provisions that expressly authorize shifting of attorney's fees. *Id.* at 22a-23a. The majority also stated that, because the USPTO's "interpretation *** would have a patent applicant pay the government's attorneys' fees even when the patent applicant succeeds," that position would mark "a particularly unusual divergence from the American Rule." *Id.* at 26a.

b. Chief Judge Prost dissented, joined by three other members of the court. App., *infra,* 36a-55a. Stating that the majority opinion "creates an unfortunate and unnecessary conflict between the circuits," the dissenters would have held that Section 145 requires "the applicant to pay *all* the expenses of the proceedings, including the PTO's personnel expenses." *Id.* at 36a.

The dissenting judges explained that, both in modern usage and when Section 145's first statutory antecedent was enacted, the "ordinary meaning of 'expenses' encompasses expenditures for personnel." App., *infra,* 40a (citing dictionaries). In particular, the dissenters explained that the 1836 Act had referred to agency salaries as "*expenses of the Patent Office,*" *id.* at 39a (quoting 1836 Act § 9, 5 Stat. 121), and that Congress had used the same term ("expenses") three years later when it amended the 1836 Act to require applicants who file a bill in equity to pay the "whole of the expenses of the proceeding," 1839 Act § 10, 5 Stat. 354; see App., *infra,* 39a; p. 4, *supra.* The dissenting judges further concluded that Congress's use of the modifier "all" in Section 145 evidenced an intent "to broadly and comprehensively capture anything fairly regarded as an 'expense.' " App., *infra,* 45a.

Finally, the dissenting judges observed that reading "expenses" to include the USPTO's personnel expenses ***12** is consistent with the statute's purpose, which is "to ensure that" the expenses of Section 145 proceedings "fall on the applicants who elect the more expensive district court proceedings over the standard appeal route." App., *infra,* 49a. The dissenters explained that the majority's interpretation, by contrast, would ensure that "*other* PTO applicants *** pay the PTO's personnel expenses incurred in" Section 145 proceedings. *Id.* at 54a.

REASONS FOR GRANTING THE PETITION

The en banc court of appeals held that the phrase "[a]ll the expenses of the proceedings" in 35 U.S.C. 145 does not encompass the expenses that the USPTO incurs when its employees, including attorneys, defend the agency in Section 145 litigation. That holding contravenes the ordinary meaning of "expenses" and is inconsistent with Section 145's history and purpose.

Section 145 gives disappointed patent applicants a unusual opportunity to challenge an agency decision based on additional evidence that the agency had no opportunity to consider. Section 145 ameliorates the potential burdens on the agency that attend that approach, however, by protecting the USPTO from the financial impact of discovery, motion practice, and trial. If left uncorrected, the decision below ensures that applicants will be liable only for some of those expenses. As the en banc majority recognized, moreover, the decision below is inconsistent with the Fourth Circuit's interpretation of materially identical language in the Lanham Act. App., *infra,* 12a (citing *Shammas v. Focarino,* 784 F.3d 219 (2015), cert. denied, 136 S. Ct. 1376 (2016)). The petition for a writ of certiorari should be granted.

***13 A. The Federal Circuit's Decision Is Wrong**

The text, structure, purpose, and history of Section 145 all confirm that the phrase "[a]ll the expenses of the proceedings" encompasses money paid to USPTO personnel who work on Section 145 litigation. 35 U.S.C. 145. The court of appeals believed that its contrary reading was compelled by the American Rule - *i.e.,* the "rule that each side must pay its own attorney's fees," "absent explicit statutory authority" for a fee award. *Baker Botts L.L.P. v. ASARCO LLC,* 135 S. Ct. 2158, 2163 (2015) (citation, ellipsis, and internal quotation marks omitted). But Section 145 is not the sort of fee-shifting provision that implicates the American Rule, and the clear language of the statute would "trump[] the American Rule," *id.* at 2164, even if that Rule applied.

1. The Patent Act provides that, when a disappointed patent applicant elects to pursue a civil action under 35 U.S.C. 145, "[a]ll the expenses of the proceedings shall be paid by the applicant." The ordinary meaning of the phrase "[a]ll the expenses of the proceedings" is all the expenditures "of money, time, labor, or resources" through which a participant in the proceeding seeks to attain its desired result. See *Black's Law Dictionary* 698 (10th ed. 2014) (defining "expenses" as "[a]n expenditure of money, time, labor, or resources to accomplish a result"); *Webster's New World College Dictionary* 511 (5th ed. 2014) (defining "expenses" as "charges or costs met with in *** doing one's work").

The same was true in 1839 when Section 145's first statutory antecedent was enacted (p. 4, *supra*). See 1 Noah Webster, *An American Dictionary of the English Language* (1828) (defining "expense" as a "laying ***14** out or expending; the disbursing of money, or the employment and consumption, as of time and labor") (capitalization omitted); App., *infra,* 40a (Prost, C.J., dissenting) (citing additional 19th-century dictionaries). Indeed, the 1836 Act, which first established an agency to examine patent applications, referred to employee "salaries" as "expenses of the Patent Office." § 9, 5 Stat. 121. There is no reason to think that Congress intended a narrower meaning three years later, when it amended an adjacent provision to require disappointed patent applicants who file a bill in equity to pay the "whole of the expenses of the proceeding." 1839 Act § 10, 5 Stat. 354.

In the specific context of civil litigation, where Section 145 applies, the term "expenses" suggests broader coverage than the word "costs," which the Court has construed as a more limited term of art. "Taxable costs are a fraction of the nontaxable expenses borne by litigants for attorneys, experts, consultants, and investigators." *Taniguchi v. Kan Pac. Saipan, Ltd.,* 566 U.S. 560, 573 (2012); see *Arlington Cent. Sch. Dist. Bd. of Educ. v. Murphy,* 548 U.S. 291, 297 (2006) (contrasting "costs" and "expenses" and suggesting that the latter term is "open-ended"); *United States v. 110-118 Riverside Tenants Corp.,* 886 F.2d 514, 520 (2d Cir. 1989) (including attorney's fees as "expenses of the foreclosure proceeding"), cert. denied, 495 U.S. 956 (1990); 10 Charles Alan Wright et al, *Federal Practice and Procedure* § 2666 (2014) (explaining that " '[e]xpenses,' of course, include all the expenditures actually made by a litigant in connection with the action," including money paid to attorneys). The modifier "all" in Section 145 refutes any inference that Congress intended Section 145 plaintiffs to be liable for only a subset of the agency's "expenses." See App., *infra,* 45a (Prost, C.J., dissenting) ***15** (explaining that Congress used the term "all" in Section 145 "to broadly and comprehensively capture anything fairly regarded as an 'expense' "); *Shammas,* 784 F.3d at 225 (reasoning that the term "all" in Section 1071(b) "clearly indicat[es] that the common meaning of the term 'expenses' should not be limited"); cf., *e.g., Norfolk & W. Ry. Co. v. American Train Dispatchers, Ass'n,* 499 U.S. 117, 129 (1991) (broadly construing the phrase "all other law" to include obligations imposed by contract).

2. The Federal Circuit's crabbed interpretation of the term "expenses" in 35 U.S.C. 145 is also inconsistent with the structure, purpose, and history of the statute.

a. The Patent Act provides two alternative avenues for obtaining judicial review of the USPTO's rejection of a patent application. Under Section 141, an applicant who is "dissatisfied with the final decision" of the agency may pursue a direct appeal to the Federal Circuit. 35 U.S.C. 141(a). Alternatively, Section 145 permits a disappointed applicant to "have remedy by civil action against the Director" of the USPTO in district court. 35 U.S.C. 145.

An applicant who elects to bring a Section 145 action is not limited to the administrative record, but instead may conduct discovery and present additional evidence that the agency had no prior opportunity to consider, and the district court must make de novo findings concerning that new evidence. See *Kappos v. Hyatt,* 566 U.S. 431, 444-445 (2012). The "opportunity to present new evidence" in a Section 145 proceeding can be "significant" for the applicant, "not the least because the PTO generally does not accept oral testimony." *Id.* at 435. But such litigation can also subject the USPTO to significant financial burdens that the agency does not incur ***16** in a direct appeal - *e.g.,* the costs of conducting and responding to discovery, retaining and deposing expert witnesses, engaging in sometimes extensive motion practice, and trying the case.

Section 145's requirement that the applicant pay "[a]ll the expenses of the proceedings," whether or not the applicant prevails, protects the USPTO's resources by shifting the additional expense of a civil action and possible trial to the applicants who opt for those proceedings. 35 U.S.C. 145. The requirement also discourages abusive filings. See *Hyatt v. Kappos,* 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc) ("To deter applicants from exactly the type of procedural gaming that concerns the Director, Congress imposed on the applicant the heavy economic burden of paying '[a]ll the expenses of the proceedings' regardless of the outcome.") (citation omitted; brackets in original), aff'd, 566 U.S. 431 (2012). More broadly, the requirement ensures that other persons who use the USPTO's services - who must pay fees designed to recoup the agency's operational costs, see pp. 6-7, *supra* - are not effectively compelled to subsidize Section 145 plaintiffs.

The Federal Circuit's interpretation undermines those important purposes. The personnel expenses that the Federal Circuit forbade the USPTO from recovering often represent the bulk of the agency's expenses - as illustrated by this case, where the most significant expense the USPTO incurred came in the form of attorney time. See App., *infra,* 100a (district court order denying the USPTO recovery of more than 70% of the expenses the agency incurred). If that decision is allowed to stand, other USPTO users will necessarily be required to underwrite some of the expenses of ***17** Section 145 proceedings, in contravention of the statutory design. See *id.* at 54a (Prost, C.J., dissenting).

b. The history of Section 145 supports a broad construction of the term "expenses." As explained above, when Congress first provided some disappointed patent applicants with an option for obtaining judicial review via a "bill in equity," it referred elsewhere in the same statute to employee "salaries" as "expenses," to be paid from the fees charged to applicants. 1836 Act §§ 9, 16, 5 Stat. 121, 124; see p. 4, *supra*. The 1836 Act created an additional procedure, also financed by applicant fees, for administrative appeals to a board of examiners. § 7, 5 Stat. 119. That system proved unsatisfactory, in part because the review proceedings began "to add considerably to the labor of the" agency. App., *infra,* 48a (Prost, C.J., dissenting) (citation and emphasis omitted). Congress therefore abolished the board of examiners, substituted a direct judicial appeal, and expanded the availability of the bill-in-equity procedure to "all cases where patents are refused for any reason whatever." 1839 Act § 10, 5 Stat. 354; see § 11, 5 Stat. 354. Cognizant of the potential strain that additional litigation might cause the agency, however, Congress required each applicant who filed a bill in equity to pay "the whole of the expenses of the proceeding." § 10, 5 Stat. 354.

Congress has thus long made unsuccessful patent applicants liable for the expenses of Section 145 proceedings, just as it has required applicants to pay for the cost of examination. Indeed, during the 19th century, this Court described proceedings under Section 145's precursor as "a part of the application for the patent," rather than "a technical appeal." *Gandy v. Marble,* 122 U.S. 432, 439 (1887). The court proceeding was understood to be in practical effect a continuation of the ***18** examination proceeding, in which the applicant could receive an adjudication of his entitlement to a patent based on new evidence. Construing the term "expenses" to encompass personnel expenses accords with that historical understanding and gives Section 145's expense-reimbursement requirement the same function as application fees - namely, defraying the USPTO's expenditures, including personnel expenses, and allocating those expenditures to the particular users who cause the USPTO to incur them.

To be sure, the USPTO has only recently sought to recover the personnel expenses that it incurs in Section 145 litigation. See pp. 6-7, *supra.* But the plain language of the statute has long authorized the agency to recoup those expenses, and the agency "has never affirmatively disclaimed that authority." App., *infra,* 54a (Prost, C.J., dissenting). "Given how dramatically the patent and litigation landscapes have changed," and how Section 145 proceedings in particular have become more expensive over time, *ibid.,* the agency reasonably determined that it should no longer forbear from collecting the personnel expenses to which it is has long been entitled under the statute.

3. The en banc majority repeatedly acknowledged that the term "expenses" can encompass the cost of paying USPTO attorneys. See App., *infra,* 17a ("capable of implicitly covering attorneys' fees"); *id.* at 28a ("sometimes used *** to refer to a variety of burdens incurred by a litigant, including attorneys' fees"); *id,* at 33a ("can be broad enough to cover salaries of some PTO employees") (emphasis omitted). It concluded, however, that the American Rule required Congress to speak with greater specificity to authorize the USPTO ***19** to recover its personnel expenses. *Id.* at 1a. That is incorrect.

a. The USPTO's request for reimbursement of personnel expenses under Section 145 does not implicate the American Rule. That principle holds that "the prevailing litigant is ordinarily not entitled to collect a reasonable attorneys' fee from the loser." *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y,* 421 U.S. 240, 247 (1975); see also, *e.g., Buckhannon Bd. & Care Home, Inc. v. West Va. Dep't of Health & Human Res., 532* U.S. 598, 602 (2001) (explaining that, under the " 'American Rule,' we follow 'a general practice of not awarding fees to a prevailing party absent explicit statutory authority' ") (citation omitted). For that reason, statutory departures from the American Rule typically speak in terms of "prevailing" parties. See *Baker Botts,* 135 S. Ct. at 2164 ("Although these '[s]tatutory changes to [the American Rule] take various forms,' they *** usually refer to a 'prevailing party' in the context of an adversarial 'action.' ") (citation omitted; brackets in original).

Section 145 does not operate in that way, and there is no reason to suppose that Congress had the American Rule in mind in enacting it or its predecessors. As the Fourth Circuit explained with respect to the parallel provision in the Lanham Act, "the imposition of all expenses on a plaintiff in an ex parte proceeding, regardless of whether he wins or loses, does not constitute fee-shifting that implicates the American Rule." *Shammas,* 784 F.3d at 221 (emphasis omitted). Instead, such a provision is "an unconditional compensatory charge imposed on a dissatisfied applicant who elects to engage" the USPTO in the more expensive and burdensome district-court proceedings. *Ibid.* The expenses the applicant ***20** is required to pay are thus best viewed as a counterpart to the application fees that are designed to defray the USPTO's examination expenses. See *Gandy,* 122 U.S. at 439 (stating that an action under Section 145's predecessor "is, in fact and necessarily, a part of the application for the patent"); pp. 6-7, *supra.*[3]

Before the Federal Circuit's decision in this case, no court of appeals had ever applied the American Rule to a statute that does not merely shift fees to the losing party, but instead requires one party to pay all the expenses of a proceeding regardless of the outcome. Nothing in this Court's precedent suggests that the American Rule applies in those circumstances. To the contrary, when this Court addressed a statutory scheme that requires the payment of attorney's fees regardless of a litigant's success, the Court did not mention the American Rule. See *Sebelius v. Cloer,* 569 U.S. 369 (2013) (considering the fees provision of the National Childhood Vaccine Injury Act of 1986, 42 U.S.C. 300aa-15(e), which requires the government to pay reasonable attorney's fees to both successful and unsuccessful claimants, as long as the claim is not frivolous). ***21** The win-or-lose recoupment feature of Section 145 makes the American Rule inapposite.

b. Even if Section 145 were viewed as implicating the American Rule, the statute unambiguously dictates a result inconsistent with that background presumption. For the reasons discussed above, the ordinary meaning of "expenses" incurred in connection with legal "proceedings" includes money spent to pay attorneys. See, *e.g., Taniguchi,* 566 U.S. at 573. Section 145's reference to "[a]ll the expenses of the proceedings" thus unambiguously authorizes a district court to require the applicant to reimburse the USPTO's attorney expenses. 35 U.S.C. 145.

The Federal Circuit's contrary holding was based primarily on the observation that numerous statutes "authoriz[e] the award of both 'expenses' and attorneys' fees' " or "define expenses to include attorneys' fees." App., *infra,* 18a, 20a; see, *e.g.,* 12 U.S.C. 1786(p) ("reasonable expenses and attorneys' fees"); 28 U.S.C. 361 ("reasonable expenses, including attorneys' fees"); 52 U.S.C. 10310(e) ("reasonable attorney's fee, reasonable expert fees, and other reasonable litigation expenses"). From that common usage, the court inferred that Congress views expenses and attorney's fees "as distinct tools in its toolbox," and that the term "expenses" standing alone does not encompass attorney salaries "absent an express expansion *** to include 'attorneys' fees.' " App., *infra,* 21a-22a.[4]

***22** That inference is unsound. This Court has never held that Congress must use the specific term "attorney's fees" in order to authorize recoupment of money spent on attorney services as part of a larger award of litigation expenses. See *Baker Botts,* 135 S. Ct. at 2164 (noting a variety of phrases used in statutes that displace the American Rule); *Key Tronic Corp. v. United States,* 511 U.S. 809,815 (1994) ("The absence of specific reference to attorney's fees is not dispositive if the statute otherwise evinces an intent to provide for such fees."); *id.* at 823 (Scalia, J., dissenting in part) ("Congress need only be explicit - it need not incant the magic phrase 'attorney's fees.' "). The terms "fees" and "expenses," moreover, are commonly used to denote overlapping categories, as reflected in the very statutes cited by the en banc Federal Circuit, see App., *infra,* 18a-21a. By using the broader term "expenses" in Section 145, Congress signaled its intent to allow the USPTO to recoup agency expenditures that include but are not limited to money spent on attorneys. See *Federal Practice and Procedure* § 2666 ("Both fees and costs are expenses but by no means constitute all of them.").

B. The Question Presented Warrants Review

1. The Court should grant the petition to correct the Federal Circuit's flawed interpretation of 35 U.S.C. 145. That court recognized the significance of the issue in acting *sua sponte* to rehear this case en banc, App., *infra,* 156a-158a, and it divided 7-4 on the merits. Because ***23** that court has exclusive jurisdiction to hear appeals in Section 145 cases, 28 U.S.C. 1295(a)(4)(C), the rule it announced will govern all future Section 145 proceedings absent this Court's intervention. This Court regularly grants certiorari to review questions of statutory interpretation otherwise committed to the Federal Circuit, particularly questions under the Patent Act. See, *e.g., WesternGeco LLC v. ION Geophysical Corp.,* 138 S. Ct. 2129 (2018); *SAS Inst. Inc. v. Iancu,* 138 S. Ct. 1348 (2018); *Life Techs. Corp. v. Promega Corp.,* 137 S. Ct. 734 (2017); *Samsung Elecs. Co. v. Apple Inc.,* 137 S. Ct. 429 (2016); *Kingdomware Techs., Inc. v. United States,* 136 S. Ct. 1969 (2016); *Cloer,* 569 U.S. 369.

2. As the en banc Federal Circuit unanimously recognized, the decision below conflicts with the Fourth Circuit's decision in *Shammas, supra,* interpreting parallel language in the Lanham Act. See App., *infra,* 12a-13a; *id.* at 36a (Prost, C.J., dissenting). The relevant Lanham Act provision, 15 U.S.C. 1071(b), authorizes a disappointed applicant for a trademark registration to file a civil action against the Director of the USPTO in district court. Like Section 145, Section 1071(b) requires an applicant who chooses that mode of review to pay "all the expenses of the proceeding *** whether the final decision is in favor of such party or not." 15 U.S.C. 1071(b)(3). In *Shammas,* the Fourth Circuit held that Section 1071(b) authorizes the USPTO to recover its personnel expenses. 784 F.3d at 227. It based that conclusion primarily on the language of the statute, noting that, "in ordinary parlance, 'expenses' is sufficiently broad to include attorneys fees and paralegal fees," and that Congress's use of the modifier "all" "clearly indicat [es] that the common meaning of the term 'expenses' should not be limited." *Id.* at 222.

***24** The Fourth Circuit further explained that the structure and history of Section 1071(b) confirmed its plain meaning, based on the same considerations that the Federal Circuit discounted here. In particular, the Fourth Circuit stated that, by attaching the expense-payment provision to the option to initiate a more "fulsome and expensive" district-court proceeding, Congress had "obviously intended to reduce the financial burden on the PTO in defending such a proceeding" by requiring the applicant to pay all of those expenses. *Shammas,* 784 F.3d at 225. The court cited legislative history, and the "original understanding" of the predecessor provision in the 1839 Act, as additional evidence that Section 1071(b) was "designed to relieve the PTO of the financial burden that results from an applicant's election to pursue the more expensive district court litigation." *Id.* at 226-227.

Finally, the Fourth Circuit rejected the contention that the American Rule required a contrary result. See *Shammas,* 784 F.3d at 223-224. The Fourth Circuit explained that, "[b]ecause the PTO is entitled to recover its expenses even when it completely fails, § 1071(b)(3) need not be interpreted against the backdrop of the American Rule." *Id,* at 223; see *id,* at 221 (describing the expense provision as "an unconditional compensatory charge" to applicants, rather than a fee-shifting mechanism based on litigation success).

3. The court of appeals' holding has significant practical consequences. The USPTO began seeking to recoup its personnel expenses because of the increasing financial burden of Section 145 and Section 1071(b) proceedings. As both this case and *Shammas* illustrate, the USPTO's personnel expenses are often the most significant expense the agency incurs in suits brought under ***25** those provisions. See App., *infra,* 100a (70% of requested expenses); *Shammas,* 784 F.3d at 226 (98% of requested expenses). The decision below will thus prevent the USPTO from recovering its largest expense in many Section 145 proceedings.

Because the USPTO's schedule of fees is designed to recover the aggregate cost to the agency of its operations, the decision below effectively guarantees that other persons who use the USPTO's services will indirectly bear the cost of Section 145 proceedings. The en banc majority sought to downplay the financial significance of that effect by noting that, because the agency receives hundreds of thousands of patent applications each year, even a million dollars in unrecouped personnel expenses for Section 145 proceedings would have only a slight effect on any particular patent applicant. App., *infra,* 34a-35a. But those are expenditures that Congress determined are properly chargeable to the particular applicants, like respondent, who forgo a direct appeal and instead cause the USPTO to incur significant additional expense. Congress determined that those applicants should be liable for "[a]ll the expenses of the proceedings," 35 U.S.C. 145, not merely some of them.

***26 CONCLUSION**

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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December 2018

Footnotes

1 The SUCCESS Act has been preliminarily designated for publication at 132 Stat. 4158.

2 Respondent also argued that the USPTO personnel expenses at issue here are not expenses "of the proceedings" because the agency would have been required to pay its employees' salaries even if this suit had not been brought. Resp. C.A. Br. 35. The panel majority rejected that argument, observing that the USPTO had "dedicated time and resources of its attorneys to the defense of this litigation when it could have otherwise applied those resources to other matters." App., *infra,* 70a; cf. *Wisconsin v. Hotline Indus., Inc.,* 236 F.3d 363, 365 (7th Cir. 2000) ("[S]alaried government lawyers, like in-house and non-profit counsel, do incur expenses if the time and resources they devote to one case are not available for other work.").

3 That conclusion is reinforced by the manner in which the USPTO calculates its personnel expenses. When the government seeks an award of attorney's fees under a fee-shifting statute, the amount of the award is typically calculated based on the prevailing market rate for private counsel, regardless of the government's actual expenditure for the representation. See, *e.g., NLRB v. Local 3, Int'l Bhd. of Elec. Workers,* 471 F.3d 399, 406-407 (2d Cir. 2006). The USPTO does not use that metric in calculating personnel expenses under Section 145. Instead, it seeks reimbursement only for the expenses the agency incurs - namely, an amount that reflects the actual salaries of the relevant employees, prorated according to the amount of time each spent on the district-court proceeding. App., *infra,* 8a.

4 The Federal Circuit also contrasted Section 145 with other Patent Act provisions that expressly authorize awards of attorney's fees. App., *infra,* 22a-24a; see, *e.g.,* 35 U.S.C. 285, 297(b)(1). Because the Patent Act did not provide for attorney fee-shifting in infringement litigation until 1946, see *Octane Fitness, LLC v. ICON Health & Fitness, Inc.,* 572 U.S. 545, 548 (2014), the provisions on which the Federal Circuit relied are of limited relevance in inferring the intent of the 1839 Congress that enacted Section 145's first statutory antecedent. In any event, the fact that the Patent Act authorizes fee awards to prevailing parties in private infringement litigation has little bearing on the meaning of the term "expenses" in the quite different context of Section 145 proceedings between an applicant and the USPTO.

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DTC ENERGY GROUP

2018 WL 6816903
Only the Westlaw citation is currently available.
United States Court of Appeals, Tenth Circuit.

DTC ENERGY GROUP, INC., a Colorado Corporation, Plaintiff - Appellant,
v.
Adam HIRSCHFELD; Joseph Galban; Ally Consulting, LLC, f/k/a Wyodak Staffing, LLC, a Wyoming Limited Liability Company, Defendants - Appellees.
No. 18-1113

FILED December 28, 2018

Synopsis
Background: Staffing company brought action against former employees and competitor, alleging breach of contract, breach of duty of loyalty, misappropriation of trade secrets, and unfair competition. The United States District Court for the District of Colorado, No. 1:17-CV-01718-PAB-KLM, Philip A. Brimmer, J., 2018 WL 1138295, denied company's motion for preliminary injunction. Company appealed.

Holdings: The Court of Appeals, Briscoe, Circuit Judge, held that:

[1] appeal of denial of preliminary injunction was not moot;

[2] staffing company did not show sufficient probability of irreparable harm from past misconduct of former employees and competitor for using company's trade secrets to divert business from company to competitor that hired those employees;

[3] former employee's ongoing solicitation of former employer's customers and consultants was not breach of non-solicitation provision in employment agreement, and

[4] "prior breach" doctrine was inapplicable to former employee's reliance on "change in ownership" clause in non-solicitation provision in employment agreement to company's claim that former employee solicited its customers and consultants in breach of provision.

Affirmed.

McHugh, Circuit Judge, filed concurring opinion.

West Headnotes (28)

[1] **Federal Courts** Available and effective relief

In considering mootness, a court asks whether granting a present determination of the issues offered will have some effect in the real world. U.S. Const. art. 3, § 2, cl. 1.

Cases that cite this headnote

[2] **Federal Courts**Mootness

The mootness doctrine does not depend in any way on the merits of the plaintiff's contention. U.S. Const. art. 3, § 2, cl. 1.

Cases that cite this headnote

[3] **Federal Courts**Review unnecessary or ineffectual

Where an act sought to be enjoined has occurred, an appeal of a district court order denying an injunction is moot. U.S. Const. art. 3, § 2, cl. 1.

Cases that cite this headnote

[4] **Federal Courts**Particular cases

Appeal of denial of preliminary injunction sought by staffing company to enjoin acts that continued to occur, including competitor's solicitation of staffing company's customers and consultants, as well as competitor's employment of company's former employees, was not moot, since appeal would have immediate effects on competitor's business, as well as former employees' professional opportunities. U.S. Const. art. 3, § 2, cl. 1; Fed. R. Civ. P. 65.

Cases that cite this headnote

[5] **Federal Courts**Preliminary injunction; temporary restraining order

The decision to deny a motion for a preliminary injunction is reviewed for abuse of discretion. Fed. R. Civ. P. 65.

Cases that cite this headnote

[6] **Federal Courts**Abuse of discretion in general

An abuse of discretion occurs when a decision is premised on an erroneous conclusion of law or where there is no rational basis in the evidence for the ruling.

Cases that cite this headnote

[7] **Federal Courts**Questions of Law in General
Federal Courts"Clearly erroneous" standard of review in general

A district court's factual findings are reviewed for clear error and its conclusions of law de novo, on appeal of the denial of a preliminary injunction. Fed. R. Civ. P. 65.

Cases that cite this headnote

[8] **Injunction** Preservation of status quo

A preliminary injunction has the limited purpose of preserving the relative positions of the parties until a trial on the merits can be held. Fed. R. Civ. P. 65.

Cases that cite this headnote

[9] **Injunction** Extraordinary or unusual nature of remedy

A preliminary injunction is an extraordinary remedy never awarded as of right. Fed. R. Civ. P. 65.

Cases that cite this headnote

[10] **Injunction** Entitlement to Relief
Injunction Adequacy of remedy at law
Injunction Recovery of damages

A party may be granted a preliminary injunction only when monetary or other traditional legal remedies are inadequate, and the right to relief is clear and unequivocal. Fed. R. Civ. P. 65.

Cases that cite this headnote

[11] **Injunction** Grounds in general; multiple factors

A party seeking a preliminary injunction must show: (1) the movant is substantially likely to succeed on the merits; (2) the movant will suffer irreparable injury if the injunction is denied; (3) the movant's threatened injury outweighs the injury the opposing party will suffer under the injunction; and (4) the injunction would not be adverse to the public interest. Fed. R. Civ. P. 65.

Cases that cite this headnote

[12] **Injunction** Irreparable injury

Because a showing of probable irreparable harm is the single most important prerequisite for the issuance of a preliminary injunction, the moving party must first demonstrate that such injury is likely before the other requirements will be considered. Fed. R. Civ. P. 65.

Cases that cite this headnote

[13] **Injunction**Irreparable injury

The purpose of a preliminary injunction is not to remedy past harm but to protect plaintiffs from irreparable injury that will surely result without their issuance. Fed. R. Civ. P. 65.

Cases that cite this headnote

[14] **Injunction**Irreparable injury
InjunctionRecovery of damages

Demonstrating irreparable harm is not an easy burden to fulfill on a motion for a preliminary injunction; the movant must demonstrate a significant risk that he or she will experience harm that cannot be compensated after the fact by money damages. Fed. R. Civ. P. 65.

Cases that cite this headnote

[15] **Injunction**Presumptions and burden of proof

In limited circumstances, a court may presume irreparable harm and grant injunctive relief, such as when a statute mandates injunctive relief as a remedy for a violation, or impending violation, of the statute, because the statute has effectively constrained a court's traditional discretion to determine whether such relief is warranted, but the presumption does not apply when a statute merely authorizes, rather than mandates, injunctive relief. Fed. R. Civ. P. 65.

Cases that cite this headnote

[16] **Injunction**Presumptions and burden of proof

Staffing company's claims for misappropriation of trade secrets under Defend Trade Secrets Act or Colorado Uniform Trade Secrets Act did not warrant presumption of irreparable harm, on company's motion for preliminary injunction, since neither statute allowed presumption of irreparable harm. 18 U.S.C.A. § 1831 et seq.; Colo. Rev. Stat. Ann. § 7-74-101 et seq.; Fed. R. Civ. P. 65.

Cases that cite this headnote

[17] **Injunction**Injury to or restraint of trade or business in general

Loss of customers, loss of goodwill, and erosion of a plaintiff company's competitive position are the types of factors that a district court should consider when deciding whether a plaintiff has shown a sufficient probability of irreparable harm. Fed. R. Civ. P. 65.

Cases that cite this headnote

[18] **Injunction**🔑Non-competition and non-solicitation issues
Injunction🔑Disclosure or use of trade secrets or confidential information

On motion for preliminary injunction, staffing company did not show sufficient probability of irreparable harm from past misconduct of former employees and competitor for using company's trade secrets to divert business from company to competitor that hired those employees, since prior loss of company's customers and consultants and general decline of company's value as business could be quantified in money damages, former employees and competitor did not currently possess company's trade secrets, and industry was not confused on ongoing basis as to relationship between staffing company and competitor. Fed. R. Civ. P. 65.

Cases that cite this headnote

[19] **Labor and Employment**🔑Self-serving conduct

Under Colorado law, an employee's duty of loyalty applies to the solicitation of co-employees, as well as to the solicitation of customers, during the time the soliciting employee works for his employer.

Cases that cite this headnote

[20] **Trademarks**🔑Unfair competition

To constitute unfair competition in respect to a trade name, the name must have acquired a secondary meaning or significance that identifies the plaintiff and the defendant must have unfairly used the name or a simulation of it against the plaintiff.

Cases that cite this headnote

[21] **Contracts**🔑Contract not to engage in or injure business carried on by another

Former employee's ongoing solicitation of former employer's customers and consultants more than one year after he resigned was not breach of non-solicitation provision in employment agreement under Colorado law, since former employee was not bound by non-solicitation provisions more than one year after he resigned.

Cases that cite this headnote

[22] **Federal Courts**🔑Preliminary injunction; temporary restraining order
Federal Courts🔑Labor and Employment

District court's interpretation of former employee's employment agreement, in assessing former employer's likelihood of success on its claim for preliminary injunction that former employee's ongoing solicitation violated his employment agreement, was question of law that was subject to de novo review.

Cases that cite this headnote

[23] **Contracts**🔑Language of Instrument

Under Colorado law, a court must enforce an unambiguous contract in accordance with the plain and ordinary meaning of its terms.

Cases that cite this headnote

[24] **Contracts**🔑Contract not to engage in or injure business carried on by another

"Prior breach" doctrine under Colorado law was inapplicable to former employee's reliance on "change in ownership" clause in non-solicitation provision in employment agreement to staffing company's claim that former employee solicited its customers and consultants in breach of provision, since company did not seek to use doctrine as shield against demand for specific performance, but instead as sword to create liability for employee where text of agreement did not provide for any.

Cases that cite this headnote

[25] **Contracts**🔑Rights and Liabilities on Breach

Under Colorado contract law, a party to a contract cannot claim its benefit where he is the first to violate its terms.

Cases that cite this headnote

[26] **Contracts**🔑Discharge of contract by breach
Specific Performance🔑Effect of Delay or Default of Plaintiff

The "prior breach" doctrine is an equitable argument under Colorado law typically asserted by a defendant who has been sued for specific performance by a plaintiff who was the first to breach the contract.

Cases that cite this headnote

[27] **Contracts**🔑Restriction of competition

Colorado has a fundamental policy of interpreting noncompetitive provisions in employment contracts narrowly.

Cases that cite this headnote

[28] **Contracts**🔑Restraint of Trade or Competition in Trade

Noncompete provisions in Colorado must fall within one of Colorado's statutory exceptions. Colo. Rev. Stat. Ann. § 8-2-113(2)(d).

Cases that cite this headnote

Appeal from the United States District Court for the District of Colorado (D.C. No. 1:17-CV-01718-PAB-KLM)

Attorneys and Law Firms
Submitted on the briefs:[*]

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C. Forrest Morgan, III, Morgan & Associates, LLC, Denver, Colorado, on the brief for Appellee Ally Consulting, LLC.

David Brian Seserman, Sesserman Law LLC, Denver, Colorado, on the brief for Appellees Adam Hirschfeld and Joseph Galban.

Before BRISCOE, MURPHY, and McHUGH, Circuit Judges.

Opinion

BRISCOE, Circuit Judge.
***1** This is an appeal from the denial of a preliminary injunction in a business tort case. Plaintiff-Appellant DTC Energy Group, Inc., has sued two of its former employees—Adam Hirschfeld and Joseph Galban—as well as one of its industry competitors—Ally Consulting, LLC—for using DTC's trade secrets to divert business from DTC to Ally. DTC moved for a preliminary injunction based on its claims for breach of contract, breach of the duty of loyalty, misappropriation of trade secrets, and unfair competition. The district court denied the motion. It found that DTC had shown a probability of irreparable harm from Hirschfeld's ongoing solicitation of DTC clients, but that DTC could not show the ongoing solicitation violated Hirschfeld's employment agreement. Exercising jurisdiction pursuant to 28 U.S.C. § 1292(a)(1), we AFFIRM.

I

DTC is a staffing company. App. Vol. I at 178. It serves as the middleman between oil and gas companies who are looking for workers and workers who are looking for jobs. *Id.* When DTC places a worker (referred to as a consultant) in a job at an oil and gas company (referred to as a customer), the customer pays DTC a fee and DTC gives a portion of that fee to the consultant as compensation for his labor. *Id.* at 179. For the majority of time relevant to this appeal, DTC was owned by Bob Sylar and Luke Clausen. *Id.* at 178.

DTC's primary tool for matching consultants and customers is a collection of consultant resumes that DTC assembled and regularly updates. *Id.* at 182, 184. While the resumes themselves are supplied by consultants, DTC edits the resumes before sending them to customers and maintains the collection of resumes in a password-protected, searchable Dropbox folder, so it is easy to find qualified candidates when a customer needs a consultant. *Id.* at 184.

In 2013, DTC hired Hirschfeld as a sales associate. *Id.* at 179. Hirschfeld's job was to develop relationships with consultants and customers to win business for DTC. *Id.* His role at DTC grew over time and he was eventually named the business development manager. *Id.* Aside from Hirschfeld, DTC only employed a handful of people. Galban, the other individual defendant in this case, was DTC's accountant. *Id.* at 181.

Hirschfeld signed an employment agreement with DTC when he became its business development manager. App. Vol. I at 179; *see also* App. Vol. III at 510–20. He was the only employee who signed an employment agreement with restrictive covenants. App. Vol. II at 246–47. The agreement required him to "devote substantially all of his" professional time to DTC and act in DTC's "best interests." App. Vol. III at 510. The agreement also included confidentiality, non-solicitation, and non-interference provisions. *Id.* at 513–15. The confidentiality provision prohibits Hirschfeld from using DTC's confidential information—including trade secrets, customer lists, price lists, and resumes—for his own benefit or the benefit of another company. *Id.* at 513. The nonsolicitation and non-interference provisions prohibited Hirschfeld from encouraging DTC's current customers to take their business to a competitor and from recruiting DTC's employees to work for a competitor. *Id.* at 514. The non-solicitation and non-interference provisions applied while Hirschfeld was employed by DTC and for one year after the end of his employment. *Id.* The only exception was that neither provision applied if he resigned because of "a change in the current equity ownership of" DTC (the "change in ownership" clause). *Id.*

***2** In January 2016, DTC and Ally[1] (another oil and gas staffing company) began to negotiate an agreement. At that time, both companies provided similar staffing services, but Ally's business was smaller and limited to directional drillers. App. Vol. II at 223, 273, 391, 433. In comparison, DTC placed consultants at many kinds of oil and gas companies. App. Vol. I at 178–79. Ultimately, the agreement established that DTC would provide "administrative services, such as payroll and benefits," to Ally for a fee. App. Vol. I at 181–82. Despite the limited scope of the agreement between Ally and DTC, Hirschfeld began using DTC's resources (its employees and its collection of consultant resumes) to win business for Ally. *Id.* at 182. At the same time that DTC and Ally executed the service agreement, "Hirschfeld's father, Craig Hirschfeld, became a 35% owner of Ally." *Id.* Hirschfeld hid his work for Ally, and his father's ownership interest in Ally, from DTC's owners. *See, e.g.*, App. Vol. II at 288.

Ally terminated the service agreement with DTC in July 2016, but Hirschfeld continued to work with other DTC employees on Ally's behalf. App. Vol. I at 183. That same month, DTC's owners learned about some of the connections between their employees and Ally. *Id.* at 182–83; App. Vol. III at 541–45. When asked about his work for Ally, Hirschfeld offered a technically true, but misleading, answer—that he had "no ownership of any sort in" Ally, that he "receive[s] no direct compensation from" Ally, and that he is "compensated by DTC only." App. Vol. III at 544. Hirschfeld did not disclose that his father was an owner of Ally. App. Vol. II at 316–17. DTC's owners were upset about the relationship between DTC's employees and Ally, but took no action against any DTC employee. App. Vol. I at 182–83. Hirschfeld's work for Ally continued.

In April 2017, Clausen purchased Sylar's interest in DTC and became the sole owner of the business. App. Vol. II at 237, 436–37. Then, on May 3, 2017, Hirschfeld resigned from DTC, effective at the end of the month. App. Vol. I at 184. In his resignation letter, Hirschfeld cited "the recent change in the equity ownership of DTC" as his reason for leaving. App. Vol. III at 558. When Hirschfeld left DTC, he took a flash drive containing "thousands of ... resumes" and a laptop containing "all of the files stored in DTC's Dropbox" folders. App. Vol. I at 184. Hirschfeld's laptop remained signed-in to DTC's Dropbox account, so Hirschfeld could access DTC's online folders after leaving DTC. *Id.* at 185. Hirschfeld lost access to his DTC email when he resigned. *Id.*

The day after leaving DTC, Hirschfeld began working at Ally as its director of business development. App. Vol. II at 327. Hirschfeld "has continued to solicit DTC's customers since joining Ally." App. Vol. I at 185. In July or August 2017, Defendants gave Hirschfeld's laptop and the DTC flash drive to a third-party forensics company as part of a litigation hold for this case. *Id.* Hirschfeld no longer has access to DTC's Dropbox account. *Id.*

In September 2017, DTC filed its first amended complaint. DTC alleges that Hirschfeld and Galban began to improperly divert business from DTC to Ally beginning in early 2016, and that Defendants continue to profit at DTC's expense. *See* App. Vol. I at 9–42. DTC then moved for a preliminary injunction based on four of its claims: Hirschfeld's breach of his employment agreement; Hirschfeld's and Galban's breaches of their duties of loyalty to DTC; all Defendants' misappropriation of trade secrets in violation of the federal Defend Trade Secrets Act (DTSA), 18 U.S.C. § 1836, and the Colorado Uniform Trade Secrets Act (CUTSA), Colo. Rev. Stat. § 7-74-103; and Ally's unfair competition with DTC.[2] App. Vol. I at 72–91.

***3** DTC sought a broad injunction that, in DTC's attorney's own words, would "enjoin[ ] [Ally] from any business operations until a trial." App. Vol. II at 480. The injunction would have imposed the following restrictions through the conclusion of this case: Hirschfeld and Galban would be prohibited from working at Ally; Ally would only be allowed to work with directional drillers; no Defendant could work with any customer or consultant with whom Hirschfeld or Galban worked while at DTC; and all Defendants would be required to stop using confidential information from DTC. App. Vol. I at 73–74.

The district court held an evidentiary hearing in January 2018, *see* App. Vol. II at 203, and denied the motion in March 2018, App. Vol. I at 200. DTC timely filed an interlocutory appeal. *Id.* at 201–02.

At the end of March 2018, DTC moved to expedite its appeal. We denied the motion "without prejudice to renewal upon completion of briefing." DTC has not renewed its motion for expedited consideration, but nonetheless we have expedited our resolution of this appeal.

II

[1] [2]We first briefly address our jurisdiction. Defendants contend that this appeal is moot, Aple. Br. at 34–41, but their argument actually addresses the merits of DTC's motion for a preliminary injunction. "In considering mootness, we ask 'whether granting a *present* determination of the issues offered will have some effect in the real world.' " *Fleming v. Gutierrez*, 785 F.3d 442, 444–45 (10th Cir. 2015) (quoting *Rio Grande Silvery Minnow v. Bureau of Reclamation*, 601 F.3d 1096, 1110 (10th Cir. 2010)). "The doctrine of mootness in no way depends on the merits of the plaintiff's contention." *Keller Tank Servs. II, Inc. v. Comm'r*, 854 F.3d 1178, 1194 (10th Cir. 2017) (quotation marks and alteration omitted).

[3] [4]"[W]here an act sought to be enjoined has occurred, an appeal of a district court order denying an injunction is moot." *Thournir v. Buchanan*, 710 F.2d 1461, 1463 (10th Cir. 1983). Here, DTC seeks to enjoin acts that continue to occur—including Defendants' solicitation of DTC's customers and consultants, as well as Ally's employment of Hirschfeld and Galban. App. Vol. I at 73–74. This appeal is not moot because the preliminary injunction sought by DTC would have immediate effects on Ally's business, not to mention Hirschfeld's and Galban's professional opportunities.

III

[5] [6] [7]"We review the decision to deny a motion for a preliminary injunction for abuse of discretion." *Schrier v. Univ. of Colo.*, 427 F.3d 1253, 1258 (10th Cir. 2005). "An abuse of discretion occurs when a decision is premised on an erroneous conclusion of law or where there is no rational basis in the evidence for the ruling." *First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1140 (10th Cir. 2017) (quotation marks omitted). "Thus, we review the district court's factual findings for clear error and its conclusions of law … de novo." *Id.* at 1140–41.

[8] [9] [10] [11]A preliminary injunction has the "limited purpose" of "preserv[ing] the relative positions of the parties until a trial on the merits can be held." *Schrier*, 427 F.3d at 1258 (quotation marks omitted). It "is an extraordinary remedy never awarded as of right." *First W. Capital Mgmt. Co.*, 874 F.3d at 1141 (quoting *Winter v. Nat. Res. Def. Council*, 555 U.S. 7, 24, 129 S.Ct. 365, 172 L.Ed.2d 249 (2008)). "A party may be granted a preliminary injunction only when monetary or other traditional legal remedies are inadequate, and 'the right to relief is clear and unequivocal.' " *Id.* (quoting *Schrier*, 427 F.3d at 1258) (alteration omitted).

> Under Rule 65 of the Federal Rules of Civil Procedure, a party seeking a preliminary injunction must show: "(1) the movant is substantially likely to succeed on the merits; (2) the movant will suffer irreparable injury if the injunction is denied; (3) the movant's threatened injury outweighs the injury the opposing party will suffer under the injunction; and (4) the injunction would not be adverse to the public interest."

***4** *Id.* (quoting *Fish v. Kobach*, 840 F.3d 710, 723 (10th Cir. 2016)).

IV

[12] [13] [14] [15] [16]" '[B]ecause a showing of probable irreparable harm is the single most important prerequisite for the issuance of a preliminary injunction, the moving party must first demonstrate that such injury is likely before the other requirements' will be considered." *First W. Capital Mgmt. Co.*, 874 F.3d at 1141 (quoting *Dominion Video Satellite, Inc. v. Echostar Satellite Corp.*, 356 F.3d 1256, 1260 (10th Cir. 2004)). "The purpose of a preliminary injunction is not to remedy past harm but to protect plaintiffs from irreparable injury that will surely result without their issuance." *Schrier*, 427 F.3d at 1267. "Demonstrating irreparable harm is 'not an easy burden to fulfill.' " *First W. Capital Mgmt. Co.*, 874 F.3d at 1141 (quoting *Greater Yellowstone Coal. v. Flowers*, 321 F.3d 1250, 1258 (10th Cir. 2003)). "[T]he movant 'must demonstrate a significant risk that he or she will experience harm that cannot be compensated after the fact by money damages.' "[3] *Id.* (quoting *Fish*, 840 F.3d at 751).

DTC's motion for a preliminary injunction is based on four claims: Hirschfeld's breach of his employment agreement, Hirschfeld's and Galban's breaches of their duties of loyalty to DTC, all Defendants' misappropriation of DTC's trade secrets, and Ally's unfair competition with DTC. App. Vol. I at 72–91. The district court found that DTC had shown a probability of irreparable harm from Hirschfeld's allegedly ongoing breach of his employment agreement, but that DTC had not met its burden with respect to its other claims. Based on the testimony and documentary evidence offered at the evidentiary hearing, the district court reasoned that the majority of conduct at issue in this case occurred before DTC moved for a preliminary injunction. According to the district court, the resulting harm to DTC is therefore identifiable and can be remedied by an award of damages.

[17]DTC does not dispute the district court's finding that DTC will likely suffer irreparable harm from Hirschfeld's ongoing solicitation of DTC's customers and clients, conduct that DTC argues violates Hirschfeld's employment agreement. Hirschfeld's employment agreement states that "any breach … of the confidentiality, non-solicitation or other restrictive covenants … would cause irreparable injury to" DTC. App. Vol. III at 515. "[W]ithout more[,] [this provision] is insufficient to support an irreparable harm finding." *Dominion Video Satellite*, 356 F.3d at 1266. But Hirschfeld also testified that he continues to solicit customers and consultants with whom he worked while at DTC. App. Vol. II at 329. Based on this testimony, the district court found that "the harm likely caused by Mr. Hirschfeld's ongoing solicitation efforts, including loss of customers, loss of goodwill, and further erosion of DTC's competitive position in the oil and gas staffing industry, would be difficult to calculate in monetary terms." App. Vol. I at 196. These are the types of factors that district courts should consider when deciding whether a plaintiff has shown a sufficient probability of irreparable harm. *Dominion Video Satellite*, 356 F.3d at 1264 (factors to consider include "the difficulty in calculating damages, the loss of a unique product, and existence of intangible harms such as loss of goodwill or competitive market position").

***5** What DTC does dispute on appeal is the district court's finding that DTC had not "establish[ed] a significant risk of irreparable harm based on defendants' past misconduct." App. Vol. I at 195. DTC argues that this finding was erroneous because DTC continues to be irreparably harmed by Defendants' past misconduct—specifically because Defendants "continue to profit from [their] misdeeds" and "harm DTC's goodwill and competitive market position." Aplt. Br. at 48. But not all plaintiffs who have already suffered lost customers, stolen trade secrets, or intangible injury can show a sufficient probability of future irreparable harm to warrant a preliminary injunction. For example, in *First Western Capital Management Co.*, a company was denied a preliminary injunction after it sued one of its former employees to stop his use of a detailed client list to solicit its customers. 874 F.3d at 1139–40, 1143–44. We agreed with the district court's finding that, based on the record developed at the preliminary injunction hearing, there was an insufficient risk of irreparable harm because "money damages could be reasonably quantified." *Id.* at 1140. And, in *Schrier*, we affirmed the denial of a preliminary injunction, even though the plaintiff alleged irreparable harm from "loss of prestige, academic reputation[,] [and] professional opportunities," because the plaintiff did not point to "evidence in the record showing actual or significant risk" that those harms would occur in the future. 427 F.3d at 1267.

[18]The same is true here. Based on our review of the evidence presented at the preliminary injunction hearing in this case, we conclude that the district court did not abuse its discretion when it found that DTC had not shown a sufficient probability of irreparable harm from Defendants' past misconduct.[4]

[19]First, DTC has not established a probability of irreparable harm from Hirschfeld's and Galban's work for Ally while they were employed by DTC. As discussed previously, Hirschfeld's employment agreement prohibited him from soliciting DTC's customers and consultants while he was employed by DTC. App. Vol. III at 514. And as DTC employees, Hirschfeld and Galban also owed DTC a duty of loyalty.[5] The district court found that DTC had failed to show how Hirschfeld's and Galban's work on behalf of Ally, while they were employed by DTC, gave rise to future irreparable harm.[6] App. Vol. I at 195 & n.2. This conclusion is supported by the record. At the preliminary injunction hearing, DTC identified twelve contracts that Hirschfeld diverted from DTC to Ally, App. Vol. II at 295, suggesting that DTC will be able to offer expert testimony about damages it suffered while Hirschfeld and Galban were DTC employees. Moreover, DTC's owners hired experts to value the company when Clausen purchased Sylar's equity in DTC, further suggesting that damages (as measured by a change in DTC's value) can be calculated. App. Vol. II at 443. Therefore, both the prior loss of DTC's customers and consultants and the general decline of DTC's value as a business can be quantified in money damages.

Second, DTC has not offered sufficient evidence that Defendants currently possess DTC trade secrets. DTC has sued Defendants under the federal DTSA and Colorado's CUTSA, which authorize a district court to grant a preliminary injunction "to prevent any actual or threatened misappropriation" of a trade secret. 18 U.S.C. § 1836(b)(3)(A); *see also* Colo. Rev. Stat. § 7-74-103 (injunction permitted "to prevent or restrain actual or threatened misappropriation of a trade secret"). No testimony elicited at the preliminary injunction hearing indicates that Defendants retain access to DTC's confidential information or trade secrets. Hirschfeld testified that, in July 2017, he turned over all DTC information to Ally, who then turned over the information to a third-party computer forensics company. App. Vol. II at 323–24. An Ally manager testified to this as well. *Id.* at 475. Hirschfeld also testified that he lost access to his DTC email when he resigned. *Id.* at 185. DTC argues that the forensics company might return DTC's information to Defendants, but this is mere speculation and does not cast doubt on the district court's finding that DTC's trade secret claims do not establish a probability of irreparable harm.

***6 [20]**Third, DTC has not shown that confusion about the relationship between DTC and Ally persists. "To constitute unfair competition in respect to a trade name, ... [t]he name must have acquired a secondary meaning or significance that identifies the plaintiff ... [and] the defendant must have unfairly used the name or a simulation of it against the plaintiff." *Swart v. Mid-Continent Refrigerator Co.*, 145 Colo. 600, 360 P.2d 440, 442 (1961). The district court found that DTC "presented no evidence that Ally ... continue[s] to appropriate DTC's name or resources to solicit business." App. Vol. I at 195. "Nor is there evidence demonstrating ongoing confusion within the industry as to the relationship between the two companies." *Id.* DTC elicited limited testimony about marketplace confusion, and that testimony only addressed time when Hirschfeld was still employed at DTC. App. Vol. II at 307–08. Therefore, the district court did not err when it found that DTC's unfair competition claim did not establish a probability of future irreparable harm.

V

[21] [22]Having concluded that DTC has only shown a probability of future irreparable harm from Hirschfeld's ongoing solicitation of DTC's customers and consultants, we assess DTC's likelihood of success on its claim that Hirschfeld's ongoing solicitation violates his employment agreement. *First W. Capital Mgmt. Co.*, 874 F.3d at 1143 (explaining that a plaintiff "cannot obtain a preliminary injunction" "[w]ithout [first] showing irreparable harm"). Because "[t]he very purpose of an injunction under Rule 65(a) is to give temporary relief based on a preliminary estimate of the strength of the plaintiff's suit, prior to the resolution at trial of the factual disputes and difficulties presented by the case," a "plaintiff must present a prima facie case but need not show a certainty of winning." *Coal. of Concerned Citizens to Make Art Smart v. Fed. Transit Admin.*, 843 F.3d 886, 901 (10th Cir. 2016) (quoting 11A Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* § 2948 (3d. ed. 2013)). The district court's interpretation of Hirschfeld's employment agreement is a question of law that we review de novo. *Derma Pen, LLC v. 4EverYoung Ltd.*, 773 F.3d 1117, 1119–20 & n.2 (10th Cir. 2014).

The district court found that DTC had not shown a sufficient likelihood of success on its claim that Hirschfeld's ongoing solicitation of DTC's customers and consultants violates his employment agreement. App. Vol. I at 199. Hirschfeld's employment agreement prohibited him from soliciting DTC's customers, consultants, and employees for one year after his resignation, unless he resigned "because there has been a change in the current equity ownership of" DTC. App. Vol. III at 514. In April 2017, there was a change in DTC's ownership when Clausen purchased his partner's equity and became the sole owner of DTC. App. Vol. II at 237, 436–37. Hirschfeld cited the "change in ownership" clause when he resigned in May 2017. App. Vol. III at 558.

[23]"It is axiomatic that [courts] ... must enforce an unambiguous contract in accordance with the plain and ordinary meaning of its terms." *USI Props. East, Inc. v. Simpson*, 938 P.2d 168, 173 (Colo. 1997). DTC does not argue that the employment agreement is ambiguous. Moreover, DTC conceded at the preliminary injunction hearing that the "change in ownership" clause was triggered by Clausen's purchase of Sylar's equity in DTC. App. Vol. II at 483. Therefore, by operation of the "change in ownership" clause, Hirschfeld was not bound by his employment agreement's non-solicitation provisions after he resigned. Accordingly, the district court did not err in finding that DTC would not succeed on its breach of contract claim, as it pertains to Hirschfeld's ongoing solicitation of DTC's customers and consultants. *See W. Distrib. Co. v. Diodosio*, 841 P.2d 1053, 1058 (Colo. 1992) (defendant's violation of a contractual term is an element of a breach of contract claim).

[24] [25] [26]Rather than dispute the district court's interpretation of Hirschfeld's employment agreement, DTC argues that Colorado's "prior breach" doctrine prevents Hirschfeld from relying on the "change in ownership" clause.[7] "Under [Colorado] contract law, a party to a contract cannot claim its benefit where he is the first to violate its terms." *Coors v. Sec. Life of Denver Ins. Co.*, 112 P.3d 59, 64 (Colo. 2005). The "prior breach" doctrine is an equitable argument typically asserted by a defendant who has been sued for specific performance by a plaintiff who was the first to breach the contract. *In re Country World Casinos, Inc.*, 181 F.3d 1146, 1150 (10th Cir. 1999); *Sci. Packages, Inc. v. Gwinn*, 134 Colo. 233, 301 P.2d 719, 722 (1956). But DTC does not seek to use the "prior breach" doctrine as a shield against a demand for specific performance. Instead, DTC seeks to use the doctrine as a sword to create liability for Hirschfeld where the text of the agreement provides for none. Therefore, the district court did not err when it found that the "prior breach" doctrine was inapplicable.

***7 [27] [28]**Moreover, even if Hirschfeld was bound by his employment agreement's nonsolicitation provisions after he resigned, the provisions expired one year after his resignation, at the end of May 2018. App. Vol. III at 514, 558. "Colorado ... has a fundamental policy" of interpreting noncompetitive provisions in employment contracts narrowly.[8] *King v. PA Consulting Grp.*, 485 F.3d 577, 586 (10th Cir. 2007). Colorado courts have held that, when an injunction is based on "a restrictive employment agreement," the injunction "must be co-extensive with the terms of the" agreement. *Phoenix Capital, Inc. v. Dowell*, 176 P.3d 835, 843 (Colo. App. 2007) (quoting *Atmel Corp. v. Vitesse Semiconductor Corp.*, 30 P.3d 789, 796 (Colo. App. 2001), *abrogated in part on other grounds by Ingold v. AIMCO/Bluffs, L.L.C. Apartments*, 159 P.3d 116, 124 (Colo. 2007)). Therefore, Hirschfeld's present solicitation of DTC's customers and consultants would not support issuing a preliminary injunction because such an injunction would exceed even DTC's own understanding of the scope of the non-solicitation provisions in Hirschfeld's employment agreement. *See* Aplt. Br. at 9–10 (non-solicitation provisions applied "[w]hile [Hirschfeld was] employed by DTC and for one year thereafter").

VI

Because the district court did not abuse its discretion when denying DTC's motion for a preliminary injunction, we AFFIRM.

McHUGH, Circuit Judge, concurring:

Although I join in the conclusion reached by the majority, as well as most of its reasoning, I write separately to address DTC's argument that it continues to suffer irreparable harm based on the Defendants' past breaches. I would conclude an injunction can be based on the continuing irreparable harm caused by Defendants' past breaches. But because DTC has failed to support its continuing irreparable harm argument with evidence, I too would affirm the district court.

The district court denied injunctive relief because it concluded the duty of loyalty owed by the Defendants to DTC and the nonsolicitation clause of Mr. Hirschfeld's employment agreement had expired and DTC was unable to show a significant risk of future misappropriation of trade secrets or unfair competition. According to DTC, the district court erred by inappropriately conflating the issue of irreparable harm with the likelihood of success on the merits of future claims. That is, DTC argues the district court applied the wrong legal standard when it focused on whether the Defendants would engage in future unlawful conduct, rather than analyzing whether the Defendants' past breaches were continuing to cause DTC irreparable harm. I agree with DTC that in some circumstances an injunction can be supported by the irreparable harm caused by the Defendants' legal actions that would not have been possible but for their past breaches.

Preliminary injunctions are meant "to protect [a] plaintiff from irreparable injury and to preserve the court's power to render a meaningful decision after a trial on the merits." 11A Charles Alan Wright et al., Federal Practice and Procedure § 2947 (3d ed. 2013) (hereinafter Fed. Prac. & Proc.). "Although the fundamental fairness of preventing irremediable harm to a party is an important factor on a preliminary-injunction application, the most compelling reason in favor of entering a [preliminary-injunction] is the need to prevent the judicial process from being rendered futile by [the] defendant's action or refusal to act." *Id.* To that end, courts have sometimes enjoined future legal conduct because it was made possible by prior illegal conduct and will cause irreparable harm to the plaintiff.

***8** For example, in *Greater Yellowstone Coalition v. Flowers*, the plaintiff-environmental groups claimed the United States Army Corps of Engineers (the Corps) had issued a construction permit to a developer in violation of the National Environmental Policy Act (NEPA) and the Clean Water Act (CWA). *See* 321 F.3d 1250, 1255 (10th Cir. 2003). The plaintiffs sought an injunction to prevent the developer from engaging in the construction authorized by the permit, which the district court denied. On appeal, we concluded the district court had abused its discretion by not considering the irreparable harm the plaintiffs would suffer by the loss of bald eagle nests and juvenile bald eagles during the construction period. *Id.* at 1256–57. Although the developer's future acts were authorized by the permit and the plaintiffs had not alleged the Corps was contemplating any future breaches of NEPA or the CWA, we concluded the district court abused its discretion in finding the harm to bald eagles from the construction authorized by the permit was too speculative to constitute a significant risk of irreparable harm. *Id.* at 1261. But without the injunction, the judicial process would have been rendered futile because even if the plaintiffs prevailed, the eagle nests and juveniles would be irretrievably lost. *See id.* Accordingly, we reversed and remanded to the district court for it to consider the balance of the harms and public interest. *Id.* at 1262.

In *Foodcomm International v. Barry*, the Seventh Circuit took a similar approach in circumstances much like those present here. 328 F.3d 300 (7th Cir. 2003). The defendants were former employees of the plaintiff company who, while still employed by the plaintiff, colluded with one of the plaintiff's suppliers, started a rival company, and usurped the plaintiff's business opportunity. *Id.* at 302. Although the employees were no longer with the plaintiff, and thus the duty of loyalty had expired, the district court "enjoined them from directly or indirectly providing services of any kind to or for [the supplier or the new company] or any of their affiliates and agencies." *Id.* at 303. On appeal, the Seventh Circuit affirmed, upholding the injunction preventing the defendants from servicing the company's former clients. The court noted the company had suffered irreparable harm, "the most important injuries of which are its inability to attempt to maintain its relationship with [a client] and its complete loss of that relationship." *Id.* at 304. Because that "irreparable harm was caused by and is maintained by [the former employees'] actions, an injunction is appropriate to prevent this harm from continuing." *Id.* at 305. Accordingly, the circuit court upheld the injunction preventing the defendants from providing any services to the supplier or new company to prevent the continuing irreparable harm caused by the defendants' past breaches of loyalty while employed by the plaintiff. *Id.* at 304–05.[1]

As these cases show, a court can impose an injunction where there is a future likelihood of irreparable harm stemming from past conduct, not only where the offensive conduct is likely to occur again in the future.[2] Respectfully, I disagree with the majority's assertion that "[t]he district court found that DTC had failed to show how Hirschfeld's and Galban's work on behalf of Ally, while they were employed by DTC, only gave rise to future irreparable harm." Maj. Op. at ––––. In my view, the district court concluded that the past breaches of contract and the duty of loyalty could not give rise to continuing irreparable harm.[3] Because I would conclude that future irreparable harm can result from past breaches, I would be inclined to remand to the district court to consider the other preliminary injunction factors if DTC had presented evidence of future irreparable harm stemming from the past misconduct. But DTC has made no such showing in this court.

***9** In the district court, DTC argued it is suffering continuing irreparable harm by being forced to compete with a company that would not exist absent the prior breaches. *See* App. Vol. II at 478 ("We are talking also about DTC's brand ongoing, brand name, its reputation in the marketplace. Now we are saying these two entities are just competitors. Well, they weren't, so that is the irreparable harm in the injunctive relief, that this business shouldn't even be in business going forward."); *id.* at 480 ("It should have never been alive. It rose from the ashes of Wyo-Dak, like the Phoenix, out of nothing and was on day one a direct competitor of DTC.... They should never have been in business in the first place. They shouldn't be in business now."). However, it does not appear to have made a similar argument here.

In its brief to this court, DTC includes in its Statement of the Case facts indicating that Ally has benefitted from the Defendants' breaches:

> In a very short period of time and without any outlay of overhead or payroll, the DTC employees' work for Ally transformed a struggling company which had only eight directional drillers in late 2015 into a thriving competitor, offering the same scope of services as DTC and generating more than $2 million in monthly revenue by March 2017. It has taken DTC years to accomplish that level of success.

DTC's Br. at 15 (citations omitted). But what DTC fails to do is to point to any evidence presented to the district court that supports a finding that the irreparable harm from the Defendants' past breaches is continuing. The argument on past misconduct states:

> The evidence demonstrates, however, that DTC has suffered and continues to suffer irreparable harm caused by Hirschfeld's theft of business from DTC (at least 12 customer master service agreements that Ally continues to service) while he was a DTC employee. Hirschfeld and Ally continue to profit from these misdeeds. This conduct was unlawful at the time it occurred—by violating Hirschfeld's employment agreement (duties not to solicit DTC's customers or employees and not to use DTC's confidential information), breaching Hirschfeld's and Galban's duty of loyalty, and violating common law principles prohibiting unfair competition—and it continues to harm DTC's goodwill and competitive market position today.

Id. at 48 (citations omitted). The last sentence is supported by a footnote stating, "*See infra* section III," but that section provides no more evidentiary support for continuing harm to DTC's goodwill and competitive market position than the above-quoted paragraph.

"A preliminary injunction is an extraordinary remedy never awarded as of right." *First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1141 (10th Cir. 2017) (quoting *Winter v. Nat. Res. Def. Council*, 555 U.S. 7, 24, 129 S.Ct. 365, 172 L.Ed.2d 249 (2008)). "A party seeking a preliminary injunction bears the burden of showing: (1) a substantial likelihood of prevailing on the merits; (2) irreparable harm unless the injunction is issued; (3) that the threatened injury outweighs the harm that the preliminary injunction may cause the opposing party; and (4) that the injunction, if issued, will not adversely affect the public interest." *Greater Yellowstone Coal.*, 321 F.3d at 1255 (internal quotation marks omitted). "Because a preliminary injunction is an extraordinary remedy, the right to relief must be clear and unequivocal." *Id.* at 1256. A statement that a prior breach of loyalty "continues to harm DTC's goodwill and competitive market position today," without more, is insufficient to support the extraordinary remedy of injunctive relief.

While I agree with DTC that the district court should have considered evidence of future irreparable harm stemming from past unlawful conduct, DTC has not pointed us to any evidence in the record supporting future irreparable harm stemming from past misconduct. Therefore, I concur with the majority that the district court did not exceed its discretion in denying injunctive relief here.

All Citations

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Footnotes

* After examining the briefs and appellate record, this panel has determined unanimously to honor the parties' request for a decision on the briefs without oral argument. *See* Fed. R. App. P. 34(f); 10th Cir. R. 34.1(G). The case is therefore submitted without oral argument.

1 When the agreement was executed, Ally was known as Wyodak Staffing, LLC. App. Vol. I at 181. Wyodak later changed its name to Ally. *Id.* at 179.

2 DTC's other claims are: unjust enrichment, tortious interference with business relationships, tortious interference with contract, civil theft, and civil conspiracy. App. Vol. I at 9–71.

3 "[I]n limited circumstances[,] courts may presume irreparable harm and grant injunctive relief." *First W. Capital Mgmt. Co.*, 874 F.3d at 1141. One such circumstance is "when a statute mandates injunctive relief as a remedy for a violation—or impending violation—of the statute, [because the statute] has effectively constrained the courts' traditional discretion to determine whether such relief is warranted." *Id.* (citing *Fish*, 840 F.3d at 751 n.24). This presumption does not apply "when a statute merely authorizes—rather than mandates—injunctive relief." *Id.* (citing *Fish*, 840 F.3d at 751 n.24). Neither the Defend Trade Secrets Act nor the Colorado Uniform Trade Secrets Act "allow a presumption of irreparable harm." *Id.* at 1143. Therefore, DTC's statutory claims for misappropriation of trade secrets do not warrant a presumption of irreparable harm.

4 DTC repeatedly relies on a pair of cases which hold that issuance of a preliminary injunction may be appropriate when a defendant is in, or is about to enter, bankruptcy because it is difficult to recover damages from a bankrupt defendant. *See Micro Signal Research, Inc. v. Otus*, 417 F.3d 28, 31 (1st Cir. 2005); *Am. Hosp. Supply Corp. v. Hosp. Prods. Ltd.*, 780 F.2d 589, 596 (7th Cir. 1986); *see also Foodcomm Int'l v. Barry*, 328 F.3d 300, 304–05 (7th Cir. 2003) (issuance of preliminary injunction supported by fact that defendant had no assets in the United States). There is no indication that DTC's ability to recover damages is at risk because one of the Defendants is at risk of bankruptcy.

5 "An employee's duty of loyalty applies to the solicitation of co-employees, as well as to the solicitation of customers, during the time the soliciting employee works for his employer." *Jet Courier Serv., Inc. v. Mulei*, 771 P.2d 486, 494 (Colo. 1989).

6 Unlike the concurrence, we do not understand the district court to have stated that, as a matter of law, a plaintiff cannot show a probability of future irreparable harm from past misconduct. *See* Concurring Op. at ––––. Rather, we understand the district court to have found that DTC's showing at the preliminary injunction hearing was insufficient.

7 DTC also argues that Hirschfeld should be equitably estopped from relying on the "change in ownership" clause, but that argument was not briefed in the district court. We do not address DTC's newly-raised equitable estoppel argument, *McKissick v. Yuen*, 618 F.3d 1177, 1189 (10th Cir. 2010), but that does not foreclose DTC from pursuing the argument in the district court when litigating the merits of its claims.

8 "[N]oncompete provisions ... [must] fall within one of [Colorado's] statutory exceptions." *King*, 485 F.3d at 586. Hirschfeld's employment agreement states that its noncompete provisions fall under the exception for "executive and management services." App. Vol. III at 525 (referring to Colo. Rev. Stat. § 8-2-113(2)(d)).

1 DTC relies on two other decisions that reach similar results. In *Blackbird Technologies, Inc. v. Joshi*, the district court granted an injunction based on a former employee's breach of the duty of loyalty although the employee was no longer employed with that company and the duty had expired. No. 5:15-cv-4271, 2015 WL 5818067, at *4–6 (N.D. Cal. Oct. 6, 2015). There, the employee stole the former employer's source code and imbedded it into a product sold by the employee's new company. *Id.* In *West Plains, L.L.C. v. Retzlaff Grain Co.,* the district court granted an injunction based on claims of past breaches of the duty of loyalty and continuing misappropriation of trade secrets because there was irreparable harm in the defendants' use of the confidential information to "compete immediately" and the defendants had "successfully shifted" business through use of confidential information and breaches of loyalty. 927 F.Supp.2d 776, 785–86 (D. Neb. 2013). While both cases involved evidence of continued use of confidential information, the district courts focused on the irreparable harm caused by prior breaches of the duty of loyalty when granting the injunction.

2 But I reject DTC's assertion that the substantial likelihood of success on the merits and irreparable harm analysis are completely disjunctive. Harm is irreparable "[o]nly when the threatened harm would impair the court's ability to grant an effective remedy," Fed. Prac. & Proc. § 2948.1, because the harm "cannot be compensated after the fact by monetary damages," *Greater Yellowstone Coal. v. Flowers*, 321 F.3d 1250, 1258 (10th Cir. 2003) (quoting *Adams v. Freedom Forge Corp.*, 204 F.3d 475, 484–85 (3d Cir. 2000)). The substantial likelihood of success requirement necessitates "showing a reasonable probability that [the plaintiff] will ultimately be entitled to the relief sought." *Crowther v. Seaborg*, 415 F.2d 437, 439 (10th Cir. 1969). Therefore, the irreparable harm and substantial likelihood of success elements are interrelated in the sense that they require (1) a substantial likelihood of success on the merits that would entitle the plaintiff to recover for the alleged future harm (if it were calculable) and (2) the future harm is irreparable. Therefore, I reject DTC's arguments that the future irreparable harm the district court found significantly likely—"loss of customers, loss of goodwill, and further erosion of DTC's competitive position in the oil and gas staffing industry," App. Vol. I at 196—can be disjunctively supported by a substantial likelihood of success on the merits of any of its claims. Importantly, DTC makes no attempt to tie that irreparable harm to any of the claims.

3 Although I agree with the majority that much of the "prior loss of DTC's customers and consultants ... can be quantified in money damages," I would not view that as the end of the inquiry if DTC had met its evidentiary burden. Maj. Op. at ––––. Under our precedent, irreparable harm can be shown by "harm to goodwill [and] diminishment of competitive positions in marketplace." *Dominion Video Satellite, Inc. v. Echostar Satellite Corp.*, 356 F.3d 1256, 1263 (10th Cir. 2004). Thus, even if DTC can calculate and recover the specific amount diverted to Ally, other damage to its reputation and market position may be incalculable. But DTC has made no attempt to show future irreparable harm based on the past breaches that could be prevented by a preliminary injunction, and a preliminary injunction is not appropriate as punishment for past irreparable harm. *Schrier v. Univ. of Colo.*, 427 F.3d 1253, 1253 (10th Cir. 2005) ("The purpose of a preliminary injunction is not to remedy past harm but to protect plaintiffs from irreparable injury that will surely result without their issuance.").

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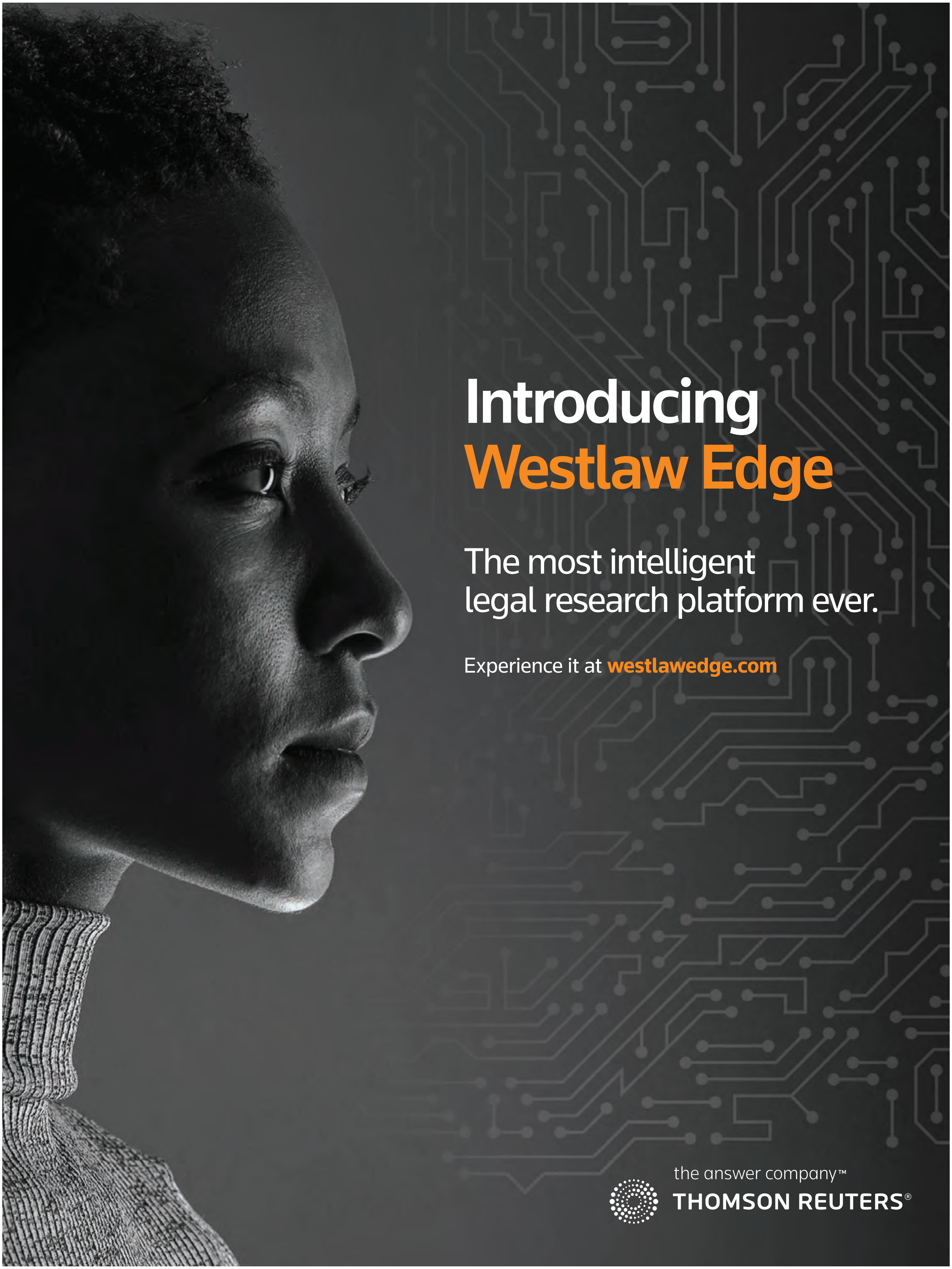
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