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WHITE PAPER

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Jones Day's Review of Business-Related Cases in the Supreme Court's October Term 2016

During what many have labeled a "quiet Term," the U.S. Supreme Court, working with only eight justices for most of the session, still delivered at least 30 rulings of particular interest to business and industry.

These rulings touched jurisdictional issues, class actions, intellectual property, white-collar crime, arbitration, employee benefits, and other areas of broad interest. Notable decisions included a significant win for class-action defendants (*Microsoft Inc. v. Baker*), precedent-setting action on patent exhaustion (*Impression Products v. Lexmark International*), and a definition of the limitations on the Securities and Exchange Commission's disgorgement powers (*Kokesh v. SEC*).

This Jones Day *White Paper* reviews the Court's most relevant decisions of the 2016–2017 Term and analyzes their possible effects on the business community.

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JURISDICTION AND THE AUTHORITY OF COURTS

BNSF Railway Co. v. Tyrrell

Holdings: 1. Section 56 of the Federal Employers' Liability Act does not address personal jurisdiction.

2. A railroad is not "at home" in a state, for purposes of general personal jurisdiction, simply because it has thousands of miles of tracks and thousands of employees within the state.

Lineup: 8–1 (Justice Ginsburg, writing for the Court; Justice Sotomayor, concurring in part and dissenting in part)

BNSF Railway is the latest in a series of cases emphasizing the limits of general personal jurisdiction against corporations. The primary question presented was whether § 56 of the Federal Employers' Liability Act permits a court to assert personal jurisdiction over companies "doing business" in the state where the court is located. The section reads, in relevant part:

> [1] Under this chapter an action may be brought in a district court of the United States, in the district of the residence of the defendant, or in which the cause of action arose, or in which the defendant shall be doing business at the time of commencing such action. [2] The jurisdiction of the courts of the United States under this chapter shall be concurrent with that of the courts of the several States.

The Montana Supreme Court read the first sentence to give federal courts in Montana personal jurisdiction over BNSF Railway, as the company was "doing business" in Montana—it had more than 2,000 miles of track in the state and employed thousands of people within Montana. It read the second sentence to permit state courts to assert personal jurisdiction to exactly the same extent.

The Supreme Court disagreed on both counts. The first sentence, it explained, addressed venue rather than personal jurisdiction. This, it said, followed from the statute's use of the phrase "an action may be brought in … ," which is typically used when addressing venue. As for the second sentence, it addressed only subject-matter jurisdiction, specifying that federal and state courts were both authorized to hear cases arising under the Act. But it said nothing about *personal* jurisdiction.

The Supreme Court next considered whether Montana courts could nonetheless assert general personal jurisdiction over BNSF based solely on its doing large amounts of business in Montana. It concluded that the answer was "no." The Fourteenth Amendment's Due Process Clause permits state courts to assert "general" personal jurisdiction over corporations only if they are "essentially at home" in the relevant state. Typically, that means companies are subject to general personal jurisdiction only in their states of incorporation and in the state where they have their principal places of business. BNSF was incorporated and had its principal place of business elsewhere. And while the Court has recognized the possibility of an "exceptional case" in which a corporation is "at home" elsewhere based on very substantial business contacts, the Court held that BNSF's Montana-based conduct is not so substantial so as to make it "at home" there.

Justice Sotomayor concurred in part and dissented in part. She agreed that § 56 does not confer personal jurisdiction. But she dissented anyway, to express her disagreement with the highly limited nature of the circumstances in which the Court has allowed general personal jurisdiction over corporations. She would have allowed Montana courts to exercise personal jurisdiction over BNSF based on its substantial business in the state.

Bolivarian Republic of Venezuela v. Helmerich & Payne International Drilling Co.

Holding: Courts have jurisdiction under the FSIA's "expropriation exception" only if they find that the property in which the plaintiff claims to hold rights was in fact taken in violation of international law.

Lineup: 8–0 (Justice Breyer, writing for the Court)

The Foreign Sovereign Immunities Act of 1976—known as "FSIA"—grants foreign states immunity from suit in the United States. But it contains exceptions, including the so-called "expropriation exception":

(a) A foreign state shall not be immune from the jurisdiction of courts of the United States or of the States in any case—

…

(3) in which rights in property taken in violation of international law are in issue and that property … is owned or operated by an agency or instrumentality of the foreign state … engaged in a commercial activity in the United States.

28 U.S.C. § 1605(a)(3).

This case involved the meaning of the phrase "case … in which rights in property taken in violation of international law are in issue." Specifically, it presented the question of what, in light of this language, a party seeking to sue a foreign state in American courts must prove for the court to have jurisdiction over the matter. The D.C. Circuit held that the requirement is satisfied whenever the suing party has a "non-frivolous" argument that the case falls within the exemption's scope.

The Supreme Court unanimously reversed the D.C. Circuit, holding that a non-frivolous argument is insufficient. Instead, courts have jurisdiction under this statute only if: (i) the plaintiff is asserting rights over property; and (ii) the property at issue was in fact taken in violation of international law. The Court acknowledged that this would overlap substantially with the merits in some cases. It nonetheless concluded that this was required by the statute's plain text. What is more, permitting any non-frivolous argument to satisfy § 1605(a)(3) would undercut the long-standing rule—in light of which the FSIA was enacted—that foreign states have immunity from suits involving public acts, such as expropriation carried out against their own nationals.

Because of this ruling, parties attempting to sue a foreign state under the expropriation exception should build a factual record that enables them to prove, early in the case, that their suit involves a property right taken in violation of international law.

Bristol-Myers Squibb Co. v. Superior Court of California

Holding: Courts may not apply a sliding-scale approach to specific personal jurisdiction, under which the requirements for personal jurisdiction are relaxed in cases involving defendants who have substantial ties to the forum state that are unrelated to the claims for which they are being sued.

Lineup: 8–1 (Justice Alito, writing for the Court; Justice Sotomayor, dissenting)

There are two forms of personal jurisdiction: general and specific. A defendant subject to *general* jurisdiction in a forum can be sued there for anything at all, regardless of whether the claim has any relationship to the forum. *Specific* jurisdiction is different; courts may exercise this form of jurisdiction only with respect to claims that arise out of or relate to the defendant's contacts with the forum.

Bristol-Myers Squibb is a specific jurisdiction case. The Supreme Court held that Bristol-Myers Squibb Company ("BMS"), a large multinational corporation, was not subject to personal jurisdiction for claims brought in California by plaintiffs who were allegedly injured by BMS products that were marketed and sold nationally, but allegedly consumed by the plaintiffs outside of California. The plaintiffs filed their claims that arose out of state along with the claims of other plaintiffs who allegedly were prescribed and used the same products and sustained the same injuries inside California. The California Supreme Court found personal jurisdiction existed for both sets of plaintiffs. With respect to the out-of-state plaintiffs, it applied a "sliding scale approach," under which the requisite connections are relaxed where the defendant has extensive forum contacts unrelated to those claims.

The Supreme Court rejected this approach, stressing that forum contacts unrelated to the claim at issue are irrelevant for specific jurisdiction. Instead, to establish specific jurisdiction,

plaintiffs must show a "connection between the forum and the specific claims at issue." There must, in other words, be a link between the forum and the defendant's suit-related conduct.

Justice Sotomayor dissented, criticizing the majority's view for its rigidity, and the difficulty that it might create for those hoping to bring mass actions in state courts.

Especially when coupled with the Supreme Court's recent decisions narrowing the scope of general personal jurisdiction, the *Bristol-Myers Squibb* decision will significantly impact claimants' ability to use specific personal jurisdiction to bring national manufacturers into whatever court the claimants find most favorable. And it potentially spells the end of "litigation tourism," one of the most abused methods of forum shopping.

For more about this case, please see "SCOTUS Overturns California's Extreme Expansion of Personal Jurisdiction for National Corporations" (Jones Day *Commentary*, June 2017).

Goodyear Tire & Rubber Co. v. Haeger

Holding: When a court exercises its inherent authority to sanction a litigant for misconduct by ordering it to pay the other side's legal fees, the size of the payment is capped at the amount of fees spent solely because of the misconduct.

Lineup: 8–0 (Justice Kagan, writing for the Court)

Members of the Haeger family sued Goodyear Tire after their motor home flipped over, allegedly because of the faulty tires manufactured by Goodyear. The parties ultimately settled. Later, however, the Haegers' lawyers discovered that Goodyear Tire concealed information related to the tires that the Haegers had requested during discovery. They moved for discovery sanctions, requesting all of their legal fees expended in litigating the matter.

The district court granted the award not pursuant to any statute but under "its inherent power to sanction litigation misconduct." And it determined that Goodyear should pay *all* of the fees and costs the Haegers expended during the litigation—amounting to $2.7 million. The court further awarded a contingent award of $2 million, which it determined would be proper in the event the appellate courts determined that there had to be a "linkage between [Goodyear's] misconduct and" the fees expended.

The Ninth Circuit affirmed the $2.7 million award. In so doing, it created a circuit split on whether courts may sanction litigation misconduct with orders requiring payment of all litigation costs, *regardless* of whether those costs were spent as a but-for result of the punished misconduct.

The Supreme Court reversed. It held that when courts exercise their inherent authority to sanction litigation misconduct by ordering the badly behaving party to pay the other side's legal fees, it may award *only* those fees that are the but-for result of the sanctioned conduct. The Court relied largely on precedent, which it read as forbidding legal-fee awards of a punitive nature; that, the Court said, would require "procedural guarantees applicable in criminal cases." The Court made clear, however, that the goal is "to do rough justice, not to achieve auditing perfection."

Haeger establishes an important, if imprecise, limit on federal courts' authority to sanction bad behavior through the award of litigation costs.

Lightfoot v. Cendant Mortgage Corp.

Holding: The sue-and-be-sued clause in Fannie Mae's charter, 12 U.S.C. § 1723a(a), does not give district courts subject matter jurisdiction to hear all suits involving Fannie Mae.

Lineup: 8–0 (Justice Sotomayor, writing for the Court)

12 U.S.C. § 1723a(a) authorizes Fannie Mae "to sue and to be sued, and to complain and to defend, in any court of competent jurisdiction, State or Federal." *Lightfoot* presented the question of whether this provision confers jurisdiction on federal courts. The Supreme Court held that it does not and reversed the Ninth Circuit's contrary determination.

There is a long history of cases addressing whether federal corporate charters that include sue-and-be-sued clauses confer subject-matter jurisdictions on federal courts. As far back as 1809, the Court held that the grant of authority to sue and be sued, *by itself*, does not confer jurisdiction. By contrast, clauses that expressly confer a right to sue in federal courts *have* been held to confer jurisdiction. For example, in *Osborn v. Bank of*

the United States, the Supreme Court held that the sue-and-be-sued cause in the charter of the second Bank of the United States conferred jurisdiction, because it permitted the Bank to sue and be sued "in all State Courts having competent jurisdiction, and *in any Circuit Court of the United States*."

But the Court had never considered § 1723a(a); *Lightfoot* presented the first opportunity to do so. And while the statute expressly mentioned federal courts, it authorized Fannie Mae to sue and be sued "*in any court of competent jurisdiction*, State or Federal." The emphasized phrase, the Court explained, referred to courts with subject-matter jurisdiction. And so, rather than conferring subject-matter jurisdiction, § 1723a(a) simply empowered Fannie Mae to litigate suits brought in courts that had subject-matter jurisdiction on some independent basis. In other words, by authorizing Fannie Mae to sue only in those federal courts that are *already* courts of "competent jurisdiction," the statute made clear that it was not *itself* conferring jurisdiction.

Lightfoot thus stands for a broad principle: When Congress empowers an entity to sue in federal courts "of competent jurisdiction," the clause containing that phrase should not be read to confer jurisdiction.

McLane Company, Inc. v. Equal Employment Opportunity Commission

Holding: District court decisions enforcing or quashing EEOC subpoenas are reviewed for abuse of discretion, not de novo.

Lineup: 7–1 (Justice Sotomayor, writing for the Court; Justice Ginsburg, concurring in part and dissenting in part)

Title VII of the Civil Rights Act prohibits discrimination on the basis of race, religion, sex, and national origin. The Equal Employment Opportunity Commission is empowered to enforce that law. Among its powers, it may issue subpoenas for evidence relating to its Title VII investigations. It may ask district courts to enforce these subpoenas. District courts must enforce subpoenas relating to valid charges and requesting relevant material, provided the subpoena is not too indefinite, issued for an illegitimate purpose, or unduly burdensome.

The district court in this case refused to enforce an EEOC subpoena because it deemed the requested material irrelevant. The Ninth Circuit reversed after reviewing the district court's decision de novo. But its opinion noted that while circuit precedent required de novo review, the law of most other circuits did not. The Supreme Court granted certiorari to determine the proper standard of review.

The Court reversed, holding that decisions enforcing or quashing EEOC subpoenas are reviewed for abuse of discretion. Nothing in Title VII expressly addresses the issue. But the Court reasoned that two factors supported abuse-of-discretion review. First, when Congress passed Title VII, there was already a long history of courts reviewing administrative subpoenas under this standard. Second, the question of whether a subpoena is proper depends on case-specific factors that are best resolved by trial courts. The Court thus remanded the case for review under the abuse-of-discretion standard.

Justice Ginsburg concurred in part and dissented in part. She agreed that abuse of discretion is generally the proper standard of review. But, she said, the district court here made an error of law that required reversal. Rather than sending the case back to the Ninth Circuit, she would have affirmed.

Town of Chester v. Laroe Estates, Inc.

Holding: A party that intervenes as-of-right under Federal Rule of Civil Procedure 24(a)(2) must have Article III standing to sue if it seeks relief that the plaintiff has not requested.

Lineup: 9–0 (Justice Alito, writing for the Court)

This case began when a land developer sued Chester, New York, where he had been attempting to build a subdivision. A company known as Laroe Estates, Inc.—which was a party to certain agreements with the land developer—attempted to intervene under Rule 24(a)(2), which permits parties to intervene as-of-right in certain circumstances. This created a dispute regarding whether Laroe needed standing to intervene. The district court said that interveners as-of-right had to have standing, and concluded that Laroe *lacked* standing based on the nature of its interest in the land at issue. The Second Circuit reversed, holding that interveners as-of-right *do not* need Article III standing. The Supreme Court granted certiorari

to resolve whether parties that intervene under Rule 24(a)(2) must have Article III standing, even in cases where they seek precisely the same relief as the plaintiff.

But it did not answer that question. Instead, it held that these interveners must have standing *at least* in cases where they seek relief that is distinct from that sought by the plaintiff. The parties did not disagree as to this principle, but they did dispute whether Laroe Estates (which was represented in the Supreme Court by Jones Day) sought distinct relief. If it did, then there would be no need to resolve the question presented. The court remanded to the Second Circuit so that it could resolve in the first instance the question of whether Laroe sought relief distinct from that sought by the land developer.

Because *Town of Chester* did not resolve the question of whether interveners must have Article III standing when they seek relief identical to that of the plaintiff, that issue remains open. With the circuits split on the question, it may well end up back before the Supreme Court.

Water Splash, Inc. v. Menon

Holding: In cases governed by the Hague Service Convention, service by mail is permissible if and only if: (i) the receiving state has not objected to service by mail; and (ii) service by mail is authorized under otherwise-applicable law

Lineup: 8–0 (Justice Alito, writing for the Court)

The United States is a signatory to the Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil and Commercial Matters—the "Hague Service Convention," for short. *Water Splash* involved Article 10 of that Convention, which states:

> Provided the State of destination does not object, the present Convention shall not interfere with—
>
> (a) the freedom to *send* judicial documents, by postal channels, directly to persons abroad.
>
> …

Does the word "send" include sending documents for the purpose of service?

The Court said it does. In so holding, the Court relied first and foremost on the Convention's text and structure. The word "send" is broad, and it naturally encompasses transmitting documents *for purposes of service*. Further, this reading is confirmed by the Convention's structure: Its preamble and its first article expressly state that the Convention addresses the service of documents, and the Supreme Court has held that the Convention addresses only the service of documents. What's more, Article 10(a) would be superfluous if it did not encompass service, because another article makes clear that the Convention has no effect on communications that "do not culminate in service."

The Court acknowledged that Article 10(a) is unique in that it does not expressly refer to service, as other portions of Article 10 do. But in light of the structural clues already addressed, that suggests only that 10(a) is *broader* than those portions expressly referring to service. And this was confirmed, the Court said, by the Convention's history: Reports from members of the U.S. delegation confirm that they understood Article 10(a) as permitting the service of documents by mail, and both the Executive branch and foreign signatories have consistently interpreted it that way ever since.

Critically, *Water Splash* does not require states to permit service by mail. Rather, it provides that the Convention does not interfere with rules regarding service by mail if they are allowed by the "State of destination." So those hoping to rely on Article 10(a) must confirm that service by mail is otherwise permitted.

Finally, the Supreme Court expressly declined to decide whether the Convention addresses service of all documents, or only service *of process*—that is, the "formal delivery of documents that is legally sufficient to charge the defendant with notice of a pending action." So it is an open question of whether the Convention applies to documents unrelated to the service of process.

CLASS ACTIONS

California Public Employees' Retirement System v. ANZ Securities, Inc.

Holding: Section 13 of the Securities Act of 1933 does not permit an individual to bring a complaint more than three years after the relevant security offering—even if a class-action complaint was filed within three years, and the individual would have been a member of the class but for opting out of it.

Lineup: 5–4 (Justice Kennedy, writing for the Court; Justice Ginsburg, joined by Justices Breyer, Sotomayor, and Kagan, dissenting)

Section 11 of the Securities Act of 1933 allows securities purchasers to sue for material misstatements or omissions in a securities registration statement. Section 13 of the Act, however, imposes two time restrictions. First, a statute of limitations: The suit must be brought within one year of the date the misstatement or omission was or should have been discovered. And second, a statute of repose: "In no event" can the suit be brought more than three years after the security was offered to the public.

In a non-securities case called *American Pipe & Construction Co. v. Utah*, the Court held that the filing of a class action serves to toll the applicable statute of limitations for all asserted members of the class, allowing them to opt out and bring their own individual complaints even after the limitations period has run. This case asked whether the logic of *American Pipe* also applies to statutes of repose. Can an individual who was a member of a class that sued within three years of the securities offering opt out of the class and file an individual complaint after the three years have ended? The Court answered clearly: "no."

To distinguish *American Pipe*, the Court pointed to the different purposes of statutes of limitations and statutes of repose. A statute of limitations is meant to encourage plaintiffs to pursue their claims diligently. A statute of repose, by contrast, is intended to "grant complete peace to defendants" by guaranteeing that they will not be sued after a certain time. The majority found that while a court can toll a statute of limitations under its equitable powers, it cannot toll a statute of repose without violating the legislature's determination to place a fixed time limit on the defendant's liability.

The Court also rejected the alternative argument that the filing of a class action qualifies as "bringing" the individual suit of each class member. The Court shot down this theory based on the logic of *American Pipe*: If a class-action filing "brought" the individual action of each member, then the individual complaints in that case would have satisfied the statute of limitations, and no tolling would have been necessary.

Justice Ginsburg dissented, joined by Justices Breyer, Sotomayor, and Kagan. The dissent argued that the filing of a class complaint under § 11 should be treated as initiating the action of each individual putative class member for the purposes of the statute of repose. In the dissent's view, there was no reason to bar the individual claims of opt-out class members, because the timely class filing ensured that the defendants "received what [the] repose period was designed to afford them: notice of their potential liability within a fixed time window."

This case is a significant victory for § 11 class-action defendants. As the dissent noted, the critical stages of securities class actions often happen years after the complaint is filed, and in many cases even the class-certification decision is not made until more than three years after the offering. Consequently, the strict three-year time bar will limit the ability of class members to opt out and bring individual suits if they are unhappy with a proposed class settlement.

Microsoft Corp. v. Baker

Holding: Under 28 U.S.C. § 1291, federal courts have no jurisdiction to review an order denying class certification or striking class allegations after the named plaintiffs voluntarily dismiss their claims with prejudice.

Lineup: 8–0 (Justice Ginsburg, writing for the Court; Justice Thomas, joined by Chief Justice Roberts and Justice Alito, concurring in the judgment)

Under 28 U.S.C. § 1291, appellate courts typically have jurisdiction to hear only appeals from final judgments. But there are exceptions, one of which appears in Rule 23(f) of the Federal

Rules of Civil Procedure. That rule permits parties to petition for immediate review of a decision granting or denying class certification. The appellate court has discretion whether to grant the petition or not.

When the named plaintiffs in *Microsoft Corp. v. Baker* lost their attempt at class certification, they filed a Rule 23(f) petition, which the Ninth Circuit Court of Appeals denied. The normal course at this point would have been for the named plaintiffs to litigate their individual claims. Once the district court entered a final judgment on those claims, they would have been able to appeal their entire case—including the class-certification decisions—without first seeking permission from the Ninth Circuit. But the named plaintiffs did not want to litigate their claims by themselves, and so they attempted to hasten final judgment by voluntarily dismissing their individual claims. This, they said, created a final judgment from which they could appeal as of right. After the Ninth Circuit agreed with them, the Supreme Court granted certiorari to decide whether this procedure comports with § 1291's final-judgment rule.

The Court held that it did not, for three reasons. First, this "dismissal device subverts the final-judgment rule" by creating the opportunity for repeated, piecemeal appeals. The final-judgment rule is designed to funnel all issues into a single appeal at the end of the case, whereas the "dismissal device" in *Microsoft* gives a plaintiff the opportunity to file repeated appeals.

Second, the procedure undermines Rule 23(f)'s discretionary regime by allowing plaintiffs to bypass it entirely. Permitting this circumvention of the rule would shift the discretion to hear an immediate appeal regarding class certification from the courts of appeals to plaintiffs, who would be able to invoke appeal of as right by merely dismissing their individual claims.

Finally, plaintiffs' dismissal device is available only to plaintiffs, not defendants. That "one-sidedness" only "reinforce[d]" the Court's conclusion that the voluntary dismissal here "does not support appellate jurisdiction of prejudgment orders denying class certification."

Justice Thomas concurred only in the judgment, joined by Chief Justice Roberts and Justice Alito. Rather than relying on § 1291, Justice Thomas reasoned that the plaintiffs lacked Article III standing to litigate a case they had voluntarily dismissed.

The unanimous result in *Microsoft* is a major win for class-action defendants, as the opposite result would have left them subject to a one-sided procedural device favoring class-action plaintiffs.

For more about this case, please see "Game Over: Supreme Court Delivers Win for Class Action Defendants in *Microsoft*" (Jones Day *Commentary*, June 2017).

FEDERAL APPOINTMENTS

NLRB v. SW General, Inc.

Holding: The Federal Vacancies Reform Act prevents a person who has been nominated to fill a vacant office that requires presidential appointment and Senate confirmation from performing the duties of that office in an acting capacity.

Lineup: 6–2 (Chief Justice Roberts, writing for the Court; Justice Thomas, concurring; Justice Sotomayor, joined by Justice Ginsburg, dissenting)

Jones Day successfully represented SW General, Inc. before the Supreme Court of the United States in this case involving the scope of the Federal Vacancies Reform Act ("FVRA").

When a position requiring presidential appointment and Senate confirmation (a so-called PAS position) becomes vacant, the FVRA allows certain individuals temporarily to serve as the acting officer until the president and the Senate can agree on a permanent replacement. As a default rule, the first assistant to the vacant office automatically becomes the acting officer; however, the president may choose to direct either a current PAS-officeholder or a senior agency employee to serve instead. The FVRA provides an important limitation on such acting service: "Notwithstanding [the automatic-succession rule for first assistants], a person may not serve as an acting officer for an office" if the president nominates him for the permanent position. In other words, Congress did not want the president's nominee to get to work before the Senate gave its approval.

This case arose from an unfair labor practice complaint issued against SW General while Lafe Solomon was serving as Acting General Counsel of the National Labor Relations Board

("NLRB"). Mr. Solomon was eligible to serve as an acting official pursuant to the FVRA's senior agency employee provision. SW General argued, however, that his acting service became invalid when President Obama nominated him to serve as NLRB general counsel on a permanent basis. The Supreme Court granted certiorari to decide whether the FVRA's prohibition on acting service by nominees applies to all acting officers, or to first assistants only.

The Supreme Court ruled in SW General's favor by a vote of 6–2. The Court agreed with SW General that the prohibition on acting service by nominees "applies to all acting officers." The "key words" "person" and "section," the Court explained, "clearly indicate" that the relevant provision "applies to all acting officers ... , regardless of the means of appointment." And the introductory "notwithstanding" clause "confirms" the breadth of the provision by making clear "that the prohibition on acting service applies even when it conflicts with the default rule that the first assistant shall perform acting duties."

The Court accordingly rejected the NLRB's argument that the "notwithstanding" clause meant that Congress was concerned only about acting service by first assistants who had been nominated to the permanent position. It also found that NLRB's evidence of "legislative history, purpose, and post-enactment practice" unpersuasive on its own terms and irrelevant in light of the FVRA's "clear" text. "Applying the FVRA to this case is straightforward": Solomon could not perform the duties of general counsel of the NLRB while his nomination for the permanent position was pending.

Justice Thomas joined the majority opinion in full but wrote separately to note that the FVRA may be unconstitutional, as it permits the appointment of principal officers without Congress's advice and consent.

Justice Sotomayor, joined by Justice Ginsburg, dissented. She argued that the Court's interpretation rendered part of the FVRA superfluous and that it contradicted modern practice.

The Court's decision reaffirms the importance of the Senate's advice-and-consent role. When important government positions become vacant, the president cannot put his chosen replacement to work unless and until the Senate approves.

WHITE-COLLAR CRIME AND INVESTIGATIONS

Kokesh v. SEC

Holding: 28 U.S.C. § 2462, which imposes a five-year statute of limitations on any "action, suit or proceeding for the enforcement of any civil fine, penalty, or forfeiture, pecuniary or otherwise," applies to enforcement actions in which the SEC seeks disgorgement.

Lineup: 9–0 (Justice Sotomayor, writing for the Court)

The five-year statute of limitations under § 2462 applies to "an action, suit or proceeding for the enforcement of any civil fine, penalty, or forfeiture." In 2013, the Supreme Court limited the SEC's enforcement powers when, in *Gabelli v. SEC*, it held that § 2462 applies when the SEC seeks statutory monetary penalties. The Court, however, left open the question of whether it applies when the SEC seeks disgorgement. Since *Gabelli*, circuit courts have split on this issue. *Kokesh* resolves the split, squarely holding that the five-year statute of limitations applies to claims for disgorgement.

Writing for the unanimous Court, Justice Sotomayor said disgorgement "bears all the hallmarks of a penalty: It is imposed as a consequence of violating a public law and it is intended to deter, not to compensate." And because disgorgement is a "penalty," claims for disgorgement are subject to § 2462. In rejecting the SEC's position that "disgorgement is not punitive but 'remedial' in that it 'lessen[s] the effects of a violation' by 'restor[ing] the status quo,'" the Court referenced prior cases where the amount of disgorgement exceeded the defendant's ill-gotten gains, thereby leaving the defendant worse off.

The Court also called into question, though did not decide, the legitimacy of the SEC's use of disgorgement, writing in a footnote that "[n]othing in this opinion should be interpreted as an opinion on whether courts possess the authority to order disgorgement in SEC enforcement proceedings or on whether courts have properly applied disgorgement principles in this context." This suggests that *Kokesh* may not be the last challenge to the SEC's disgorgement authority.

For more about this case, please see "U.S. Supreme Court Significantly Limits SEC's Power to Recover Disgorgement" (Jones Day *Commentary*, June 2017).

Salman v. United States

Holding: An insider "personally benefits," for purposes of insider-trading law, when he gives a gift of confidential information to a relative who trades on that information.

Lineup: 8–0 (Justice Alito, writing for the Court)

Anyone who trades on inside information without first making all required disclosures is subject to civil and criminal penalties. Similarly, a "tippee" who acquires insider information from an insider (a "tipper") may commit securities fraud by trading on that information without making the necessary disclosures. But the tippee is liable only if he knows the tipper disclosed the information in breach of the tipper's fiduciary duties. According to a case called *Dirks v. SEC*, a tipper violates those fiduciary duties by disclosing information for a "personal benefit."

The question in *Salman* was whether a tipper receives a "personal benefit" merely by giving information to a trading relative. Salman was a tippee; he acquired loads of information, indirectly, from an insider (a tipper) named Maher Kara. Maher would give the information to his brother Michael as a gift, knowing that Michael would trade on it. Michael did trade on it, but he also passed it along to Salman, who likewise traded on it.

Eventually, the scheme came unraveled, and the government charged Salman with securities fraud. Salman argued that he could not be convicted because the tipper (Maher) had not received any "personal benefit" from his disclosure, and so he had not violated any fiduciary duty for purposes of insider-trading law. Salman argued that Maher disclosed the information to his brother Michael as a gift, and he therefore obtained no "personal benefit."

This argument failed in the district court and before the Ninth Circuit. And it failed at the Supreme Court, too. Relying on a statement in *Dirks*, which it characterized as *Dirks*' holding, the Court held that a tipper breaches a fiduciary duty by making a gift of confidential information to a trading relative. The Court explained that an insider would personally benefit if he personally traded on the information and then simply gave the proceeds to a relative as a gift. And, it said, insiders should not be allowed to circumvent that prohibition by giving the money-making information (rather than the money) as a gift.

The Court expressly avoided addressing whether a gift to anyone other than a relative would establish a "personal benefit." That said, courts interpreting *Salman* might not limit the holding in that manner, as the circumvention argument could also apply to relatives, friends, acquaintances, and strangers alike.

For more about this case, please see "U.S. Supreme Court Clarifies Standards for 'Tippee' Insider Trading Liability" (Jones Day *Commentary*, December 2016).

Shaw v. United States

Holding: 18 U.S.C. § 1344(1)'s prohibition on knowingly executing a scheme to "defraud a financial institution" applies to those who use fraud to obtain funds in a bank depositor's account.

Lineup: 8–0 (Justice Breyer, writing for the Court)

It is a crime to "knowingly execute[] … a scheme or artifice … to defraud a financial institution." 18 U.S.C. § 1344(1). Petitioner Lawrence Shaw was charged with committing this crime when he used a victim's bank-account information to transfer funds into an account of his own. He defended himself by arguing that he was merely intending to defraud a bank depositor (his victim), rather than the bank itself. This, he said, did not fall within 18 U.S.C. § 1344(1), which prohibits only schemes to "defraud a financial institution."

The Court made short shrift of this argument. "When a customer deposits funds," it explained, "the bank ordinarily becomes the owner of the funds and consequently has the right to use" them. Even when that is not the case, the bank has a possessory right in the funds. Thus, any attempt to deprive a depositor of funds in his account is also an attempt to deprive the bank of its own property rights.

The Court hedged slightly, concluding: "for purposes of the bank fraud statute, a scheme fraudulently to obtain funds from a bank depositor's account *normally* is also a scheme fraudulently to obtain property from a 'financial institution.'" This would appear to leave room for a future defendant to dispute § 1344(1)'s application to schemes that deprive banks of funds with respect to which they *lack* ownership or possessory rights. But since such circumstances occur rarely, if ever, *Shaw* may mean that, in practice, all attempts to fraudulently deprive

a bank depositor of funds deposited with a bank will constitute attempts to fraudulently deprive the bank itself.

INTELLECTUAL PROPERTY

Impression Products, Inc. v. Lexmark International, Inc.

Holding: When a patent owner sells a product covered by a patent, that sale—whether it takes place in the United States or outside the country—exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose.

Lineup: 7–1 (Chief Justice Roberts, writing for the Court; Justice Ginsburg, concurring in part and dissenting in part)

Under the doctrine of patent exhaustion, a patentee's sale of its product terminates its patent rights in that product. In other words, the patentee cannot sell a product that practices its patents and then sue direct or indirect purchasers for patent infringement based on their use or sale of that product. *Impression Products* presented the Court with two central questions regarding the scope of patent exhaustion: (i) "whether a patentee that sells an item under an express restriction on the purchaser's right to reuse or resell the product may enforce that restriction through an infringement lawsuit"; and (ii) "whether a patentee exhausts its patent rights by selling its product outside the United States."

The Court held that the answer to the first question was "no," while the answer to the second was "yes." Rejecting two longstanding precedents of the Federal Circuit, the Supreme Court held that patent exhaustion—the ending of patent-enforcement rights—applies *without regard* to the existence of an express restriction on resale, and to both domestic and foreign sales. The patent-exhaustion doctrine, the Court explained, grows out of the common law's hostility toward restraints on alienation. Because Congress enacted the patent laws against the backdrop of this common-law rule, they are presumed to incorporate it. Exhaustion thus imposes a limit on a patentee's rights that cannot be evaded through a purported restriction. And because the principle against restraints on alienation applies to domestic and foreign sales alike, the Court held, there is no basis for distinguishing the two. Any sale, wherever it occurs, exhausts the patent rights in the product sold.

Justice Ginsburg dissented in part, arguing that foreign sales should not exhaust a patentee's rights, as they occur independently of the American patent system.

One critical takeaway from *Impression Products* is that it speaks only to *patent* rights. Patentees may still enter into contracts with buyers, and thereby obtain *contractual* rights. So the Court's decision highlights the need to carefully draft remedies for breach of contract, which may now become a substitute for patent-infringement damages.

Life Technologies Corp. v. Promega Corp.

Holding: Supplying or causing to be supplied a single component of a multicomponent invention does not give rise to liability under § 271(f)(1) of the Patent Act, which imposes liability for supplying or causing to be supplied "… a substantial portion of the components of a patented invention."

Lineup: 7–0 (Justice Sotomayor, writing for the Court; Justice Alito, joined by Justice Thomas, concurring in part and concurring in judgment; Chief Justice Roberts took no part in the decision)

Section 271(f)(1) of the Patent Act provides that a party infringes a patent claim when it "supplies or causes to be supplied in or from the United States *all or a substantial portion of the components* of a patented invention … in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." This case presented the question of whether supplying (or causing to be supplied) only one component of a multicomponent product could constitute supplying (or causing to be supplied) "a substantial portion of the components of a patented invention." The answer, the Court held, is "no": "[A] single component does not constitute a substantial portion of the components that can give rise to liability under § 271(f)(1)."

Life Technologies involved toolkits for genetic testing "used by law enforcement agencies … and by clinical and research institutions." The patent's claimed toolkits comprised "five components," only one of which was supplied from the United States (and then shipped to the United Kingdom, where Life Technologies assembled the toolkits from the one U.S.-supplied component and four UK-generated ones). A federal

jury found Life Technologies liable for infringement, but the district court overturned the verdict and held that supplying a single component does not satisfy the "substantial portion of the components" requirement of § 271(f)(1). After the Federal Circuit reinstated the jury verdict, the Supreme Court granted certiorari to review its decision.

The Supreme Court reversed. It explained that the phrase "a substantial portion," in context, refers to a *quantitatively* substantial portion. Reading "substantial" in its qualitative sense—to mean "important" rather than "large part"—would make unnecessary the statutory phrase "of the components." That is, the statute would mean precisely the same thing if it said: " … supplies or causes to be supplied in or from the United States all or a substantial portion ~~of the components~~ of a patented invention." Because statutes should not be read in a way that makes a statutory phrase superfluous, the Court reasoned that "substantial" must have its quantitative meaning.

The Court next addressed whether supplying a single component can trigger liability under that section. Turning again to the statutory text, the Court noted that § 271(f)(1) "consistently refers to 'components' in the plural" and reasoned that "specifying a substantial portion of 'components,' plural, indicates that multiple components constitute the substantial portion." The Court found the statute's use of "components," plural, particularly instructive in light of other sections of the Patent Act that refer to "component," singular. That Congress used the plural form in one place and the singular elsewhere suggested a difference in meaning.

In light of all this, the Court held that the "text, context, and structure" of § 271(f), as well as the legislative history, "leave us to conclude that when Congress said 'components,' plural, it meant plural, and when it said 'component,' singular, it meant singular." But the Court was quick to add that its decision did not "define how close to 'all' of the components 'a substantial portion' must be," and that it held "only that one component does not constitute 'all or a substantial portion' of a multicomponent invention under § 271(f)(1)."

In a brief concurrence, Justice Alito, joined by Justice Thomas, wrote that the majority opinion should not be read "to suggest that *any* number greater than one is sufficient" for liability under § 271(f)(1). "In other words, today's opinion establishes that more than one component is necessary but does not address *how much* more."

Because of *Life Technologies*' narrow holding, it provides just the starting point for litigation regarding how many components are enough to constitute a "substantial portion" under § 271(f)(1).

For more about this case, please see "Supreme Court Addresses Scope of Patent Infringement Under Section 271(f)(1)" (Jones Day *Commentary*, February 2017).

Matal v. Tam

Holding: 15 U.S.C. § 1502(a)'s prohibition on disparaging trademarks violates the First Amendment.

Lineup: 8–0 (Justice Alito, announcing the judgment of the Court; Justice Kennedy, joined by Justices Ginsburg, Sotomayor, and Kagan, concurring in part and concurring in the judgment; Justice Thomas, concurring in part and concurring in the judgment)

Matal v. Tam began with an Asian American's attempt to register THE SLANTS as a trademark to identify his band composed exclusively of Asian Americans. The band sought registration to "reclaim" Asian stereotypes. However, the Patent and Trademark Office determined that the mark was likely to disparage "persons of Asian descent" and denied the registration under 15 U.S.C. § 1052(a), which prevents registration of a trademark that "[c]onsists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage … persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute." The Trademark Trial and Appeal Board affirmed the decision, but the en banc Federal Circuit reversed after concluding that the ban on registration of disparaging remarks violated the First Amendment.

The Supreme Court took the case to decide whether the First Amendment permits the government to deny trademark protection to "disparaging" marks. It unanimously decided that the First Amendment *does not* permit such denials, holding that the law "offends a bedrock First Amendment principle: Speech may not be banned on the ground that it expresses ideas that offend." In reaching this unanimous judgment, the Court *did not* reach consensus on the appropriate test. Justice Alito's plurality opinion reasoned that the law could not survive even the reduced scrutiny applicable to commercial speech and so held the law unconstitutional without regard to any higher

standard. Justice Kennedy wrote separately, joined by Justices Ginsburg, Sotomayor, and Kagan. He argued that the ban on disparaging marks constitutes viewpoint discrimination, as it treats marks differently based on whether they express a "disparaging" viewpoint, and that it was therefore subject to the very highest scrutiny. (Justice Thomas also filed a brief concurrence, in which he lodged his disagreement with the reduced scrutiny paid to limits on truthful "commercial speech.")

The most immediate effect of the Supreme Court's decision is that refusals will be withdrawn for those trademark applications initially rejected on the basis of § 1052(a), which were suspended pending this decision. Trademark owners should consider monitoring such publications for potentially infringing marks. The holding should also extend to trademarks deemed "immoral" or "scandalous" under § 1052(a). Accordingly, owners of marks considered "scandalous" or "disparaging" may want to consider filing applications for registration. Trademark owners should be on alert for the influx of applications to register "immoral" and "scandalous" marks that is likely to follow.

For more about this case, please see "Siding with The Slants: Ban on Disparaging Marks Held Unconstitutional" (Jones Day *Commentary*, June 2017).

Samsung Electronics Co., LTD v. Apple Inc.

Holding: When a product includes more than one component, the end product is not necessarily the "article of manufacture" on which damages for design-patent infringement must be based under § 289 of the Patent Act.

Lineup: 8–0 (Justice Sotomayor, writing for the Court)

Federal law permits the patenting of designs. And it provides, in 35 U.S.C. § 289, that anyone who makes or sells "any *article of manufacture* to which [a patented] design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit." In this case, Apple sued Samsung for design-patent infringement. Specifically, it alleged that Samsung's phones infringed three of Apple's design patents relating to the iPhone: one "covering a black rectangular front face with rounded corners"; another "covering a rectangular front face with rounded corners and a raised rim," and yet another "covering a grid of 16 colorful icons [(the app icons)] on a black screen."

A jury found for Apple, and the question became: What is the relevant "article of manufacture"? If the article is the entire end product into which the design patents were incorporated, then Samsung would be liable for all of its profits relating to sales of the infringing phones. If, on the other hand, the "article[s] of manufacture" were the particular infringing components, then damages would be limited to all of the profits from the sale of those components.

The Federal Circuit held that the former definition was right: that anyone who infringes a design patent using a component introduced into an end product, is liable for all profits associated with the end product. The Supreme Court reversed, but on the narrowest of bases: It held that the "article of manufacture" is not *always* the end product, and that it may *sometimes* include individual components. This, it said, followed from the plain text, as the phrase "article of manufacture" refers to any product made by man or machine, and a component is (or may be) made by man or machine.

The Court stopped short, however, of formulating a test for determining what is the relevant "article of manufacture." So the question critical to patent litigants—how can I tell how much I'm on the hook for?—has not yet been answered. All that can be said with certainty is that a design-patent infringer is not *necessarily* liable for all the profits associated with the sale of its end product.

For more about this case, please see "U.S. Supreme Court Creates Test for Assessing Damages for Design Patent Infringement" (Jones Day *Commentary*, December 2016).

Sandoz Inc. v. Amgen Inc.

Holdings: 1. The requirement in 42 U.S.C. § 262(l)(2)(A) that biosimilar applicants provide biologic manufacturers with their applications and manufacturing information is not enforceable with an injunction under federal law.

2. Biosimilar applicants can comply with § 262(l)(8)(A)'s notice requirement by providing notice before the FDA grants them a license.

Lineup: 9–0 (Justice Thomas, writing for the Court; Justice Breyer, concurring)

A "biologic" is a type of drug derived from natural sources, as opposed to synthesized chemicals. The Biologics Price Competition and Innovation Act of 2009, codified in relevant part at 42 U.S.C. § 262(l), is a complex statutory scheme addressing "biosimilars"—that is, biologics that are similar to biologics already on the market.

Sandoz presented two questions under the BPCIA. The first is whether § 262(l)(2)(A) can be enforced with an injunction under federal law. That section requires those applying for FDA approval of a biosimilar to provide their application and certain manufacturing information to the biologic manufacturer. Once the FDA notifies applicants that their applications have been accepted for review, they have 20 days to follow this requirement. The Court held that this cannot be enforced with an injunction under federal law. It explained that another section of the Act expressly provided that biologic manufacturers can seek declaratory relief for violations of § 262(l)(2)(A). Because federal law expressly provides for that remedy, the Court explained, it must be understood to preclude all others. The Court left open the possibility that injunctions might be available under *state* law but declined to rule on the issue.

The second question involved § 262(l)(8)(A), which requires biosimilar applications to "provide notice to the [biologic manufacturer] not later than 180 days before the date of the first commercial marketing of the" biosimilar. The Federal Circuit had held that the biosimilar applicant cannot provide this information until *after* the FDA licenses the drug. The Supreme Court reversed, holding that nothing in the statutory text required applicants to wait for a license before providing the required notice.

Justice Breyer wrote separately to say that although the Court's interpretation was "reasonable," the FDA has authority to promulgate a different interpretation that courts may be bound to follow under cases requiring deference to agency interpretations.

For more about this case, please see "Supreme Court: Biosimilar Applicants May Provide Commercial Marketing Notice Before FDA Approval" (Jones Day Commentary, June 2017).

SCA Hygiene Products v. First Quality Baby Products

Holding: Laches is not a defense to damage actions brought under § 286 of the Patent Act.

Lineup: 7–1 (Justice Alito, writing for the Court; Justice Breyer, dissenting)

The Patent Act provides that patent holders may sue for infringement committed within six years of the filing of the complaint. This case presented the question of whether that period can be further limited by the equitable doctrine of laches. That is, may courts in patent cases shorten the six-year look-back period if they conclude the plaintiff unfairly delayed in filing suit?

The Supreme Court held that the answer is "no": The equitable doctrine of laches cannot override Congress's six-year look-back period. Justice Alito, writing for the Court, relied heavily on principles set forth by the Court in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, which held that laches cannot preclude damages for infringement claims brought within the Copyright Act's three-year statute of limitations. The Court's opinion was anchored on dual considerations of separation of powers and the "traditional role of laches in equity." Observing that "[l]aches provides a shield against untimely claims, and statutes of limitations serve a similar function," the Court stressed that "[w]hen Congress enacts a statute of limitations, it speaks directly to the issue of timeliness and provides a rule for determining whether a claim is timely enough." Citing *Petrella*, the Court explained that "applying laches within a limitations period specified by Congress would give judges a 'legislation-overriding' role that is beyond the Judiciary's power," and "courts are not at liberty to jettison Congress' judgment on the timeliness of suit."

Justice Breyer dissented, reasoning that the laches defense is a necessary "gap" filler in circumstances when a patentee delays its infringement claim while the accused product becomes successful.

SCA reduces the role of laches—a commonly pled but rarely successful defense—in defending against patent-infringement damages. It remains to be seen whether courts may adapt laches to apply to claims of injunctive relief.

For more about this case, please see "Supreme Court Curbs Laches as a Defense in Patent Cases" (Jones Day *Commentary*, March 2017).

Star Athletica, LLC v. Varsity Brands, Inc.

Holding: A feature incorporated into the design of a useful article—including a design incorporated into clothing—is eligible for copyright protection only if the feature: (i) can be perceived as a two- or three-dimensional work of art separate from the useful article; and (ii) would qualify as a protectable pictorial, graphic, or sculptural work if it were imagined separately from the useful article into which it is incorporated.

Lineup: 6–2 (Justice Thomas, writing for the Court; Justice Ginsburg, concurring in the judgment; Justice Breyer, joined by Justice Kennedy, dissenting)

Copyright law does not protect utilitarian inventions; that is the domain of patent law. That said, § 101 of the Copyright Act states that the "design" of a "useful object" is "considered a pictorial, graphical, or sculptural work"—and thus potentially eligible for copyright protection—"only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."

In *Star Athletica*, the Court considered how this applies to fashion designs: Can designs incorporated into clothing receive a copyright? That question arose because the respondent (Varsity Brands, Inc.) sued the petitioner (Star Athletica) for violating copyrights it held relating to designs on cheerleading uniforms—designs including "chevrons … , lines, curves, stripes, angles, diagonals, … coloring, and shapes." The Sixth Circuit held that these designs were eligible for copyright protection, and the Supreme Court affirmed.

The Court's opinion relied on the plain text of § 101. It read that section to provide that a feature incorporated into the design of a useful article is eligible for copyright protection only if the feature: (i) can be perceived as a two- or three-dimensional work of art separate from the useful article; and (ii) would qualify as a protectable pictorial, graphic, or sculptural work if it were imagined separately from the useful article into which it is incorporated. And applying this test, it concluded that Varsity Brands' designs were eligible for copyright protection: First, they could be viewed as designs separate from the uniforms into which they were incorporated. Second, if one mentally extracted the designs from the uniforms and placed them on a canvas, they would qualify as protectable pictorial or graphic works.

Justice Ginsburg concurred only in the judgment. She reasoned that the case was more easily resolved by concluding that Varsity Brands' copyrights covered protectable designs that it incorporated into useful articles. Conceptualizing the problem in that way removed the need to ask how to determine whether design components of useful articles are to be separated from the useful articles themselves.

Justice Breyer, joined by Justice Kennedy, dissented. He largely agreed with the majority's legal reasoning but concluded that the design and the useful item were inseparable, because "extracting" the design from a cheerleading uniform simply produced a picture of a cheerleading uniform.

For more about this case, please see "Decision Cheered by Some, as Supreme Court Clarifies Useful Articles Copyright Protection" (Jones Day *Commentary*, March 2017).

TC Heartland LLC v. Kraft Foods Group Brands LLC

Holding: For purposes of the patent-venue statute, a domestic corporation "resides" only in its state of incorporation.

Lineup: 8–0 (Justice Thomas, writing for the Court)

Venue in most civil cases is determined by 28 U.S.C. § 1391. It says: "Except as otherwise provided by law," and "[f]or all venue purposes," a corporation "shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question." But in *patent* cases, 28 U.S.C. § 1400(b) is the exclusive venue statute. It permits civil actions to be "brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."

TC Heartland presented the question of what "resides" means under § 1400(b). The Supreme Court held long ago—in a case called *Fourco Glass Co. v. Transmirra Products Corp.*—that domestic corporations reside *only* in their states of incorporation.

Section 1400(b) has not been amended since that decision. But § 1391 has been. Relevant here, Congress amended § 1391 to provide that "[f]or purposes of venue under this chapter"—the same chapter containing § 1400(b)—"a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction." Relying on this amendment, the Federal Circuit interpreted the change to § 1391 as amending § 1400(b).

The Supreme Court reversed. It noted that *Fourco* long ago settled the meaning of § 1400(b). If Congress meant to reverse course, it would have done so clearly—for example, by modifying § 1400(b). The Court held that nothing in the amendments to § 1391's default rule indicated a clear congressional intent to override *Fourco*. Thus, that ruling remained authoritative.

TC Heartland promises to be of immense importance to patent defendants. In recent years, many, many patent cases have been filed in the Eastern District of Texas, as that court is perceived to be favorable to patent plaintiffs. The Court's restricted interpretation of "resides" will limit plaintiffs' ability to file in that district.

Finally, the Court expressly limited its holding to *domestic* corporations—it declined to address where venue would be proper with respect to *foreign* corporations.

For more about this case, please see "U.S. Supreme Court Addresses Scope of Patent Venue " (Jones Day *Commentary*, May 2017).

ARBITRATION

Kindred Nursing Centers Limited Partnership v. Clark

Holdings: 1. The Federal Arbitration Act preempts state laws that single out arbitration agreements for negative treatment with respect to the question of whether a legal representative acting under a general grant of power of attorney can bind his principal.

2. The Federal Arbitration Act applies to rules regarding contract formation and contract performance alike.

Lineup: 7–1 (Justice Kagan, writing for the Court; Justice Thomas, dissenting)

The Federal Arbitration Act ("FAA") forbids states from singling out arbitration contracts for special treatment. That is, arbitration agreements cannot be invalidated based on rules applicable only to arbitration agreements. In this case, two elderly principals, through agents to whom they had given powers of attorney, signed contracts with the Kindred Nursing Center. Those contracts contained arbitration agreements. The Kentucky Supreme Court held those agreements unenforceable, reasoning that legal representatives given *general* grants of power—as opposed to grants of power that specifically reference arbitration agreements—cannot enter their principals into binding arbitration agreements.

The Supreme Court reversed, holding that the Kentucky rule singled out arbitration agreements for negative treatment and was therefore preempted by the FAA. The Kentucky Supreme Court had argued to the contrary, insisting that the right to a jury trial is a "fundamental" right, and that the requirement of a specific grant of power might extend to other fundamental rights as well—for example, a general grant of power would not suffice to permit an agent to enter her principal into involuntary servitude. The Court rejected this argument: By treating arbitration agreements in a class with other plainly objectionable and unenforceable contracts, the Kentucky Supreme Court made clear that its holding *did not* rest on principles of general applicability.

Finally, the Court rejected an alternative argument that the FAA leaves states free to make rules regarding the *formation*, as opposed to the *enforcement*, of arbitration agreements. This, it said, would contradict the FAA's text and governing precedents.

Justice Thomas dissented, reiterating his view that the FAA is inapplicable in state-court proceedings.

BANKRUPTCY

Czyzewski v. Jevic Holding Corp.

Holding: In bankruptcy cases, courts may not approve structured dismissals that provide for distributions that do not follow ordinary priority rules without the affected creditors' consent.

Lineup: 6–2 (Justice Breyer, writing for the Court; Justice Thomas, joined by Justice Alito, dissenting)

Chapter 11 bankruptcies typically involve a court-approved plan that provides for the way in which assets will be distributed to creditors. Sometimes the parties cannot agree to a plan. And when that happens, the case may be dismissed under § 1112(b). Typically, a dismissal restores the status quo; the estate's assets are returned to the party that had them before the bankruptcy case began. But under § 349(b), a bankruptcy court can decline to use that restorative scheme "for cause." *Czyzewski* presented the question of whether a bankruptcy court can, in the course of a dismissal, distribute assets to creditors in a manner that does not follow typical priority rules. The Court held that they may not.

Due to the significant time and costs associated with confirming a liquidating Chapter 11 plan or converting the case to Chapter 7 following a sale of substantially all of a debtor's assets under § 363(b) of the Bankruptcy Code, structured dismissals of Chapter 11 cases have become a popular exit strategy. A structured dismissal is conditioned upon certain elements agreed to in advance by stakeholders and then approved by the court, as distinguished from an unconditional dismissal of the Chapter 11 case ordered by the court under § 1112(b).

In *In re Jevic Holding Corp.*, the Third Circuit ruled that "absent a showing that a structured dismissal has been contrived to evade the procedural protections and safeguards of the plan confirmation or conversion processes, a bankruptcy court has discretion to order such a disposition." The court also held that "bankruptcy courts may approve settlements that deviate from the priority scheme of [the Bankruptcy Code]," but only if the court has "specific and credible grounds" to justify the deviation. The Third Circuit approved a structured dismissal of a Chapter 11 case that incorporated a settlement under which unsecured creditors would receive a distribution from secured creditors' collateral, but certain holders of priority wage claims would receive nothing. "Dire circumstances" justified the remedy—the debtor had no prospect of confirming a plan, and converting the case to Chapter 7 would mean that only secured creditors would recover anything.

The Supreme Court reversed. Writing for the 6–2 majority, Justice Breyer stated that "we would expect to see some affirmative indication of intent if Congress actually meant to make structured dismissals a backdoor means to achieve the exact kind of nonconsensual priority-violating final distributions that the Code prohibits in Chapter 7 liquidations and Chapter 11 plans." The majority found no expression of any such intent in the Bankruptcy Code, nor did it find any "significant offsetting bankruptcy-related justification" that would warrant a violation of the ordinary priority rules in the case before it. Thus, it concluded that Congress did not authorize a "rare case" exception to the ordinary priority rules.

The Court made clear, however, that its opinion "express[ed] no view about the legality of structured dismissals in general."

Justice Thomas, joined by Justice Alito, dissented. He concluded that the petitioner did not address during merits briefing the question presented by the petition for certiorari. Rather than reward what he viewed as a "bait-and-switch," Justice Thomas would have dismissed the case as improvidently granted.

For more about this case, please see "U.S. Supreme Court Invalidates Non-Consensual Structured Dismissal Deviating from Bankruptcy Priority Scheme" (Jones Day *Commentary*, March 2017).

Midland Funding, LLC v. Johnson

Holding: A debt collector complies with the Federal Debt Collection Practices Act when it files a proof of claim on a time-barred debt in a Chapter 13 bankruptcy proceeding—at least where the proof of claim makes clear on its face that the statute of limitations period has run.

Lineup: 5–3 (Justice Breyer, writing for the Court; Justice Sotomayor, joined by Justices Ginsburg and Kagan, dissenting)

Debt collectors violate the Fair Debt Collection Practices Act when they make "false, deceptive, or misleading representation[s]" and when they use "unfair or unconscionable means" to collect debts. Sometimes, debt collectors seek to collect from debtors who have filed for bankruptcy under Chapter 13. To do so, they must submit a proof of claim in the bankruptcy proceeding. Suppose the debt in question is time-barred; that is, suppose the debtor could raise the statute of limitations as a defense to repayment. If the debt collector submits a proof of claim, and if that proof of claim relates to a debt that is on its face outside the statute of limitations, has the debt collector violated the Act by doing something "misleading" or "unfair"?

The Supreme Court held that the answer is "no." The Court began by emphasizing that even unenforceable claims are "claims" for purposes of the Bankruptcy Code. Thus, there is nothing "misleading or deceptive" about filing a proof of claim relating to a stale debt. In addition, assessing whether a claim is "misleading" requires looking to the relevant audience. And because Chapter 13 bankruptcies are managed by sophisticated trustees, proof of claims relating to stale debts are particularly likely not to be misleading in the Chapter 13 context.

The question of whether filing a proof of claim on an expired debt is "unfair" or "unconscionable" was found to present a closer question. But, the Court said, context was again decisive. First, Chapter 13 proceedings are initiated *by consumers*, and so there is little concern about those consumers being made (unfairly) to pay a stale debt simply to avoid the cost of litigating it in court. In addition, the presence of a knowledgeable trustee, along with procedures designed to ferret out claims able to be disallowed (which time-barred claims are), mitigates whatever unfairness exists. The Court went on to emphasize that it was not inclined, absent a clear contrary signal, to read the Act as permitting a bankruptcy-related remedy outside of the Bankruptcy Code. But reading the Act to permit a cause of action based on the filing of a claim in bankruptcy court would do just that.

Justice Sotomayor, joined by Justices Ginsburg and Kagan, dissented. She argued that every court presented with the question of whether debt collectors violate the Act's prohibition on "unfair" and "unconscionable" collection practices when they file ordinary civil suits relating to time-barred debts has answered in the affirmative. The bankruptcy context, she argued, did nothing to alter this. While the Court insisted otherwise, Justice Sotomayor pointed to briefing from the United States (which oversees trustees) and trustees themselves supporting her view.

Midland Funding is a win for debt collectors but leaves open important questions. Among them: Would a debt collector violate the Act by filing a proof of claim that is not clear on its face regarding the underlying debt's time-barred nature? Does the Act prohibit filing an ordinary civil suit seeking to collect a time-barred debt?

ERISA AND EMPLOYEE BENEFITS

Advocate Health Care Network v. Stapleton

Holding: A church need not have originally established an employee benefit plan for it to fall within ERISA's exemption for "church plans"; as long as a church-related entity maintains the plan, it will be a "church plan."

Lineup: 8–0 (Justice Kagan, writing for the Court, Justice Sotomayor, concurring)

The question in *Advocate Health* was whether a pension plan maintained by what the Court called a principal-purpose organization[1] must be established by a church to come within ERISA's church-plan exemption. The Court held that it need not, relying on the plain text. ERISA defines a "church plan" as one "established and maintained" by a church "for its employees." If that were all it said, the case would have come out the other way. But it is not all it says: ERISA goes on to say that plans should be considered "established and maintained" by a church "for its employees"—thus falling within the church-plan exemption—if they are "maintained by" a principal-purpose organization. It does not require that they further be "established by" a church.

Justice Sotomayor concurred. She agreed with the majority's analysis but believed the holding contradicted Congress's intent as expressed by the legislative history, and she noted that Congress may consider amending the law.

Advocate Health is an important decision for church-affiliated organizations that, under the Supreme Court's decision, need not comply with ERISA's many requirements. The Court overturned lower-court decisions that could have cost these organizations billions of dollars.

1 The organizations referred to as "principal-purpose organizations" by the Court include any organization "the purpose or function of which is the administration or funding of a plan or program for the provision of retirement benefits or welfare benefits, or both, for the employees of a church or a convention or association of churches, if such organization is controlled by or associated with a church or a convention or association of churches." Whether the entity at issue was a "principal-purpose organization" was not at issue in this case.

Coventry Health Care of Missouri, Inc. v. Nevils

Holding: Reimbursement and subrogation clauses in contracts entered into pursuant to the Federal Employees Health Benefits Act of 1959 are valid notwithstanding state law prohibiting reimbursement and subrogation.

Lineup: 8–0 (Justice Ginsburg, writing for the Court; Justice Thomas, concurring)

The Office of Personnel Management is a government agency authorized to (among other things) contract with private insurers to provide health insurance to federal employees. They receive that authorization through the Federal Employees Health benefits Act of 1959 ("FEHBA"). And the FEHBA says that contracts "relat[ing] to the nature, provision, or extent of coverage or benefits … shall supersede and preempt any State or local law."

The question in this case was whether reimbursement and subrogation clauses in contracts negotiated under FEHBA preempt state laws that forbid reimbursement and subrogation clauses in insurance contracts. That question arose because Missouri law prohibits such clauses, but the federal contracts at issue include them. The Supreme Court held that Missouri's prohibition on these clauses was preempted, because they plainly "relate to the nature, provision, or extent of coverage or benefits." In reaching this conclusion, the Court rejected the argument that FEHBA violates the Constitution's Supremacy Clause by giving preemptive effect to contractual language. That is wrong, the Court explained, because FEHBA does not make contracts preemptive; rather, it is the *statute* that preempts state law by requiring states to give effect to contractual terms that fall within its preemptive scope.

Justice Thomas joined the majority opinion but also wrote a short concurrence. He suggested that FEHBA constitutes an unlawful delegation of legislative authority, since it enables the OPM to enter into contracts that preempt state law. But because no one raised the issue, Justice Thomas concluded, the Court was right not to reach it.

FALSE CLAIMS ACT

State Farm Fire & Casualty Co. v. United States

Holdings: 1. A violation of the False Claim Act's seal requirement does not necessarily require dismissal; the question of whether to dismiss the case is left to the discretion of the district court.

2. The district court did not abuse its discretion in declining to dismiss the relators' case, despite their attorney's leaking of sealed evidentiary filings to the press.

Lineup: 8–0 (Justice Kennedy, writing for the Court)

The False Claim Act forbids "knowingly present[ing] … a false or fraudulent claim for payment or approval" to the federal government. The Act permits *qui tam* enforcement; that is, it allows private parties (known as "relators") to sue on the government's behalf. The Act provides that relators' complaints "shall be filed *in camera*, shall remain under seal for at least 60 days, and shall not be served on the defendant until the court so orders."

State Farm presents the question of whether violation of that seal requirement requires automatic dismissal. The question arose because the relators' original attorney—a man named Dickie Scruggs, whose involvement with the case ended after he was indicted for attempting to bribe a state-court judge—violated the seal requirement when he leaked to the press a sealed evidentiary filing disclosing the complaint's existence. State Farm Fire & Casualty Insurance (the party the relators were suing) learned of this and moved to dismiss the case. The district court denied the motion after balancing three factors: (i) the actual harm to the government; (ii) the severity of the violations; and (iii) evidence of bad faith. After the Fifth Circuit affirmed, the Supreme Court granted certiorari to resolve a circuit split regarding the seal requirement's meaning.

The Court first held that violations of the seal requirement do *not* necessarily require reversal. It gave three principal bases for this holding. First, the seal requirement is silent on the

consequences of a violation, and "[i]n the absence of congressional guidance regarding a remedy, … 'the sanction for breach is not loss of all later powers to act.'" (This presumption against automatic dismissal may be relevant to violations of statutory duties in other contexts, too.) Second, the False Claim Act elsewhere mandates dismissal in express terms, so the absence of such language in the seal requirement suggests dismissal is not required. Finally, the purpose of the provision is to protect *the government*, by ensuring that relators do not thwart criminal investigations. And "[b]ecause the seal requirement was intended in main to protect the Government's interests, it would make little sense to adopt a rigid interpretation of the seal provision that prejudices the Government by depriving it of needed assistance from private parties."

The Court went on to affirm the Fifth Circuit, agreeing that the district court did not abuse its discretion in refusing to dismiss the case under the circumstances presented here. It provided very little reasoning, although the facts of the case suggest that courts will rarely if ever abuse their discretion when they deny a motion to dismiss that is based an intentional violation of the seal requirement by a relator's former attorney.

LENDING AND DEBT COLLECTION

Bank of America Corp. v. Miami

Holding: In at least some circumstances, cities may sue under the Fair Housing Act for the downstream financial costs they incur as a result of discriminatory practices.

Lineup: 5–3 (Justice Breyer, writing for the Court; Justice Thomas, joined by Justices Kennedy and Alito, concurring in part and dissenting in part)

The City of Miami, Florida, initiated this suit to collect for the financial costs incurred as a result of alleged discriminatory practices by two banks. Miami claimed that the banks imposed more onerous requirements on minority borrowers, including higher interest rates, fees, and the like. This, it said, led to more foreclosures among minority borrowers, which reduced property value in minority neighborhoods, which in turn led to a decrease in the city's property-tax revenue. Further, Miami claimed that the foreclosures led to vacancies that caused Miami to spend more money on combating blight and on police, fire, and other municipal services.

Miami sued, claiming that the banks' allegedly discriminatory practices violated the Fair Housing Act. The Supreme Court granted certiorari to decide whether cities have a cause of action under the Fair Housing Act. It held that they do—at least sometimes. The majority explained that statutes are presumed to provide causes of action "only to plaintiffs whose interests fall within the zone of interests protected by the law invoked." This zone-of-interest inquiry requires courts to decide, using traditional tools of statutory interpretation, whether Congress conferred a cause of action. Here, the Court held, it did: The Act gives a cause of action to any "aggrieved person," which it defines to include anyone who "claims to have been injured by a discriminatory housing practice." Relying heavily on precedent, the Court held that this language gave a cause of action to cities, *at least* where the financial injuries suffered involve decreased property values and increased municipal-services costs allegedly caused by predatory practices. Notably, the Court declined to go any further, thus providing little guidance as to how the zone-of-interest test might apply to other distinct financial injuries.

The Court went on to emphasize that the Fair Housing Act permits recovery *only* for injuries proximately caused by the challenged practices. The Eleventh Circuit had held that proximate cause results whenever the harms caused are foreseeable. This, the Court said, was wrong; in addition to foreseeability, there had to be some direct connection between the wrongdoing and the harm. But rather than explaining the appropriate standard, it remanded to the Eleventh Circuit to figure that out in the first instance.

Justice Thomas concurred in part and dissented in part, joined by Justices Kennedy and Alito. He argued that Miami's interests were too marginally related to the Fair Housing Act's purpose of stopping discriminatory lending to come within the Act's zone of interest. Thus, he would have held that Miami had no cause of action. The dissenters agreed that the Eleventh Circuit had applied the wrong proximate-causation standard. But instead of remanding to the Eleventh Circuit, they would have held that Miami's injuries were far too attenuated to satisfy the proximate-causation requirement.

Bank of America does not resolve much. It remains to be seen whether cities may sue for financial injuries other than the precise injuries alleged here. Future courts will also be tasked with giving substance to the proximate causation standard, about which the Court said very little.

Henson v. Santander Consumer USA Inc.

Holding: The portion of 15 U.S.C. § 1692a(6) that defines "debt collectors" to include those who collect or attempt to collect debts owed to others does not encompass those who collect debts that were once owed to others but that they have purchased.

Lineup: 9–0 (Justice Gorsuch, writing for the Court)

Part of the Fair Debt Collection Practices Act—15 U.S.C. § 1692a(6)—defines "debt collector" as anyone who "regularly collects or attempts to collect … debts owed or due … another." The Court accepted *Henson* to resolve a circuit split over the question of whether this phrase includes those who collect or attempt to collect debts that they purchased from the original creditor—debts that the debtor now owes them. The answer, it held, was "no."

Henson is Justice Gorsuch's first opinion. And in keeping with his textualist approach to legal interpretation, it relies entirely on the statute's text. Section 1692a(6), the Court noted, applies only to those who collect or attempt to collect "debts owed or due … *another*." But those who collect or attempt to collect a debt that they have purchased are collecting debts owed to *themselves*. Thus, they do not come within § 1692a(6)'s definition.

It remains unclear whether *Henson* will have much effect even in cases arising under Federal Debt Collection Practices Act. The reason for this is that the Court expressly declined to answer two questions. First, it declined to address whether the statute applies to those who collect debts owed to themselves, but who also "regularly act[] as a third party collection agent for debts owed to others." If it does, those who regularly collect debts owed to others may be "debt collectors" even in cases where they collect debts for their own accounts. Second, the Court declined to address whether those who collect their own debts may be debt collectors under the portion of § 1692a(6) that defines "debt collector" to include those who are engaged "in any business the principal purpose of which is the collection of any debts." If they may be, then *Henson* may wind up applying to very few instances of debt collection.

COMMERCIAL SPEECH

Expressions Hair Design v. Schneiderman

Holding: A law that regulates the manner in which merchants may display prices regulates speech.

Lineup: 8–0 (Chief Justice Roberts, writing for the Court; Justice Breyer, concurring in the judgment; Justice Sotomayor, joined by Justice Alito, concurring in the judgment)

Merchants who accept credit cards are typically charged a fee by credit-card services. There are a few ways one can imagine offsetting that fee. One is to raise the price on all consumers, including those who pay in cash. Another is to offer a discount for payments in cash. Finally, the merchant might impose a surcharge on customers who use credit cards.

A New York law, as interpreted by the Second Circuit, eliminates the third option: It prohibits merchants from listing one price and charging an additional fee to those who use credit cards. So, according to the Second Circuit, this law would prohibit a merchant from posting a sign that said, for example: "$10, with a $0.30 surcharge for credit card users." *Expressions Hair Design* addressed whether this New York law impermissibly regulated speech.

The majority of the Court accepted the Second Circuit's interpretation of the law and so concluded that it regulated the manner in which merchants may *display* prices. That is critical, because laws regulating the way in which prices may be communicated *are* speech regulations, while those simply regulating the prices that may be charged are not. The Court concluded that this law fell into the first category: a regulation of speech.

Some commercial speech regulations are consistent with the First Amendment, but some are not. The Second Circuit never addressed whether New York's law passed constitutional muster, however, because it understood the law as regulating conduct rather than speech. That was an error, held the

Supreme Court. And rather than addressing that issue itself, the Supreme Court vacated the Second Circuit's decision and remanded the case so that it could decide in the first instance whether the law was a valid or an invalid regulation of commercial speech.

Justice Breyer concurred in the judgment. He believed the question of whether the law regulates speech or conduct is unhelpful, because the distinction is superficial. He would instead instruct the Second Court to focus on how this law relates to the values the First Amendment is designed to protect.

Justice Sotomayor also concurred in the judgment, joined by Justice Alito. She contended that the law was unclear and that it could reasonably be read as restricting conduct (pricing) rather than speech (communication of pricing). She believed that the Second Circuit should have certified to the state court the question of how best to interpret the statute, noting that it made little sense to address a constitutional issue without first determining whether the statute's proper interpretation removed any constitutional problem. (Justice Breyer, in his opinion, agreed with Justice Sotomayor that a certification to New York's high court would be helpful.)

TAKINGS

Murr v. Wisconsin

Holding: When defining the "property" against which the scope of an alleged regulatory taking is to be judged, courts should determine whether reasonable expectations about property ownership—based on a multitude of factors—would lead a landowner to anticipate that his holdings would be treated as one parcel, or, instead, as separate tracts.

Lineup: 5–3 (Justice Kennedy, writing for the Court; Chief Justice Roberts, joined by Justices Thomas and Alito, dissenting; Justice Thomas, dissenting)

Murr v. Wisconsin involved an important issue in takings law. The Murr family owned two adjacent plots of land along the St. Croix River in Wisconsin: Lot E and Lot F. But because of the small amount of buildable land on each, local rules prohibited either from being sold or developed separately. And so, when the family wanted to sell Lot E separately, they were unable to do so. The Murrs sued in state court, arguing that the regulatory bar on Lot E's separate development or sale constituted a "regulatory taking" prohibited by the Fifth and Fourteenth Amendments.

Their suit implicated the so-called "denominator problem." The problem arises in the regulatory takings context, because a regulatory takings claim effectively asks whether a regulation is so onerous that it amounts to a taking of the land to which the regulation applies. To assess how onerous a regulation is, a court must first define the "property" that is burdened by the regulation at issue. For example, if the "property" in this case were defined to include *only* Lot E, then the local regulation that prevents Lot E's separate sale would have a far greater effect on the "property" than it would if the property were defined to include *both* of the lots. This is especially important in the regulatory takings context, where a regulation affecting less than all of the property is evaluated by weighing factors rather than by simply awarding "just" compensation. The state courts defined the relevant property as consisting of both lots and rejected the Murrs' regulatory takings claim.

The Supreme Court granted certiorari to address the denominator problem. Its resolution was an open-ended, multifactor test for the courts to apply to define the "property" at issue. In defining the relevant "property," the Court explained, courts "should determine whether reasonable expectations about property ownership would lead a landowner to anticipate that his holdings would be treated as one parcel or, instead, as separate tracts." It provided at least three factors relevant to this determination: (i) how the land is divided under state law; (ii) the physical characteristics of the property; and (iii) the "value of the property under the challenged regulation, with special attention to the effect of burdened land on the value of other holdings." The Court went on to conclude that these factors supported treating the "property" to include both lots. So defined, it explained, the effect of the local regulation was not great enough to constitute a compensable taking under the Fifth and Fourteenth Amendments.

Chief Justice Roberts, joined by Justices Thomas and Alito, dissented, concluding that the denominator problem should be addressed entirely with reference to state law: "State law defines the boundaries of distinct parcels of land, and those boundaries should determine the 'private property' at issue in

regulatory takings cases." The majority's contrary approach, they explained, blurred the question of how to define the property with the question of whether the regulation burdens that property enough to constitute a taking. And its flexible approach, the Chief Justice argued, would water down the protections afforded by the Takings Clause.

Finally, Justice Thomas wrote a short dissent expressing his openness to reconsidering whether the regulatory taking doctrine finds any support in the Constitution's original understanding.

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