ASSOCIATION OF BUSINESS TRIAL LAWYERS

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# REPORT

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## U.S. SUPREME COURT UPDATE: CASES OF INTEREST IN OCTOBER TERM 2019

This article summarizes cases before the United States Supreme Court this Term that involve prominent issues of interest to business litigators.

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### EMPLOYMENT/CIVIL RIGHTS

Does discrimination against an employee because of sexual orientation constitute prohibited discrimination "because of . . . sex" under Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e-2?

*Bostock v. Clayton County, Georgia, No. 17-1618* & *Altitude Express, Inc. v. Zarda,* No. 17-1623 (cert. granted April 22, 2019; argued Oct. 8, 2019)

These consolidated cases present what is likely to be the biggest employment issue of the Supreme Court's Term: whether Title VII prohibits employers from discriminating against employees based on their sexual orientation on the ground that this is discrimination "because of . . . sex." The circuits are divided on this issue, with the Second and Seventh Circuits holding that it is, and every other circuit holding that it is not. The Supreme Court has granted certiorari in two consolidated cases—one from the en banc Second Circuit that ruled for the employee and the other from the Eleventh Circuit that ruled for the employer—to decide the issue.

The employers and their amici argue that Title VII protections do not extend to sexual orientation because the statute's text does not include sexual orientation among the enumerated grounds on the basis of which employment discrimination is prohibited. They also argue that the original understanding of the statutory term "because of . . . sex" encompassed only practices that treat men differently from women, not practices that discriminate based on sexual orientation. The employees and their amici conversely contend that a plain text analysis of Title VII's phrase "because of . . . sex" includes invidious differential treatment of employees because of the sex of people to whom they are attracted (i.e., disfavoring men who are attracted to other men but not men who are attracted to women).

The question presented implicates whether employees are protected from retaliation for opposing employer discrimination against fellow employees based on their sexual orientation. Protection under Title VII would also extend to discrimination against an employee because of his or her association with a gay or lesbian person. Thus, the ripple effects of the Supreme Court's decision in this case could reach far and wide.

During oral argument in these cases, the justices appeared to be closely divided, with Chief Justice Roberts and Justices Alito and Kavanaugh appearing to favor the employers' side and Justices Ginsburg, Breyer, Sotomayor, and Kagan appearing to favor the employees' side. (Justice Thomas was silent, per his usual practice.) Justice Gorsuch asked tough questions of both sides, pressing the employers' counsel as to why the employees' plain text reading of "because of . . . sex" was not correct, but also interrogating the employees' counsel about the massive social upheaval he posited would occur if the Court rules in the employees' favor, and in particular why this isn't a policy issue better suited for resolution by Congress. While oral argument is at best an uncertain indicator of how a case will be decided, Justice Gorsuch may end up holding the key vote in these cases.

**Does Title VII's prohibition on employment discrimination "because of . . . sex" include gender identity and thus prohibit discrimination based on transgender status?**

*R.G. & G.R. Harris Funeral Homes, Inc v. EEOC,* No. 18-107 (cert. granted April 22, 2019; argued Oct. 8, 2019)

Along with the question of whether Title VII's antidiscrimination provisions apply to sexual orientation, the Supreme Court agreed to resolve another circuit split about whether Title VII's prohibition on sex discrimination in employment applies to discrimination based on gender identity.

In this case, a funeral director hired as a man informed her employer that she identified as female and would wear women's clothes going forward. Her employer terminated her because of its religious beliefs forbidding gender transitions and its concern about her use of female restrooms and about the discomfort her appearance might cause to grieving families.

The employee argues that the funeral home engaged in sex discrimination because she was treated differently because of the sex she was assigned at birth (i.e., if she had been assigned a female sex at birth, she would not have been terminated for coming to work dressed as a woman). The employee argues that the Supreme Court's decision in *Price Waterhouse v. Hopkins,* 490 U.S. 228 (1989), holding that Title VII prohibits discriminating against employees because they do not adhere to gender norms, requires a ruling in her favor. The employer argues that it does not violate Title VII by refusing to treat men as women and vice versa, as long as it treats men and women equally.

The Supreme Court heard oral argument on the same day as *Bostock v. Clayton County* and *Altitude Express v. Zarda.* The justices grappled with issues such as the impact of their ruling on religious institutions who oppose gender transitions, on employers who have sex-specific dress codes for employees, and on the future viability of sex-segregated group bathrooms in workplaces. The argument was of a piece with the argument in *Bostock* and *Altitude Express,* and as in those cases, the outcome may well come down to Justice Gorsuch.

**Does a claim of race discrimination under 42 U.S.C. § 1981 fail in the absence of but-for causation?**

*Comcast Corp. v. National Association of African-American-Owned Media,* No. 18-1171 (cert. granted June 10, 2019; argued Nov. 13, 2019)

In recent years, the Supreme Court has decided several cases addressing the substantive causation standard required to establish liability under various federal antidiscrimination statutes. In this case, the Court will decide what causation standard applies to claims of racial discrimination in contracting under 42 U.S.C. § 1981, which guarantees to "[a]ll persons . . . the same right . . . to make and enforce contracts . . . as is enjoyed by white citizens . . . ."

The case arises out of Comcast's refusal to host several television channels operated by Entertainment Studios Network (ESN), which is an African-American-owned media company. ESN alleges that Comcast's refusal was racially motivated, in violation of § 1981. The District Court dismissed the case for failure to state a claim on the ground that race was not a but-for cause of Comcast's refusal to contract. The Ninth Circuit reversed, holding that ESN stated a claim under § 1981 by alleging that discriminatory motive played a role in Comcast's refusal to contract, even if it was not the but-for cause of Comcast's decision. Since this decision exacerbated a circuit split, the Supreme Court granted review.

This case represents the confluence of several strands of Supreme Court precedent. After a Supreme Court plurality decided in *Price Waterhouse v. Hopkins,* 490 U.S. 228 (1989), that but-for causation was required to establish liability for employment discrimination in mixed motive cases under Title VII, Congress abrogated that holding in the Civil Rights Act of 1991. It mandates that plaintiffs in mixed motive cases establish only that discrimination "was a motivating factor for any employment practice, even though other factors also motivated the practice." 42 U.S.C. § 2000e-2(m). Nevertheless, the Supreme Court more recently held that but-for causation is the default standard, absent textual indication to the contrary in the relevant statute. *See Gross v. FBL Fin. Servs., Inc.,* 557 U.S. 167 (2009) (holding but-for causation is a required element of a claim under the Age Discrimination in Employment Act); *Univ. of Tex. Sw. Med. Ctr. v. Nassar,* 570 U.S. 338 (2013) (holding but-for causation is a required element of a Title VII retaliation claim). ESN argues that § 1981 does not contain but-for causation language as did the ADEA in *Gross* and Title VII's retaliation provision in *Nassar,* while Comcast argues that § 1981 contains no textual indication that Congress intended to disturb the default but-for causation standard.

At the oral argument, most of the justices indicated they believed the Ninth Circuit got it wrong in holding that but-for causation was not a required element of a § 1981 claim. Where the justices indicated some disagreement was in how to apply that standard at the pleading stage, especially in light of the Court's tightening of notice pleading standards in *Bell Atlantic Corp. v. Twombly,* 550 U.S. 544 (2007), and *Ashcroft v. Iqbal,* 556 U.S. 662 (2009). The likeliest outcome may be the course suggested by Justice Kavanaugh: an opinion explaining that but-for (not motivating factor) causation is the required standard and vacating the Ninth Circuit's opinion with instructions to apply the correct standard on remand.

**CONSUMER PROTECTION**

**Does the vesting of substantial executive authority in the Consumer Financial Protection Bureau, an independent agency led by a single director, violate the separation of powers, and if so, can the constitutional violation be cured by severing the restrictions on the President's authority to remove the CFPB's director?**

*Seila Law, LLC v. Consumer Financial Protection Bureau,* No. 19-7 (cert. granted Oct. 18, 2019; to be argued Mar. 3, 2020)

This is the marquee separation of powers case on the Court's docket so far this Term. Situated at the intersection of sharp jurisprudential battles over the unitary executive theory and intense political debate over the future of the Consumer Financial Protection Bureau (CFPB), the case is likely to be a landmark in the jurisprudence of presidential power and independent administrative agencies.

Seila Law provides assistance with consumer debt. While investigating whether Seila Law violated federal consumer protection laws, the CFPB issued a civil investigative demand seeking information and documents. Seila Law objected that the CFPB's structure violated the constitutional separation of powers because the President cannot remove its single director except "for cause." The CFPB sought judicial enforcement, and the district court granted the petition, holding that the structure of the CFPB did not violate the separation of powers. The Ninth Circuit affirmed, pointing to Supreme Court and D.C. Circuit decisions that upheld similar statutory restrictions on presidential removal authority.

The outcome of this case may have a significant impact on the long-term project of the Court's conservative majority to rein in the "administrative state" and bolster the power of the President over the executive branch. Starting with *Humphrey's Executor v. United States,* 295 U.S. 602 (1935), the Court has imposed limits on the President's power to remove the heads of certain administrative agencies on the ground that those agencies combine legislative, executive, and judicial powers and were thus intended by Congress to be independent of complete presidential direction and control. The CFPB's director has the most far-reaching protections from presidential removal authority of any agency Congress has so far created, and the constitutional test posed by this case will set the direction of litigation in this area for a long time to come.

**Does the "discovery rule" apply to toll the one-year statute of limitations under the Fair Debt Collection Practices Act?**

*Rotkiske v. Klemm,* No. 18-328 (cert. granted Feb. 25, 2019; argued Oct. 16, 2019; decided Dec. 10, 2019)

One tolling doctrine commonly used in personal injury and consumer protection litigation is the discovery rule, under which the statute of limitations does not begin to run until the plaintiff discovers, or should have discovered, his injury and its cause. In this case, the Supreme Court resolved a circuit split about whether the discovery rule applies to toll the statute of limitations for claims arising under the Fair Debt Collection Practices Act (FDCPA).

Defendant collection agency attempted to collect accumulated credit card debt from plaintiff by suing him twice. The first time, defendant attempted service at an address where plaintiff no longer lived. The second time, defendant attempted service at the same incorrect address, where an unrelated addressee accepted service on plaintiff's behalf, and this lawsuit resulted in a judgment against plaintiff. Plaintiff discovered the judgment years later when applying for a mortgage. Plaintiff sued the defendant collection agency for violating the FDCPA, and opposed defendant's dismissal motion by arguing that the discovery rule applied. The district court disagreed and dismissed the action, and the en banc Third Circuit affirmed, creating a circuit split with the Fourth and Ninth Circuits.

The Court issued its opinion in this case on December 10, 2019, holding that the FDCPA's statute of limitations begins to run when a violation occurs, not when the violation is later discovered. The Court's opinion was based largely on the FDCPA's text, but it reserved the question whether an equitable tolling doctrine may apply to fraud-based claims, declining to reach the question in this case because plaintiff failed to preserve it below.

**ENVIRONMENTAL LAW**

**Does the Clean Water Act require a discharge permit when a pollutant originates from a point source but is conveyed to navigable waters by a nonpoint source, such as groundwater?**

*County of Maui v. Hawaii Wildlife Fund,* No. 18-260 (cert. granted Feb. 19, 2019; argued Nov. 6, 2019)

The Clean Water Act (CWA) requires National Pollutant Discharge Elimination System permits for the discharge of pollutants to navigable waters. The County of Maui operates the Lahaina Wastewater Reclamation Facility, which disposes of treated sewage by releasing it from injection wells into groundwater, which then carries the discharge into the Pacific Ocean. Four nonprofits allege that the County violated the CWA by discharging the treated sewage without a permit. However, the County argues that it did not need a permit for this discharge because it sent the pollutant through groundwater, which it argues is not covered by the CWA. The district court and Ninth Circuit disagreed with the County.

The question presented here is whether a pollutant must be delivered directly to a navigable water in order to trigger the CWA's permit requirement or if indirect delivery through groundwater qualifies as well. In recent years, the Supreme Court has narrowed the scope of the CWA in various ways, including which bodies of water qualify as covered "waters of the United States." *See Rapanos v. United States,* 547 U.S. 715 (2006); *Solid Waste Agency of N. Cook Cty. v. U.S. Army Corps of Eng'rs,* 531 U.S. 159 (2001). The oral argument in this case did not lean obviously in favor of one side over the other, with the justices expressing concern to each side about extreme hypotheticals that could result from their opposing interpretations of the CWA.

**Are state common-law claims for restoration of property that seek environmental cleanup remedies that conflict with EPA-ordered remedies preempted by the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)?**

*Atlantic Richfield Co. v. Christian,* No. 17-1498 (cert. granted June 10, 2019; argued Dec. 3, 2019)

This case involves the intersection of state environmental cleanup remedies and private property rights, on the one hand, and the federal Superfund Law (known as CERCLA), on the other. It thus represents the latest test of federal preemption to reach the Court.

This case arises out of environmental pollution emitted for over a century by the Anaconda Smelter in Montana. Atlantic Richfield ("Arco") purchased Anaconda shortly before its closure in 1980. In 1983, the EPA prioritized the site under the Superfund program in order to address the contamination, at a cost of approximately $470 million. In 2008, landowners within the Anaconda Superfund site sued Arco in state court, alleging that the smelter operations caused damage to their properties and asserting a common-law claim for "restoration" damages. The Montana Supreme Court allowed the private landowners to proceed with their state-law "restoration" claims. Arco sought U.S. Supreme Court review, arguing that: (1) the restoration claims constitute a challenge to the EPA's remedy and are thus jurisdictionally barred by CERCLA, which deprives courts of jurisdiction to hear challenges to EPA-selected remedies; and (2) CERCLA preempts state common-law claims for restoration.

At the heart of this case is a conflict between federal and state environmental cleanup remedies. Arco seeks to use federal environmental law to shield itself from further, state-mandated cleanup costs. Arco also highlights the fact that the state-law claims and EPA mandates are at odds with each other. For example, the landowners' restoration plan would require removing soil that the EPA determined should not be removed, or digging trenches where the EPA says they should not be dug. If the landowners were to win restoration damages, the result could be a balkanized patchwork of state environmental remediation regimes, contrary to CERCLA's purpose of centralizing environmental cleanup efforts under a federal aegis.

At the oral argument, most of the justices seemed to lean Atlantic Richfield's way, at least regarding the ultimate result. Justices Ginsburg, Sotomayor, and Kagan pushed back against Atlantic Richfield's most expansive preemption arguments, while none of the justices appeared to embrace the landowners' position. The justices voiced interest in coalescing around a compromise whereby the landowners would be deemed potentially responsible parties under CERCLA, meaning that they would need to seek the EPA's permission to conduct any remediation activity on their land.

**ERISA**

**Is the "more harm than good" pleading standard for ERISA breach of fiduciary duty claims against corporate insiders satisfied by generalized allegations that the harm of an inevitable disclosure of an alleged fraud generally increases over time?**

*Retirement Plans Committee of IBM v. Jander,* No. 18-1165 (cert. granted June 3, 2019; argued Nov. 6, 2019; decided Jan. 14, 2020)

In *Fifth Third Bancorp v. Dudenhoeffer,* 573 U.S. 409 (2014), the Supreme Court recognized the potential that meritless ERISA litigation may be initiated against plan fiduciaries overseeing an employee stock ownership plan (ESOP) whenever there is a drop in the company's stock price. The Court adopted a context-specific pleading standard, under which plaintiffs must "plausibly allege an alternative action that the defendant could have taken that would have been consistent with the securities laws and that a prudent fiduciary in the same circumstances would not have viewed as more likely to harm the fund than to help it." *Id.* at 428.

This case raises the question how *Dudenhoeffer*'s pleading standard should be applied in practice. After the price of IBM's stock dropped, former IBM employees and participants in IBM's ERISA plan sued IBM's 401(k) plan managers, claiming they breached their fiduciary duties in administering IBM's ESOP, which invests primarily in IBM stock. Plaintiffs alleged that defendants knew certain adverse information about the company and failed to disclose that information or otherwise prevent plaintiffs from buying IBM stock. The district court dismissed plaintiffs' claim, the Second Circuit reversed, and the Supreme Court granted review to resolve a circuit split over how *Dudenhoeffer's* pleading standard should be applied.

While sweeping away courts' previous presumption of prudence whenever ESOPs invested in company stock, *Dudenhoeffer* nevertheless set a high bar for plaintiffs asserting fiduciary breach claims regarding management of company stock in ESOPs. In this case, IBM argues that corporate insiders have no ERISA duty to disclose inside information about the company's fiscal health and management in order to use that information for the benefit of the ESOP beneficiaries, and that securities law alone should govern when such disclosures of inside information are required. Plaintiffs conversely argue that generalized allegations that earlier disclosure of adverse inside information is always better than later disclosure satisfy the *Dudenhoeffer* pleading standard.

The Court disposed of this case in a short *per curiam* opinion sending the case back to the Second Circuit to decide whether to consider IBM's and the federal government's new argument that ESOP fiduciaries who are also corporate insiders have no duty to act on corporate inside information when to do so would violate or conflict with the securities laws. Justices Kagan and Gorsuch wrote dueling concurrences debating whether the Second Circuit should take up this issue or deem it waived and what the answer to this question should be. Given the lingering uncertainty over the proper application of *Dudenhoeffer's* pleading standard to corporate insiders, it is likely this issue will return to the Court in short order. This is the latest in a recent string of cases in which the Supreme Court has punted an issue and derailed a case because the petitioner switched horses between its cert. petition and its merits brief, presenting a new issue in the merits brief that the lower courts had not addressed. As the Court said, it is a court of review, not of first view.

**May an ERISA plan participant or beneficiary seek injunctive relief against or restoration of plan losses caused by fiduciary misconduct without demonstrating individual financial loss or the imminent risk thereof, and have plaintiffs demonstrated Article III standing?**

*Thole v. U.S. Bank, NA,* No. 17-1712 (cert. granted June 28, 2019; argued Jan. 13, 2020)

*Thole* presents issues at the intersection of the remedies available under ERISA and Article III standing doctrine. Plaintiffs are beneficiaries of U.S. Bank's pension plan who filed a class action

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lawsuit alleging that U.S. Bank violated ERISA by breaching its fiduciary duties and causing the plan to engage in prohibited transactions with a subsidiary company, resulting in the plan suffering significant losses and becoming underfunded. At issue is whether plaintiffs must demonstrate, as a matter of ERISA's statutory elements or of Article III standing, individual financial loss or the imminent risk of such loss in order to seek injunctive relief or restoration of plan losses caused by a fiduciary breach.

The Eighth Circuit dismissed the case, holding that because the bank pension plan's financial position had recovered and was in a healthy condition, there was no financial loss and plaintiffs had no standing to sue. The U.S. Solicitor General is supporting the plaintiff class members, arguing (as his office and the Department of Labor have in other ERISA cases) that an ERISA fiduciary's breach of duty is an injury giving rise to standing, regardless of whether it causes a pension plan to lose money. The circuit courts are deeply split on this issue, with the Second, Third, and Sixth Circuits following the plaintiffs' and the government's approach, while the Fourth, Fifth, and Ninth Circuits have followed the defendant's approach and denied standing to similarly situated plaintiffs. The Court's opinion should thus resolve this important question.

During the oral argument, the justices' positions broke down along predictable lines. Justices Ginsburg, Breyer, Sotomayor, and Kagan asked skeptical questions of U.S. Bank's counsel and seemed to favor the plaintiffs' position, while Chief Justice Roberts and Justices Alito and Gorsuch seemed skeptical that plaintiffs have the requisite standing to pursue their ERISA claims. Justice Kavanaugh asked tough questions of both sides and appeared torn about the outcome, so his vote may be determinative.

**Does ERISA's three-year statute of limitations, which runs from "the earliest date on which the plaintiff had actual knowledge of the breach or violation," bar suit where all of the relevant information was disclosed to the plaintiff more than three years before the plaintiff filed suit, but the plaintiff did not read it?**

*Intel Corp. Investment Policy Committee v. Sulyma,* No. 18-1116 (cert. granted June 10, 2019; argued Dec. 4, 2019)

This case addresses how ERISA's statute of limitations, and in particular its "actual knowledge" requirement, applies where plaintiff has access to the necessary information but does not read it. Plaintiff, an Intel employee, participated in the company's retirement plan and sued the plan for imprudently investing plan funds in violation of ERISA. ERISA requires plaintiffs asserting such claims to file suit within six years of the fiduciary's breach or within three years of when plaintiff gains actual knowledge of the breach. The district court granted Intel summary judgment on the ground that plaintiff gained actual knowledge of the breach at issue when he received the plan documents from Intel more than three years before filing suit, even though he did not read those documents. Creating a split with the Sixth Circuit, the Ninth Circuit reversed and held that "actual knowledge" requires that the plaintiff actually be aware of the facts constituting the breach, not merely that those facts are available but not known to the plaintiff.

The oral argument in this case appeared to go heavily in plaintiff's favor. Almost all of the justices, from both sides of the ideological spectrum, peppered Intel's lawyer with skeptical questions focused on the text of the ERISA statute of limitations, and in particular its "actual knowledge" language. While predicting the outcome of a case from oral argument is a hazardous endeavor, it seems likely that plaintiff will prevail in this case.

**ARBITRATION**

**Does the Convention on the Recognition and Enforcement of Foreign Arbitral Awards permit a nonsignatory to an international arbitration agreement to compel arbitration based on the doctrine of equitable estoppel?**

*GE Energy Power Conversion France SAS v. Outokumpu Stainless USA, LLC,* No. 18-1048 (cert. granted June 28, 2019; argued Jan. 21, 2020)

The Court's latest foray into arbitration law arises not from its usual fodder of recent years—arbitral class action waivers and preemption of state unconscionability and other public policy doctrines—but rather from the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (known as the New York Convention and incorporated into the Federal Arbitration Act (FAA)). This case asks whether a nonsignatory to an

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international arbitration agreement can compel a signatory to arbitrate based on equitable estoppel principles.

The dispute arises from international agreements for the provision of cold rolling mills required to operate a steel production plant in Alabama. Outokumpu Stainless USA operated the plant and contracted with Fives St. Corporation, a German company, to supply the cold rolling mills. Fives subcontracted with GE Energy Power Conversion France, a French subsidiary of General Electric, to supply motors for the mills. Both contracts contained arbitration agreements requiring arbitration in Germany under German law. When the mills failed, Outokumpu sued GE Energy in Alabama state court, and GE Energy removed the case to federal court and moved to compel arbitration under the New York Convention. Outokumpu moved to remand the case to state court and opposed arbitration, but the district court denied remand and compelled arbitration. The Eleventh Circuit affirmed the denial of remand but reversed the district court's granting of the motion to compel arbitration, holding that the New York Convention requires a written agreement to arbitrate that is "signed by the parties" and that this language means the parties to the litigation rather than the parties to the arbitration agreement. The Eleventh Circuit reasoned that no agreement was signed by the parties before the court because Outokumpu's contract was with Fives, not GE Energy. The Eleventh Circuit acknowledged that Chapter 1 of the FAA empowers nonsignatories to compel arbitration under the doctrine of equitable estoppel, but concluded that the New York Convention (Chapter 2 of the FAA) does not allow this maneuver. In so ruling, the Eleventh Circuit widened a 2-2 circuit split on this issue, prompting the Supreme Court to grant review.

This case will require the Court to focus on interpreting the language of the New York Convention, in particular its "signed by the parties" requirement. The Convention's silence on whether nonsignatories may enforce an international arbitration agreement will impact the construction and stability of such agreements, given that parties to international arbitration agreements, like domestic ones, need to know whether they can be enforced through generally accepted principles of contract law like equitable estoppel.

At the oral argument, the justices appeared split about the outcome of this case, making it difficult to predict. Chief Justice Roberts and Justices Alito and Kagan asked skeptical questions of GE's counsel, emphasizing the general principle that only parties to a written agreement may compel arbitration under it, while Justices Breyer and Gorsuch sounded more favorable to GE's position that equitable estoppel could apply under the New York Convention under these circumstances. Justices Ginsburg and Sotomayor asked challenging questions of both sides, while Justices Thomas and Kavanaugh were completely silent.

**CIVIL PROCEDURE**

**When a plaintiff asserts new claims, can federal preclusion principles bar a defendant from raising defenses that were not actually litigated and resolved in any prior case between the parties?**

*Lucky Brand Dungarees, Inc. v. Marcel Fashions Group, Inc.,* No. 18-1086 (cert. granted June 28, 2019; argued Jan. 13, 2020)

This case raises the issue of whether claim or issue preclusion principles can be applied to bar the assertion of a defense in federal court.

Lucky Brand Dungarees and Marcel Fashion Group are competitors in the fashion industry. In 2003, the parties entered into a settlement agreement to resolve a trademark dispute, in which Lucky Brand agreed not to use the "Get Lucky" trademark and Marcel agreed to release future claims regarding its trademarks. In 2005, further litigation ensued involving the scope of the settlement agreement, in which Lucky Brand argued that Marcel's trademark infringement claims were released in the settlement agreement. That litigation resulted in a jury finding that Lucky infringed Marcel's "Get Lucky" mark after May 2003 and an injunction prohibiting Lucky from using the "Get Lucky" trademark.

In 2011, Marcel filed another lawsuit against Lucky Brand alleging infringement of Marcel's "Lucky Brand" trademark. After various procedural twists and turns, Lucky moved to dismiss Marcel's claims on the basis that the release in the 2001 settlement agreement barred Marcel's claims. Marcel opposed on the ground that Lucky Brand's release defense was precluded by res judicata because Lucky Brand could have raised that defense in the 2005 action but failed to do so. The district court granted Lucky Brand's motion and dismissed Marcel's claims, but the Second Circuit vacated the judgment, holding that litigation defenses are subject to federal preclusion principles and that res judicata barred Lucky Brand from invoking its release defense again in this action.

The Supreme Court likely granted review because the Second Circuit's decision to recognize the concept of "defense preclusion" created a circuit split with three other circuits, thereby destabilizing the uniformity of preclusion doctrine across the federal court system. The traditional rule is that claim preclusion applies only where the claim at issue in the prior and the current lawsuits is the same. Where the claims are different, only issue preclusion could possibly apply, and then only where the issue was actually litigated and decided in the first proceeding (which all agree did not occur in this case). Thus, the Second Circuit's new rule of "defense preclusion" threatens to conflate the long distinct and well-established concepts of claim preclusion and issue preclusion. Civil practitioners should keep a close eye on how the Supreme Court reacts to this innovation and whether it allows it to survive.

At the oral argument, most of the justices appeared ready to reverse the Second Circuit's decision, although it remained unclear whether the Court would address the existence of defense preclusion vel non. Chief Justice Roberts and Justices Breyer, Sotomayor, and Gorsuch all questioned the concept of defense preclusion to varying degrees, and Justices Ginsburg and Kagan also sounded skeptical of Marcel's position based on the facts of this case. Justice Kagan suggested a narrow disposition that could win the day, under which the Court could recognize that Marcel's claim for the "Lucky Brand" mark is a new claim that was not at issue in the earlier litigation over the "Get Lucky" mark, so that even if defense preclusion does exist, it doesn't apply here.

**INTELLECTUAL PROPERTY**

**Is willful infringement a prerequisite for an award of profits in a trademark infringement action under the Lanham Act?**

*Romag Fasteners, Inc. v. Fossil, Inc.,* No. 18-1233 (cert. granted June 28, 2019; argued Jan. 14, 2020)

This case addresses an important and recurring question regarding the remedies available for trademark infringement under the Lanham Act, a question on which the circuits are deeply and evenly divided: whether a plaintiff claiming trademark infringement under the Lanham Act must prove willful infringement in order to recover the defendant's profits.

Plaintiff Romag Fasteners sells magnetic snap fasteners for use in wallets and other leather goods. Defendant Fossil, Inc. designs, markets, and distributes fashion accessories. Fossil and Romag entered into an agreement to use Romag fasteners in Fossil's products. Romag later discovered that certain Fossil handbags sold in the United States contained counterfeit snaps bearing the Romag mark. Romag sued Fossil for patent and trademark infringement based on Fossil's use of the Romag mark on counterfeit goods. A jury found that Fossil infringed Romag's trademarks but did not do so willfully. The jury nevertheless awarded Romag lost profits as well as damages, finding that Fossil acted with "callous disregard" for Romag's trademark rights. The District Court stuck the lost profits award, ruling that "willfulness" is a requirement for an award of profits for trademark infringement. The Federal Circuit affirmed the striking of Romag's lost profits award because Romag had failed to prove that Fossil's infringement was willful.

The Supreme Court's decision here promises to resolve an intractable circuit split on an important and recurring issue of trademark law. Six circuits allow recovery of a trademark infringer's profits under the Lanham Act without requiring a threshold showing of willfulness, considering whether the infringer acted willfully as one factor among many. Six other circuits require proof of willfulness to allow plaintiffs to recover lost profits for trademark infringement under the Lanham Act. Because a Lanham Act plaintiff's actual damages from trademark infringement are often difficult to measure, especially in the modern transnational economy of decentralized supply chains and outsourcing of manufacturing functions abroad, an award of an infringer's profits is often the only way to provide meaningful relief to a trademark holder for infringement.

At the oral argument, most of the justices appeared to be leaning in favor of Romag's position. Justices Ginsburg, Sotomayor, Kagan, Gorsuch, and Kavanaugh all asked skeptical questions of Fossil's counsel, zeroing in on the fact that the Lanham Act uses the phrase "principles of equity" rather than the word "willfulness" in setting the standard for an award of an infringer's profits. The Court seemed to favor a more holistic inquiry, in which willfulness is an important factor but not a threshold requirement for awarding an infringer's profits.

**(1) Does copyright protection extend to a software interface? (2) If so, is a program developer's use of a software interface to create a new computer program protected by fair use?**

*Google, LLC v. Oracle America, Inc.,* No. 18-956 (cert. granted Nov. 15, 2019)

This is the marquee intellectual property case on the Supreme Court's docket this Term. It asks whether software interfaces—lines of computer code that allow developers to utilize prewritten libraries of code to perform particular tasks in creating new computer programs—are protected by copyright law and, if so, whether the fair use doctrine provides a defense to copyright infringement claims in this context.

Google and Oracle have been locked in litigation for years over copyright infringement claims related to Sun Microsystems' Java platform (which Oracle purchased in 2010), and in particular Java's software interfaces. Google used Java software interfaces to develop its Android smartphone platform with Sun's blessing, but once Oracle acquired Sun, it sued Google for patent and copyright infringement. Google defended against the copyright claim on the ground that the Java software interfaces were not copyrightable and that, even if they were, Google's incorporation of them into Android was fair use. When the jury hung on the fair use defense after a first trial, the district judge granted Google judgment as a matter of law on the ground that the software interfaces were not copyrightable. The Federal Circuit reversed, holding that they were copyrightable, and the Supreme Court declined to take the case up in that interlocutory posture. On remand, after a second trial, the jury found in Google's favor on its fair use defense, but the Federal Circuit again reversed on that issue and ruled that Google did not engage in fair use as a matter of law.

The Federal Circuit's copyrightability holding deepened an existing circuit split, and that factor, along with the importance of the questions presented to the future of the software industry, likely prompted the Court to grant certiorari. The copyrightability question revolves around two related legal doctrines: section 102(b) of the Copyright Act and the merger doctrine. Section 102(b) embodies copyright law's idea-expression dichotomy by withholding copyright protection from "any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such [original] work." 17 U.S.C. § 102(b). Google argues that software interfaces like Java are "methods of operation" that are not copyrightable, and the Supreme Court granted certiorari in a 1996 case to decide that question but ended up affirming by an equally divided Court. The merger doctrine also implements the idea-expression dichotomy by withholding copyright protection where an idea is incapable of being expressed in more than one way, deeming the idea and the expression of the idea to "merge" and thus become unprotectable by copyright law. Google argues that the merger doctrine excludes software interfaces like Java from copyright protection, an issue on which the circuits are also split.

The Federal Circuit's fair use holding is also before the Court, with Google highlighting various aspects of fair use doctrine in need of the Court's guidance, including the role that functionality of the expression plays in applying the fair use factors, how the transformative use test should be applied to software interfaces, and how the market harm analysis should be conducted in this context.

The Court's opinion in this case will have monumental implications for the future of the software industry and computer programming in general, and it will likely be a landmark in policing the boundary between copyright and patent law and in the development of the fair use doctrine.

**Does the addition by an online business of a generic top-level domain (".com") to an otherwise generic term create a protectable trademark and avoid the Lanham Act's exclusion of generic terms from trademark protection?**

*U.S. Patent & Trademark Office v. Booking.com B.V.,* No. 19-46 (cert. granted Nov. 8, 2019)

The company Booking.com B.V. operates a website allowing customers to book hotel accommodations online. It filed trademark registration applications for the term "BOOKING.COM" with the U.S. Patent and Trademark Office (USPTO) for use of the term in connection with online hotel reservation services. The USPTO examining attorney refused registration on the ground that the term BOOKING.COM is generic and ineligible for trademark protection. Booking.com appealed to the Trademark Trial and Appeal Board (TTAB), which affirmed. Booking.com then brought suit in federal district court in the Eastern District of Virginia, which disagreed with the TTAB and held that the term BOOKING.COM is protectable and not impermissibly generic because Booking.com's survey evidence showed that the public associates the term with its particular business and website. The Fourth Circuit affirmed, creating a split with the Ninth and Federal Circuits, and the Supreme Court granted the Solicitor General's petition for certiorari to resolve the split.

The question presented is important for the future of competition in online advertising. If affirmed, the Fourth Circuit's holding would allow early registrants to gain a virtual monopoly over terms in common usage for purposes of online advertising, and thereby crowd out any competitors. As early as 1888, the Supreme Court held that appending the terms "Company" or "Inc." to a generic term does not render the resulting term protectable under trademark law, and the Solicitor General strongly argues that the same principle applies to the online advertising context of the internet. Whether the Court agrees should become apparent once oral argument is held in the spring.

**SECURITIES LAW**

**Can the Securities and Exchange Commission (SEC) seek and obtain disgorgement from a court as equitable relief for a securities law violation even though the Supreme Court has determined that such disgorgement is a penalty?**

*Liu v. SEC,* No. 18-1501 (cert. granted Nov. 1, 2019; to be argued Mar. 3, 2020)

This case puts in peril the most potent weapon in the remedial arsenal of the SEC in pursuing civil enforcement actions in federal court: disgorgement. The federal securities laws permit the SEC to seek three types of remedy in such actions: injunctions, civil monetary penalties (which are limited in amount by statute), and equitable relief (including restitution for unjust enrichment). Two Terms ago, in *Kokesh v. SEC,* __ U.S. __, 137 S. Ct. 1635 (2017), the Supreme Court held that disgorgement is a type of penalty for purposes of the applicable statute of limitations because its primary purpose is to punish violations of the securities laws and deter future violations; defendants frequently have to pay more in disgorgement than they gained from their victims; and disgorged funds are generally paid to the government and not to victims. During the oral argument in *Kokesh*, a majority of the justices expressed doubt as to the existence of any statutory authority for the SEC to seek disgorgement and did not appear to agree that disgorgement was a form of equitable relief, as lower courts have held. In its opinion in *Kokesh*, the Court expressly reserved the question "whether courts possess authority to order disgorgement in SEC enforcement proceedings or on whether courts have properly applied disgorgement principles in this context." *Id.* at 1642 n.3.

This case takes up where *Kokesh* left off. The SEC brought a civil enforcement action against Charles Liu and Xin Wang for fraudulently soliciting investments in connection with the EB-5 Immigrant Investor Program, which offers permanent residence to aliens who make a significant investment in a U.S. commercial enterprise. After the district court found that Liu and Wang had violated the securities laws, the SEC sought and was granted an injunction, over $8 million in civil monetary penalties, and over $26 million in disgorgement. Both the district court and the Ninth Circuit rejected Liu and Wang's challenge to the SEC's authority to order disgorgement, concluding that disgorgement is a form of equitable relief authorized by the federal securities laws.

Given this history, it seems probable that the Court will reverse and hold that disgorgement is not an available remedy in SEC civil enforcement actions. If the Court does so, its opinion may have significant implications for other agencies and their enforcement strategies because agencies as diverse as the Federal Trade Commission, the Environmental Protection Agency, the Food and Drug Administration, the Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, and the Federal Energy Regulatory Commission regularly seek and obtain disgorgement as a form of equitable relief in civil enforcement proceedings. If this case sweeps that remedy away, the ripples from its holding may reverberate for some time to come.

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