Supreme Court Business Briefing

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MOLOLAMKEN
SUPREME COURT BUSINESS BRIEFING

The Supreme Court spent much of the 2016 Term shorthanded after the passing of Justice Scalia in February 2016. Congress refused to act on the President's nomination for his successor until after the 2016 election, and by the time it confirmed Justice Neil Gorsuch in April 2017, the Court had already conducted six of its seven sittings for the Term.

Given the resulting uncertainty, it is perhaps no surprise that the Court spent most of the year taking an incremental approach, with few decisions that fundamentally changed the business landscape. The Court reaffirmed its commitment to enforcing arbitration agreements according to their terms. It decided a pair of cases concerning class action litigation—in one case, limiting the ability of plaintiffs to take immediate appeals from adverse class certification rulings; and in the other, refusing to allow certain time limits to be extended for securities class action opt-outs. The Court also reaffirmed limits on state court jurisdiction over out-of-state businesses, rejecting the California Supreme Court's attempt to craft a more flexible approach. And it clarified the scope of insider trading liability, rejecting a limitation that had been adopted by the U.S. Court of Appeals for the Second Circuit. For the most part, those decisions were neither controversial nor surprising, and most of them were decided by wide margins.

Some of the most notable decisions this Term came in the area of intellectual property law. The Court decided two patent cases that will have a profound impact on licensing and litigation. In one case, the Court adopted a strict approach to patent exhaustion, holding that patentees cannot retain patent rights following an authorized sale, even if the sales agreement clearly provides otherwise. In another case, the Court rejected the prevailing interpretation of the patent venue statute, sharply limiting patent holders' ability to select a forum. Finally, in the trademark arena, the Court unanimously struck down the longstanding prohibition on federal registration of trademarks that disparage a person or group as a violation of the First Amendment.

With those and other leading decisions in mind, we are pleased to present the seventh annual MoloLamken Supreme Court Business Briefing. We have identified cases with the greatest potential impact on a wide range of businesses. For each one, we have distilled the facts and holdings down to a concise summary and highlighted why the decision matters to business. Our aim is to allow busy people to stay current on the Supreme Court's docket and understand the potential impact of its decisions with a minimum of time and effort. We hope you find it informative.

ABOUT MOLOLAMKEN

MoloLamken is a law firm focused exclusively on representing clients in complex litigation. We handle civil as well as criminal and regulatory matters across the country. We represent plaintiffs as well as defendants.

Our founding partners, Steven Molo and Jeffrey Lamken, developed national reputations based on their courtroom successes while partners at large, full-service firms, where they held leadership positions. With an abiding belief that complex litigation is most effectively handled by smaller teams comprised of smart, highly experienced lawyers focused on results rather than process, they formed the firm in the midst of the worst economic crisis since the Great Depression.

We provide experienced advocacy before juries, judges, and appellate courts, including the Supreme Court of the United States. We also represent clients in regulatory and criminal investigations and conduct internal investigations.

Our strength lies in the intellect, creativity, and tenacity of our lawyers and our experience in applying those attributes to achieve great results for clients in serious matters.

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CONTENTS

Page

» *Bristol-Myers Squibb Co. v. Superior Court of California,* No. 16-466
(personal jurisdiction — nationwide group actions) 4

» *California Public Employees' Retirement System v. ANZ Securities, Inc.,* No. 16-373
(securities litigation — statute of repose) 5

» *Czyzewski v. Jevic Holding Corp.,* No. 15-649
(bankruptcy — structured dismissals) 6

» *Expressions Hair Design v. Schneiderman,* No. 15-1391
(First Amendment — credit card surcharges) 7

» *Impression Products, Inc. v. Lexmark International, Inc.,* No. 15-1189
(patents — patent exhaustion) 8

» *Kindred Nursing Centers L.P. v. Clark,* No. 16-32
(arbitration — federal preemption) 9

» *Matal v. Tam,* No. 15-1293
(trademarks — disparaging marks) 10

» *Microsoft Corp. v. Baker,* No. 15-457
(class actions — appellate review)..11

» *Salman v. United States,* No. 15-628
(securities fraud — insider trading) 12

» *Star Athletica, LLC v. Varsity Brands, Inc.,* No. 15-866
(copyright — artistic elements of industrial designs) 13

» *TC Heartland LLC v. Kraft Foods Group Brands LLC,* No. 16-341
(patents — venue) 14

» *Water Splash, Inc. v. Menon,* No. 16-254
(international service of process — service by mail)..15

Bristol-Myers Squibb Co. v. Superior Court of California, No. 16-466

personal jurisdiction — nationwide group actions

Bristol-Myers Squibb addressed the type of conduct necessary to establish personal jurisdiction over an out-of-state defendant.

This case began when more than 600 plaintiffs sued pharmaceutical manufacturer Bristol-Myers Squibb ("BMS") in California state court, asserting claims for injuries allegedly caused by the drug Plavix. BMS sold Plavix in California, maintained laboratories in California, and employed several hundred people in California. But it did not maintain its headquarters there or manufacture Plavix there. Most of the plaintiffs, moreover, were not California residents and did not allege that they suffered any injury there. BMS moved to dismiss the claims of those plaintiffs for lack of jurisdiction.

The California Supreme Court held that the state court had personal jurisdiction over BMS. As that court recognized, the Due Process Clause limits state court jurisdiction over claims against out-of-state defendants. If a defendant's contacts with the State are sufficiently substantial, a court may exercise "general jurisdiction" over all claims against that defendant, whether or not the claims relate to those contacts. If the defendant's contacts are more limited, the court may be able to exercise "specific jurisdiction," but only if the claim relates to those specific contacts.

The California Supreme Court acknowledged that BMS's activities within California were not sufficient to confer general jurisdiction. But it found specific jurisdiction over the non-residents' claims. The court applied a "sliding scale" approach, in which BMS's unrelated activities within the State, even if not sufficient to establish general jurisdiction, could reduce the showing necessary to establish specific jurisdiction. The court relied in particular on the fact that the non-residents' claims were similar to the claims of the California residents over which the court concededly had jurisdiction.

The Supreme Court reversed and remanded. Specific jurisdiction, the Court reiterated, requires a connection between the defendant's activities within the State and the particular plaintiff's claims. The California Supreme Court's "sliding scale" approach departed from that standard, allowing jurisdiction where the defendant's contacts were neither sufficiently extensive to permit general jurisdiction nor sufficiently connected to the plaintiff's claims to permit specific jurisdiction. Because the non-resident plaintiffs did not reside in California and suffered no injury there, California courts lacked jurisdiction over their claims. That their claims were similar to those of California residents was insufficient.

Bristol-Myers Squibb makes it more difficult for large groups of plaintiffs to sue a corporate defendant in their state court of choice for conduct that harms consumers nationwide. By insisting that courts evaluate specific jurisdiction on a plaintiff-by-plaintiff basis, even where groups of geographically dispersed plaintiffs have similar claims, the Court made it more difficult for plaintiffs to band together to seek nationwide redress.

Nonetheless, the Court's decision does not completely foreclose such actions. The Court noted that a nationwide group of plaintiffs could still sue the defendant in its home State, where the defendant is subject to general jurisdiction. It also reserved judgment over whether the same jurisdictional rules would apply in federal court.

Bristol-Myers Squibb *makes it more difficult for large groups of plaintiffs to sue a corporate defendant in their state court of choice for conduct that harms consumers nationwide.*

California Public Employees' Retirement System v. ANZ Securities, Inc., No. 16-373

securities litigation — statute of repose

ANZ Securities addressed whether the filing of a securities class action tolls the three-year statute of repose that applies to certain securities claims.

Section 11 of the Securities Act of 1933 permits investors to sue securities issuers or underwriters for material misstatements or omissions in a registration statement filed in connection with a public offering. Under Section 13 of the Act, such claims must be brought within one year of when the plaintiff discovered or should have discovered the misstatement or omission—and, in all events, within three years of the securities offering. That latter limitation is known as a "statute of repose" because it sets an outside time limit for securities claims without regard to when the plaintiff knew or should have known about the claim.

This case concerned more than $31 billion in debt securities issued by the now-defunct investment bank Lehman Brothers between July 2007 and January 2008. Lehman invested a significant portion of the proceeds in subprime mortgages, which ultimately led to its downfall. In late 2008, investors filed a class action against Lehman's underwriters, claiming violations of the Securities Act. In February 2011, the California Public Employees' Retirement System ("CalPERS") filed its own lawsuit making the same allegations. Later, a proposed settlement was reached in the class action. CalPERS chose to opt out of the class settlement and proceed with its separate suit. But the district court dismissed the suit on the ground that it was filed more than three years after the relevant offering. The U.S. Court of Appeals for the Second Circuit affirmed.

The Supreme Court affirmed. The Court acknowledged that, under its 1974 decision in *American Pipe & Construction Co. v. Utah*, the filing of a class action tolls the limitations period for class members who later decide to opt out of the class and pursue their own separate lawsuits. But the Court refused to extend that reasoning to the Securities Act's three-year statute of repose. Unlike a statute of limitations, the Court explained, a statute of repose is designed to fix an outside date by which a defendant is no longer exposed to claims. *American Pipe's* judicially crafted tolling rule would undermine the certainty Congress intended. Four Justices dissented, arguing that the defendants had sufficient notice of CalPERS' claims from the original class action complaint.

ANZ Securities creates procedural pitfalls for investors seeking remedies under the federal securities laws. In many cases, investors may be able to obtain a more favorable outcome by opting out of a class action and pursuing their own separate claims, particularly where class counsel is not effectively managing the litigation or has negotiated an inadequate settlement. Under *ANZ Securities*, opt-out investors may confront the Securities Act's three-year statute of repose without the benefit of the class action complaint's original filing date.

The Court's decision will require investors to consider their opt-out alternatives earlier in the litigation. Investors, however, may not be able to make a fully informed decision about opting out before the statute of repose expires—in some cases, the district court will not even have ruled on whether to certify the class. To preserve the ability to pursue lucrative opt-out claims, investors should seriously consider making protective filings within the three-year statute of repose.

ANZ Securities *creates procedural pitfalls for investors seeking remedies under the federal securities laws.*

Czyzewski v. Jevic Holding Corp., No. 15-649

bankruptcy — structured dismissals

Czyzewski addressed whether a "structured dismissal" of a Chapter 11 case can be used to distribute a debtor's assets in a manner that contravenes the Bankruptcy Code's priority scheme.

In a Chapter 11 bankruptcy, the debtor and creditors try to negotiate a plan to reorganize the debtor's business. Often, the business will continue operating as a going concern. The Bankruptcy Code provides three ways for a debtor to exit Chapter 11: confirmation of a reorganization plan; conversion to Chapter 7 liquidation; or dismissal. Typically, the effect of a dismissal is to restore the pre-petition status quo. But it had become increasingly common for courts to enter "structured dismissals" that dismissed the case while altering the position of the parties in some way, such as by authorizing distributions or granting releases.

Jevic Holding Corp. filed for Chapter 11 bankruptcy two years after being acquired by Sun Capital Partners in a buyout financed by CIT Group. The bankruptcy prompted two lawsuits. In the first, a group of former truck drivers sued Jevic, Sun, and CIT for unlawful termination. They obtained an $8.3 million priority wage claim. In the second suit, the official committee of unsecured creditors sued Sun and CIT, arguing that the buyout was a fraudulent transfer that hastened Jevic's bankruptcy. Those parties reached a settlement. Sun and CIT agreed to deposit funds and assets into a trust, which would pay fees and administrative expenses and then distribute the remainder pro rata to general unsecured creditors.

Jevic and the other settling parties moved for an order approving the settlement and dismissing the case. The drivers and the U.S. Trustee objected. They argued that the settlement violated the absolute priority rule because the truck drivers were priority wage claimants entitled to payment ahead of general unsecured creditors. The bankruptcy court rejected their arguments and entered a structured dismissal implementing the settlement. The court acknowledged that the settlement's distribution did not follow ordinary priority rules, but it found that those rules did not apply to a structured dismissal. Given the limited assets of the estate, the court opined, only secured creditors would recover if ordinary priority rules were applied. While the structured dismissal skipped over the drivers' intermediate-priority wage claims, the court believed that approach preferable because it would result in at least some distributions to unsecured creditors. The district court and the U.S. Court of Appeals for the Third Circuit affirmed.

The Supreme Court reversed and remanded. The Court explained that the Code's priority scheme is a basic underpinning of bankruptcy law, long considered fundamental to the Code's operation. Nothing in the Code allowed a court to circumvent those priority rules where creditors whose rights would be impaired by the deviation objected. While the Code authorizes courts to impose conditions on a dismissal "for cause," that provision does not authorize courts to order distributions that would violate ordinary priority rules.

Czyzewski signals the end of nonconsensual structured dismissals that violate priority rules. Importantly for creditors, however, the Court took pains to distinguish *final* distributions of estate assets in structured dismissals from *interim* distributions such as first-day wage orders, critical vendor orders, and debt roll-ups. The Court explained that interim orders are often necessary for a successful reorganization and thus serve the Code's objectives. The Court's apparent endorsement of those interim measures will be welcomed by debtors in jurisdictions that have traditionally limited such relief.

Czyzewski *signals the end of nonconsensual structured dismissals that violate priority rules.*

Expressions Hair Design v. Schneiderman, No. 15-1391

First Amendment — credit card surcharges

Expressions Hair Design involved the constitutionality of a state statute that regulated how merchants could describe differential charges they imposed on customers paying by credit card.

Credit card companies charge merchants transaction fees every time a customer pays with a credit card. For years, many merchants have sought to avoid those fees by encouraging their customers to pay by cash rather than credit card. Many have done so by imposing a surcharge on customers who pay by credit card.

New York and other States have sought to prohibit that practice. New York law prohibits a merchant from "impos[ing] a surcharge on a holder who elects to use a credit card in lieu of payment by cash, check, or similar means." Under that law, a merchant who wants to dissuade customers from using credit cards can still offer a discount from the posted price if the customer pays by cash. But the merchant cannot impose a surcharge for paying by credit card. A group of merchants challenged that law as an unconstitutional regulation of commercial speech. They wanted to make clear that credit card companies, not merchants, were the "bad guys" responsible for higher prices, and they believed that posting credit card surcharges rather than cash discounts was a more effective way to do so.

The district court struck down the state statute under the First Amendment, but the U.S. Court of Appeals for the Second Circuit reversed. The court of appeals held that the law was a pricing regulation, not a restriction on speech, because it merely required a merchant to charge the same amount whether the customer paid by cash or credit card.

The Supreme Court vacated and remanded. Rejecting the Second Circuit's analysis, the Court held that the state statute did regulate speech. The statute was silent on how much a merchant could charge for an item. But it sharply restricted how the merchant could communicate the item's price to customers. By forcing merchants to make the credit card price the baseline price charged to customers, the law prohibited merchants from advertising that customers paying by credit card were being charged a "surcharge" rather than stating that customers paying by cash were receiving a "discount." Having concluded that the state statute regulated speech, the Supreme Court declined to consider whether the statute satisfied the First Amendment standards that govern such commercial speech. Instead, the Court remanded the case for the Second Circuit to decide that issue in the first instance.

Expressions Hair Design makes clear that the Supreme Court will scrutinize laws restricting speech even if they apply in the context of commercial transactions. By declining to weigh in on the ultimate merits of the constitutional question, however, the Court left much undecided. If the Second Circuit strikes down the New York statute on remand, the case could have a broad impact on how merchants describe their pricing policies—and may well be headed back to the Supreme Court for another round. At this stage, however, the fate of such statutes remains unclear.

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Impression Products, Inc. v. Lexmark International, Inc., No. 15-1189

patents — patent exhaustion

Lexmark addressed the scope of the patent exhaustion doctrine.

A United States patent gives the patentee the exclusive rights to make, use, offer for sale, or sell its invention in the United States and to import the invention into the United States. Whoever engages in any of those acts without the patentee's authorization may be liable for patent infringement. When a patentee sells one of its products, however, it is said to "exhaust" its patent rights in that product and can no longer control use of that item through the patent laws.

This case arose out of a dispute concerning printer cartridges. Lexmark manufactures and sells toner cartridges for laser printers both in the United States and abroad. It also owns patents covering those cartridges. Lexmark had a "Return Program" where it would sell cartridges to consumers at a discount, but subject to an agreement that the consumer would not transfer the cartridge to anyone other than Lexmark. Customers could also purchase cartridges without that restriction, albeit for a higher price. Impression Products acquired empty Lexmark cartridges that had been sold under the Return Program, refilled them, and resold them. It also refurbished cartridges Lexmark had sold abroad and imported them into the United States without Lexmark's permission. Lexmark sued Impression Products for patent infringement.

Impression Products moved to dismiss on the ground that Lexmark's initial sale of the cartridges exhausted its patent rights. The district court granted the motion as to the domestic Return Program cartridges, but denied it as to the cartridges Lexmark sold abroad. The U.S. Court of Appeals for the Federal Circuit, sitting en banc, ruled for Lexmark on both sets of claims. With respect to the domestic cartridges, the court adhered to its decades-old rule that, where a patentee sells a patented article subject to a clearly communicated and otherwise lawful restriction on post-sale use, breaches of the restriction can constitute patent infringement. As for the cartridges Lexmark sold abroad, the court held that an overseas sale generally does not exhaust a patentee's right to sue a buyer that imports the article without authorization.

The Supreme Court reversed and remanded. The Court held that a patentee's decision to sell a product exhausts all of its patent rights in that article, regardless of any limits the patentee purports to impose on post-sale use. Lexmark's Return Program contracts with its customers may be enforceable as a matter of contract law. But Lexmark retained no *patent* rights in the cartridges after it sold them. The Court reached a similar result with respect to the cartridges Lexmark sold abroad, holding that an authorized sale outside the United States likewise exhausts all patent rights. The Court rejected the argument that, because United States patent law generally applies only to conduct in the United States, exhaustion rules should exempt foreign conduct as well.

Lexmark significantly alters the patent licensing landscape. For decades, patentees structured their business models and agreements in reliance on Federal Circuit precedent that took a flexible approach to patent exhaustion and allowed patentees greater ability to limit the post-sale uses of their products. That approach had facilitated alternative pricing models that based the price charged on the use to which the product would be put. It also allowed companies to tailor their pricing to different foreign markets with less fear of arbitrage by resellers. Businesses must now reevaluate the assumptions about patent rights on which their business models are premised.

(Disclosure: MoloLamken LLP represented an amicus curiae *in this case.)*

*After **Lexmark**, businesses must reevaluate the assumptions about patent rights on which their business models are premised.*

Kindred Nursing Centers L.P. v. Clark, No. 16-32

arbitration — federal preemption

Kindred addressed whether the Federal Arbitration Act ("FAA") preempts a state-law rule that an agent cannot enter into an agreement waiving the principal's right to a jury trial unless the agent's power of attorney specifically authorizes the agent to do so.

The FAA states that arbitration agreements are "valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." The Supreme Court has interpreted that provision as establishing an equal treatment principle. Courts may invalidate an arbitration agreement based on generally applicable contract defenses, such as fraud or unconscionability, but not based on legal rules that single out arbitration agreements for unfavorable treatment. Any state rule that discriminates against arbitration agreements is preempted by the FAA.

In this case, the estates of Olive Clark and Joe Wellner, former residents of a nursing home, sued Kindred Nursing Centers, alleging that it had provided substandard care. Kindred moved to dismiss, arguing that the action was barred by arbitration agreements signed by the representatives who held powers of attorney for Clark and Wellner. The trial court denied Kindred's motion, and the Kentucky Court of Appeals and Kentucky Supreme Court affirmed. The Kentucky Supreme Court stated that, under the Kentucky Constitution, the right to jury trial was "a divine God-given right" and therefore "inviolate." An agent, it held, could not waive its principal's right to jury trial unless the power of attorney specifically authorized the waiver. That clear-statement rule did not violate the FAA, the Kentucky Supreme Court ruled, because it did not single out arbitration agreements for disfavored treatment. Rather, it applied more broadly to other contracts that would waive fundamental constitutional rights.

The Supreme Court reversed in part, vacated in part, and remanded. The Court held that the Kentucky Supreme Court's clear-statement rule was preempted by the FAA because it failed to put arbitration agreements on an equal plane with other contracts. While the state rule did not refer to arbitration by name, its application hinged on the defining trait of an arbitration agreement—waiver of the right to a jury trial. Because the rule appeared "tailor-made" to arbitration agreements, it could not survive the FAA's prohibition on singling out those contracts for disfavored treatment.

The Supreme Court rejected the argument that Kentucky's clear-statement rule avoided preemption because it affected only contract formation and not contract enforcement. The Court noted that the FAA specifically addresses the "validity" of arbitration agreements as well as their enforcement. A rule that selectively discriminated against the formation of arbitration agreements thus fared no better than a rule selectively refusing to enforce those agreements once made.

Kindred reaffirms the Supreme Court's broad view of FAA preemption, extending the recent trend of cases that hold parties to the terms of arbitration agreements. The Court's 7-1 decision garnered even more consensus among the Justices than other pro-arbitration decisions in recent years. *Kindred* forecloses efforts to evade the FAA by invoking fundamental constitutional rights under state law.

Kindred *extends the recent trend of cases that hold parties to the terms of arbitration agreements.*

Matal v. Tam, No. 15-1293

trademarks — disparaging marks

Tam addressed whether the Lanham Act's prohibition on registering a disparaging trademark violates the First Amendment.

Registration of a trademark under the federal Lanham Act, while not a prerequisite to enforcement, does confer important benefits such as the ability to stop infringing articles from being imported into the country. The standards for registration are largely functional. For example, trademarks cannot be registered if they are merely descriptive, or if they are likely to cause confusion. But the Lanham Act also contains a provision that prohibits the registration of any trademark that "may disparage . . . persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute."

In this case, Simon Tam, the lead singer for the rock group The Slants, attempted to register his band's name as a trademark. The term "slants" is an ethnic slur for persons of Asian descent. Tam, an Asian-American, named his band The Slants in an attempt to reclaim the term and sap it of its derogatory meaning. The Patent and Trademark Office refused to register the trademark on the ground that it violated the Lanham Act's prohibition on registering disparaging marks. Tam challenged the agency's decision in federal court. The U.S. Court of Appeals for the Federal Circuit ruled in his favor. In an en banc decision, it held that the statutory ban on the registration of disparaging trademarks violates the First Amendment's Free Speech Clause.

The Supreme Court unanimously affirmed. The Court rejected the argument that the prohibition on registration of disparaging marks was exempt from First Amendment scrutiny because registration constituted speech by the government itself rather than a private party. The government does not create or edit the contents of trademarks. And trademarks are often so Delphic that they cannot reasonably be viewed as conveying any governmental message (for example, "Just Do It"). The Court also rejected the argument that the prohibition was permissible because the government was merely refusing to subsidize certain types of speech or excluding them from a government program. Finally, the Court rejected the argument that the prohibition was constitutional because trademarks constitute "commercial speech" afforded more limited First Amendment protection. Even if trademarks were commercial speech, the statute impermissibly discriminated on the basis of viewpoint.

The obvious and immediate effect of *Tam* is to remove an impediment to the registration of other arguably offensive trademarks, such as the Washington Redskins. The broader implications of the decision are unclear. The Court stated that it was not deciding the appropriate test for free-speech challenges to other provisions of the Lanham Act, such as the prohibitions on dilution or tarnishment of trademarks. The Court likewise cautioned that its decision should not be read as speaking to the validity of state unfair competition laws. Nonetheless, the Court's robust interpretation of the First Amendment in *Tam* will surely invite litigants in trademark and other commercial speech cases to bring constitutional claims testing the scope of Congress's powers.

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Microsoft Corp. v. Baker, No. 15-457

class actions — appellate review

Baker addressed whether plaintiffs can obtain immediate appellate review of unfavorable class certification decisions by voluntarily dismissing their claims.

Federal appellate courts generally lack jurisdiction to review district court decisions until the lower court issues a final judgment. Federal Rule of Civil Procedure 23(f) provides an exception to that rule, allowing immediate review of orders granting or denying class certification. Under that rule, however, appellate courts have discretion over whether to hear the appeal.

In *Baker*, the plaintiffs alleged that Microsoft's Xbox video game system had a defect that caused it to scratch game discs. They sought to represent a nationwide class of Xbox owners. The district court struck the class allegations, effectively denying class certification. The plaintiffs petitioned for review under Rule 23(f), but the U.S. Court of Appeals for the Ninth Circuit denied the petition. Rather than litigate their individual claims to conclusion, the plaintiffs stipulated to dismiss their claims and then appealed the dismissal while reserving the right to reinstate their claims if the class ruling were reversed on appeal. That voluntary dismissal, the plaintiffs urged, constituted a final judgment that permitted them to appeal as of right notwithstanding the Ninth Circuit's earlier denial of their Rule 23(f) petition. The Ninth Circuit agreed. It then vacated the district court's class ruling as an abuse of discretion.

The Supreme Court reversed and remanded. The Court concluded that a putative class plaintiff's voluntary dismissal of his claims is not a final decision that is appealable as of right. To hold otherwise, the Court explained, would encourage piecemeal appeals, invite indiscriminate appellate court intervention in ongoing proceedings, and result in protracted litigation. Authorizing mandatory appellate review through the device of voluntary dismissal, it reasoned, would also upset the balance struck in Rule 23(f), which permits immediate review of class certification orders but only if the court of appeals exercises its discretion to hear the appeal. Finally, the Court noted that the voluntary dismissal tactic was one-sided: It enabled plaintiffs to seek immediate review while denying any comparable right to defendants, even though erroneous class certification rulings may have similarly severe consequences for plaintiffs and defendants alike. Three Justices concurred in the judgment, concluding that a voluntary dismissal is a final judgment, but that a court of appeals lacks jurisdiction to review the dismissal under Article III's case-or-controversy requirement because there is no longer any genuine dispute between the parties.

Baker is a blow to the plaintiffs' class action bar, which lost an expedient means of obtaining mandatory review of class certification rulings. In many class actions involving small individual claims, a denial of certification may render it economically impractical to pursue the litigation. Conversely, a grant of certification may coerce a defendant to settle even a relatively weak claim rather than face the risk of a very large damages award. Parties may still seek discretionary review under Rule 23(f). By eliminating a separate avenue for appellate review, however, *Baker* raises the stakes for trial-level litigation of class certification issues.

By eliminating an avenue for appellate review, ***Baker*** *raises the stakes for trial-level litigation of class certification issues.*

Salman v. United States, No. 15-628

securities fraud — insider trading

Salman addressed the scope of the federal prohibition on insider trading.

Bassam Salman was convicted for insider trading after he bought and sold securities based on lucrative tips about pending mergers and acquisitions from a friend, Michael Kara. Michael, in turn, had received the information from his younger brother Maher Kara, an investment banker in Citigroup's healthcare group. At first, Maher was unaware of his brother's trading activity, but he ultimately began to assist Michael's trading by sharing information with him. Michael then passed on the information to others, including Salman.

Salman was indicted for securities fraud and conspiracy. The evidence at trial showed close personal relationships between Maher and Michael and between Michael and Salman. The jury convicted Salman on all counts.

The U.S. Court of Appeals for the Ninth Circuit affirmed. Relying on the Second Circuit's 2014 decision in *United States v. Newman*, Salman contended that a defendant could not be convicted of insider trading unless the person providing the tip expected to receive some tangible benefit of a pecuniary or similarly valuable nature. The Ninth Circuit rejected that argument. Disagreeing with the Second Circuit's decision in *Newman*, the court held that trading on confidential inside information can be unlawful even if the source of the information provided it as a gift to a relative or friend.

The Supreme Court affirmed. The Court concluded that a corporate insider breaches a fiduciary duty by making a gift of confidential information to a relative or friend, and that the relative or friend may be found guilty for trading on that confidential information. As the Court noted, the corporate insider benefits personally in those circumstances because bestowing a gift of confidential information on a relative or friend is no different from trading on the information oneself and then making a gift of the proceeds. The Court disapproved the Second Circuit's *Newman* decision to the extent that court required that the source of the information anticipate some additional gain of a pecuniary or similarly valuable nature.

Salman expands the scope of insider trading liability where a corporate insider discloses information to a relative or friend, even absent any concrete expectation of pecuniary gain. The decision's impact is particularly significant in New York, where the Second Circuit's *Newman* decision had derailed a number of high-profile insider trading cases. Corporate insiders and their relatives and friends alike would be well advised to steer clear of trading on inside information.

***Salman**'s impact is particularly significant in New York, where the Second Circuit's Newman decision had derailed a number of high-profile insider trading cases.*

Star Athletica, LLC v. Varsity Brands, Inc., No. 15-866

copyright — artistic elements of industrial designs

Star Athletica addressed the standard for copyrightability of design features incorporated into a useful article.

Congress has historically provided copyright protection for works of art, but not for industrial designs. The Copyright Act of 1976, however, provides limited protections for an industrial design that incorporates artistic elements. The Act makes "pictorial, graphic, or sculptural features" of the "design of a useful article" eligible for copyright protection if they "can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."

This case arose when Varsity Brands, a designer and manufacturer of cheerleading uniforms, sued Star Athletica for infringing Varsity's copyrights in five two-dimensional designs to be applied to the surface of cheerleading uniforms. Each design was composed of a combination of stripes, chevrons, and shapes of differing colors. The district court granted summary judgment for Star Athletica, reasoning that the designs served the utilitarian function of identifying the garments as cheerleading uniforms, and therefore could not be separated from the utilitarian aspects of the uniforms. The U.S. Court of Appeals for the Sixth Circuit reversed, holding that the graphic designs were separately identifiable because the designs and a blank cheerleading uniform could appear side by side, one as a graphic design, the other as a cheerleading uniform.

The Supreme Court affirmed. The Court held that a feature incorporated into the design of a useful article meets the Act's separability requirement, and thus is eligible for copyright protection, if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work on its own or in some other medium if imagined separately from the useful article. The Court found it straightforward to apply that test to Varsity's surface decorations on cheerleading uniforms. One could identify the decorations as having pictorial, graphic, or sculptural qualities. And if the decorations were separated from the uniforms and applied in another medium, such as a painter's canvas, they would qualify as copyrightable works of art. The Court noted, moreover, that applying the designs in other media would not replicate the uniforms themselves—thus confirming the designs' separability.

Star Athletica clarifies the legal standard for copyright protection for design features of useful articles, rejecting a number of disparate standards the lower courts had applied. That standard appears to expand the protections copyright affords to the fashion industry, which has traditionally relied more on trademark law to police "knock off" products that copy distinctive design elements. The broader ramifications of the Supreme Court's decision are harder to predict. It was not difficult to determine, under the Court's test, that decorations applied to a uniform could be perceived as graphic designs separate from the uniform. But the Court's test may prove far less helpful in determining whether design features in other contexts—for example, the legs of a chair, or the grille of an automobile—are separable from the useful article itself.

Star Athletica *clarifies the legal standard for copyright protection for design features of useful articles.*

TC Heartland LLC v. Kraft Foods Group Brands LLC, No. 16-341

patents — venue

TC Heartland addressed the venue in which a patent infringement action may be brought.

The patent venue statute, 28 U.S.C. §1400(b), provides that a defendant may be sued for infringement in the judicial district where it "resides" or where it "has committed acts of infringement and has a regular and established place of business." In 1957, the Supreme Court held in *Fourco Glass Co. v. Transmirra Products Corp.* that, for purposes of that statute, a domestic corporation "resides" only in its State of incorporation. Congress later amended the *general* venue statute to provide that a corporation is deemed to reside in any judicial district in which it is subject to personal jurisdiction. The U.S. Court of Appeals for the Federal Circuit interpreted that amendment to change the law for patent venue as well, allowing a defendant to be sued in any State where it is subject to jurisdiction.

In this case, Kraft Foods Group Brands LLC filed a patent infringement suit against TC Heartland LLC in Delaware. TC Heartland argued that venue was improper under §1400(b) because it did not "reside" in Delaware—only in Indiana, where it is incorporated and headquartered. The district court disagreed, holding that it had personal jurisdiction over TC Heartland and that venue was therefore proper. The Federal Circuit denied review.

The Supreme Court reversed and remanded. The Court held that its interpretation of §1400(b) in *Fourco*—that a corporation "resides" only in its State of incorporation—was still controlling. The Court found that Congress's subsequent amendments to the general venue statute did not reflect a clear intent to change the meaning of "resides" for purposes of §1400(b). To the contrary, the general venue statute applied only "[e]xcept as otherwise provided by law"—language the Court took as confirming Congress's expectation that other venue statutes, such as §1400(b), might prescribe a different definition.

While *TC Heartland* on its face is a narrow and technical decision, it will significantly change the landscape of patent infringement litigation. Under the Federal Circuit's prior rule, plaintiffs had great flexibility in choosing venue. As a result, a disproportionate number of infringement suits were filed in forums perceived as favorable to patentees, whether due to the speed at which cases proceeded to trial, litigants' beliefs about the jury pool, or other factors. The Eastern District of Texas was the prime example. According to one *amicus curiae*, just two judges in the Eastern District of Texas presided over *one third* of the nation's patent docket.

The ability of patentees to bring infringement suits in their forum of choice will be significantly restricted after *TC Heartland*. But that is not to say that infringement suits will end up being distributed evenly. Much litigation may simply shift to the District of Delaware, the State where most large domestic corporations are incorporated. Plaintiffs seeking more flexibility in where to bring suit will need to invoke the second clause of §1400(b), which makes venue proper in a district where the corporation has committed infringing acts and "has a regular and established place of business." The meaning and application of that provision doubtless will be heavily litigated in the years to come.

*The ability of patentees to bring infringement suits in their forum of choice will be significantly restricted after **TC Heartland**.*

Water Splash, Inc. v. Menon, No. 16-254

international service of process — service by mail

Water Splash addressed whether the Hague Service Convention prohibits international service of process by mail.

This case arose out of a dispute between Water Splash, an aquatic playground company, and Tara Menon, a former employee. Water Splash sued Menon in Texas state court, alleging that Menon had worked for a competitor while still employed by Water Splash. Menon lived in Canada. The state court permitted Water Splash to serve Menon by mail and then entered a default judgment when Menon failed to appear.

Menon appealed, arguing that service by mail does not comply with the Hague Service Convention, which governs international service among signatory nations. The Convention prescribes formal procedures for service of process. But it also states that, so long as the receiving country does not object, the Convention does not prohibit a plaintiff from "send[ing] judicial documents, by postal channels, directly to persons abroad." Courts had disagreed over whether that reference to "send[ing] judicial documents" by mail includes service of process, or instead merely the delivery of documents in the course of litigation. The Texas Court of Appeals agreed with Menon, holding that the Convention prohibits service of process by mail.

The Supreme Court vacated and remanded, concluding that the Convention does not prohibit service of process by mail. Looking to the treaty's text and structure, the Court concluded that the Convention's reference to "send[ing] judicial documents" included service of process. As the Court explained, the whole point of the Convention was to prescribe rules governing service of process. Accordingly, it would be strange if the provision respecting "send[ing] judicial documents" referred to something else. The Court found further support for its construction from the drafting history of the Convention, the Executive Branch's position, and the interpretations adopted by other signatory nations.

Water Splash is a welcome development for plaintiffs in cross-border disputes. Service of process by mail is ordinarily easier, faster, and cheaper than service through the other, formal channels authorized by the Convention, which may require a plaintiff to invoke assistance from foreign administrative, judicial, or diplomatic authorities. In a world where commerce is increasingly global, the ability to serve foreign defendants directly by mail is a significant procedural advantage.

Nonetheless, the question before the Court was narrow. Because the Convention's provision for service by mail applies only where the receiving country does not object, the validity of service by mail may still depend on foreign law. Further, service by mail must still be authorized by the local jurisdiction from which the process issues. Thus, while the Court's decision removes one potential obstacle to service of process by mail under the Hague Service Convention, businesses may still confront a tangled web of foreign and domestic service rules.

*While **Water Splash** removes one potential obstacle to service of process by mail under the Hague Service Convention, businesses may still confront a tangled web of foreign and domestic service rules.*

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