

CASE COMMENTARIES

BUSINESS ASSOCIATIONS

Under Tennessee law, the *Allen* test is the proper test to be used in order to determine whether the corporate veil may be pierced and trial courts are required, pursuant to Tenn. R. Civ. P. 52.01, to state their findings of fact and conclusions of law for proper application of the *Allen* factors in piercing the corporate veil. *F & M Mktg. Servs., Inc. v. Christenberry Trucking & Farm, Inc.*, 2015 WL 6122872, 2015 Tenn. App. LEXIS 846 (Tenn. Ct. App. Oct. 19, 2015).

By Rebecca Loveday

In 2005, F&M Marketing Services (“F&M”) was awarded a judgment against Christenberry Trucking & Farm, Inc. (“Christenberry”) for approximately \$375,000; however, at the time of the ruling, Christenberry had no assets and could not satisfy the judgment. F&M filed suit against Christenberry to pierce the corporate veil and hold its primary shareholder, Clayton Christenberry, Jr., personally liable.

At trial, the court orally ruled in favor of Appellees, refused to prepare a Finding of Fact or Conclusion of Law, failed to find and apply the proper law in regard to piercing the corporate veil, and asked each party to prepare a Finding of Fact, which the judge then entered on his own.

On appeal, the Tennessee Court of Appeals determined: 1) whether the trial court made sufficient findings of fact and conclusions of law that were a product of its independent judgment; (2) whether the court erred in its determination of the appropriate test used to pierce the corporate veil; and (3) whether the court’s findings of fact were adequate for application under the *Allen* factors.

First, the court held that the trial court failed to comply with Tenn. R. Civ. P. 52.01, which states that courts “*shall* find the facts specifically and state separately its conclusions of law and direct the entry of the appropriate judgment.” Prior to July 1, 2009, courts were required to make these specific findings only if requested by a party and before a judgment was entered. The current law requires courts to make such findings, even absent a party’s request. Furthermore, “the absence of findings and conclusions . . . leaves the parties without the thing they most need: a decision.” Because Findings of Fact are mandatory and

“not a mere technicality,” the trial court was “categorically incorrect” in its omission.¹

Second, the court held that the trial court erred in its determination of the appropriate test used to pierce the corporate veil. In doing so, the court looked to three tests that the trial court applied: 1) the *Continental Bankers* test; 2) the *Barbour* test; and 3) the *Allen* test. The court reasoned that the *Continental Bankers* test was wrongly used because the test typically involves a parent-subsidiary relationship, which was absent from the case at hand. Also, the *Barbour* test was wrongly used because the trial court applied a “sham or dummy corporation test,” when no such test existed. Thus, the court held that the trial court should have used the *Allen* test, as indicated by the Tennessee Supreme Court in the seminal case of *Rogers v. Louisville Land Co.*, 367 S.W.3d 196 (Tenn. 2012).

Third, the court determined whether the adopted Findings of Fact were satisfactory under the *Allen* test. The *Allen* test requires courts to determine whether the entity to be pierced has been used for fraud or injustice, followed by a non-exhaustive list of eleven factors to be considered. The court further stated that:

“[Although] there is no bright-line test by which to assess the sufficiency of the trial court’s factual findings, the general rule is that the findings of fact must include as much of the subsidiary facts as is necessary to disclose to the reviewing court the steps by which the trial court reached its ultimate conclusion on each factual issue.”

Here, the court determined that the trial court, once again, fell short of what was required of it because it could not be determined which factors the trial court applied, considered, or weighed. Because “it is impossible to decipher upon which factors [and facts] the trial court based its decision,” Tenn. R. Civ. P. 52.01 required the court to vacate the judgment and remand it to the trial court.

¹ The Tennessee Court of Appeals also noted that it was wrong for the trial court to ask the parties to prepare and submit a Finding of Fact because Tenn. R. Civ. P. 52.01 requires a court’s decision to be “the result of the exercise of the trial court’s own judgment.”

In light of this decision, transactional attorneys in Tennessee should ensure that trial courts explicitly include Findings of Fact and Conclusions of Law in the record, prepared by the judge, as required by Tenn. R. Civ. P. 52.01, which was revised in order to better facilitate appellate review. Further, courts should note that the proper test, unless otherwise provided, to use in determining whether a plaintiff may pierce the corporate veil is the *Allen* test, which requires a court to determine whether an entity was used for fraud or injustice, followed by a weighing of eleven non-exhaustive factors.

CONTRACTS/INSURANCE

The Sixth Circuit Court of Appeals held that: (1) insurance settlement agreements are to be construed in context; (2) the issuance of a two-party check does not, by itself, divest either party of its interest in the check; and (3) lenders who issue mortgages maintain a separate interest in settlement proceeds resulting from property damages, distinct from the lenders' interest in the borrower's debt. *Dawood v. JPMorgan Chase Bank*, No. 15-1242, 2015 WL 5637548, 2015 U.S. App. LEXIS 17037 (6th Cir. Sep. 25, 2015).

By Samuel Ferguson

In *Dawood v. JPMorgan Chase Bank*, the Sixth Circuit Court of Appeals addressed three issues: (1) whether courts may look to context surrounding insurance settlement agreements in order to construe ambiguous terms; (2) whether a change of a settlement proceeds check from a single-party check to a two-party check divests the initial recipient of its interest in the settlement proceeds; and (3) whether lenders who issue mortgages maintain an ongoing interest in settlement proceeds resulting from property damages, distinct from the lenders' interest in the borrower's debt.

Rafah Dawood ("Plaintiff") purchased a home insurance policy (the "Policy") through Farmer's Insurance ("Farmers"), which covered losses against fire damage and named JP Morgan Chase ("Defendant") as the payee. On December 30, 2010, Plaintiff's home burned down. At that time, the home was encumbered with two mortgages and a lien of which the Defendant owned the interests. After the fire, Defendant discharged the second mortgage and the home was sold as a foreclosure. Defendant also discharged the remainder of the first mortgage.

A few years later, Plaintiff and Farmers entered into a joint stipulation in which Farmers agreed to pay Plaintiff an immediate \$175,000 for personal property losses “in exchange for [Plaintiff’s] release and discharge of Farmers [from] any and all future liability claims and demands.” The stipulation further indicated that Farmers “would pay either a negotiated settlement amount, or up to the full amount, of the lien on the property held by [Defendant]”

Farmers later negotiated a settlement with Defendant and issued a check naming Defendant as the only recipient. Upon learning that Plaintiff intended to assert rights to the funds, Farmers cancelled the initial check and issued a two-party check to both Plaintiff and Defendant. Plaintiff filed suit in Wayne County Circuit Court, seeking a declaratory judgment in order to establish the owner of the proceeds. Defendant removed the case to federal district court and moved to dismiss on grounds that Plaintiff had waived her right to the proceeds from the two-party check when Plaintiff entered into the joint stipulation and because the home insurance policy named Defendant as the payee. The district court granted the motion, holding that Defendant had standing to bring suit and successfully assert that it was entitled to collect the entirety of the settlement funds.

On appeal, the Sixth Circuit affirmed the district court’s findings after addressing three issues: (1) whether the joint stipulation was ambiguous as to which party would receive the settlement proceeds, once the negotiated settlement amount had been determined; (2) whether Defendant was divested of its standing as a third-party beneficiary of the joint stipulation between Plaintiff and Farmers; and (3) whether Defendant divested itself of any interest in the insurance proceeds by discharging Plaintiff’s mortgages.

First, the court applied its previous decision in *Perry v. Sied*, 611 N.W.2d 516, 520 (Mich. 2000), noting that although the joint stipulation did not expressly identify to whom the insurance proceeds must be paid, “the terms of an agreement . . . are to be construed in context.” The court read the terms of the joint stipulation and the insurance policy, reasoning that – when read together – they clearly prevent Plaintiff from recovering any amount above \$175,000 for personal property loss. The home insurance policy named Defendant as the payee and the joint stipulation stated that Farmers would pay the lien holder – here, the Defendant – a negotiated amount. Thus, the court held that the terms of the joint stipulation and insurance policy were clear as to whom the intended recipient was and that Defendant was the intended third-party beneficiary to the joint stipulation.

Second, the court held that Farmers' issuance of a two-party check was insufficient to show that Farmers intended to divest Defendant of its standing as a third-party beneficiary to the joint stipulation. The court found that Farmers issued the check to both parties only to avoid subsequent litigation, depending on the outcome of the litigation, and not to divest Defendant of its interest in the proceeds.

Third, the court held that Defendant's discharge of Plaintiff's mortgages did not divest its interest in the settlement proceeds. The court reasoned that when the house burned down, the lender's rights were triggered, automatically giving Defendant an interest in the proceeds as it was the named payee of the policy, even though Defendant discharged the debts before receipt of the proceeds. Further, Defendant's interest in the insurance proceeds, pursuant to the mortgage agreement, was separate from its interest in Plaintiff's debt. Thus, the time of discharge had no impact on Defendant's interest.

In light of *Dawood*, the Sixth Circuit Court of Appeal's approach to contract interpretation remains consistent with general principles of contract law. The Sixth Circuit construes the terms of an agreement based on the context as well as the plain language of the agreement. Lawyers who practice in the Sixth Circuit can avoid a *Dawood* situation by specifically naming intended beneficiaries, as well as by stating the reasons for which a two-party check may be issued. Further, because lienholders maintain distinct interests in borrowers' debt – and possibly insurance settlement proceeds – practitioners should note that an interest is not divested merely by discharging debt before the receipt of the proceeds; and a borrower has no standing to recover insurance proceeds if his or her debt is discharged before the the payment of the insurance proceeds.

COPYRIGHT

The Sixth Circuit held that a registration certificate issued by the U.S. Copyright Office is a presumption of a valid copyright, and also adopted a hybrid version of the design-process test in order to determine whether a design is separable from a useful article and its utilitarian features. *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468 (6th Cir. 2015).

By Michael Ransom

In *Varsity Brands, Inc. v. Star Athletica, LLC*, the Sixth Circuit Court of Appeals addressed the question of whether “pictorial, graphic, or sculptural features,” that are incorporated into “the design of a useful article,” can be identified separately from, and exist independently of, the utilitarian aspects of the article, making those features copyrightable.

Varsity Brands, Inc. (“Varsity”) designs and manufactures apparel and accessories for cheerleading and other athletic activities, and it also owns registered copyrights for multiple design elements. Star Athletica, LLC, (“Star”) also sells athletic gear for cheerleading and is a competitor of Varsity. After coming across Star’s marketing materials, Varsity sued Star for copyright infringement, claiming that Star was marketing cheerleading uniforms with elements that were similar to five of its registered designs.¹ Varsity also brought suit under Tennessee law for: 1) unfair competition; 2) inducement of breach of contract; 3) inducement of breach of fiduciary duty; and 4) civil conspiracy.²

After discovery ended, both parties filed motions for summary judgment. The district court granted summary judgment in Star’s favor for the copyright claims, finding:

Varsity’s designs were not copyrightable because the graphic elements of Varsity’s designs are not physically or conceptually separable from the utilitarian function of a cheerleading uniform because the colors, stripes, chevrons, and similar

¹ Varsity had previously registered five copyrights with the United States Copyright Office for two-dimensional designs that it used on cheerleading uniforms, including chevrons, lines, curves, stripes, angles, diagonals, inverted chevrons, colorings, and shapes.

² Star also filed counter claims, which are not discussed here.

designs typically associated with sports in general, and cheerleading in particular make the garment they appear on recognizable as a cheerleading uniform.

In light of these findings, the district court held that “the aesthetic features of a cheerleading uniform merge with the functional purpose of the uniform.”³ With no remaining federal claim, the district court refused to exercise supplemental jurisdiction and dismissed Varsity’s case including the state law claims.

Under Sixth Circuit law, in order to prove copyright infringement, a plaintiff must show that: 1) it owned a valid copyright in the designs; and 2) the defendant copied protectable elements of the work. The first prong of the test is used to determine the originality and non-functionality of the work, and courts look to the following five elements to establish the validity of a copyright:

- 1) the originality in the author; 2) the copyrightability of the subject matter; 3) a national point of attachment of the work, such as to permit a claim of copyright; 4) compliance with applicable statutory formalities; and 5) (if the plaintiff is not an author) a transfer of rights or other relationship between the author and the plaintiff so as to constitute the plaintiff as the valid copyright claimant.

The second prong is used to determine whether a valid copyright was copied and whether the portions copied were entitled to legal protection.

On appeal, the Sixth Circuit Court of Appeals noted that the only issue before it was whether the subject matter of Varsity’s designs was copyrightable and therefore a valid copyright under the first prong of the test. The court then addressed Varsity’s arguments which asserted that: 1) the district court did not afford appropriate deference to the Copyright Office’s determination of copyrightability; 2) the district court used the wrong approach to determine whether a design is copyrightable subject matter that is separable from the utilitarian aspects of the article;

³ The district court did not address the originality of Varsity’s designs.

and 3) its designs are copyrightable as a matter of law because they are graphic works and not useful articles.

First, the court noted that Varsity successfully registered five designs with the Copyright Office; and a certificate of registration “constitutes prima facie evidence of the validity of the copyright”⁴ When a plaintiff introduces evidence that the work at issue was registered, the burden shifts to the defendant in order to prove that the plaintiff’s copyrights are invalid. In determining how much evidentiary weight to accord to the Copyright Office’s determination, the court held that a registered design protectable under the Copyright Act is entitled to *Skidmore* deference. The court found that *Skidmore* deference was appropriate because the Copyright Office: 1) has experience identifying useful articles and pictorial, graphic, and sculptural works; 2) publishes an internal manual that instructs employees how to apply the provisions of the Copyright Act; 3) consistently applied the same interpretation of separability to Varsity’s registrations; 4) consistently found Varsity’s registrations to be original and separable from the utilitarian aspects of the cheerleading uniforms; 5) used sound legal reasoning; and 6) is an expert agency in identifying the difference between art and function.⁵ The court held that the district court did not give Varsity’s registration *Skidmore* deference and thus failed to appropriately defer to the Copyright Office’s determination. As a result, the burden to rebut the presumption of validity shifted to Star.

This shift raised the second issue; namely, whether Star could rebut Varsity’s presumption of validity. In order to determine whether Varsity’s registrations were protectable, the court must determine:

- 1) whether the design for which the author seeks copyright protection is a design of a useful article; and 2) whether the design of the useful article incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspect of the useful article.

⁴ 17 U.S.C. §410(c) (1976).

⁵ The court also looked to what its sister courts did and decided to fall in-line with the Second, Third, Ninth, and Eleventh Circuits.

The court declined to be the first circuit to split in its interpretation of separability, recognized both the physical separability⁶ and conceptual separability test⁷, and held that the Copyright Act protects two-dimensional works “of a design of a useful article even if those features cannot be removed physically from the useful article, as long as they are conceptually separable from the utilitarian aspects of the article.”

The court looked to other circuits for clarification on the design process approach, which determines whether a pictorial, graphic, or sculptural work is conceptually separable. After reviewing the approach taken by other circuits, the court adopted its own version of the design process approach. Under the Sixth Circuit’s design process test, courts should ask a series of questions in order to determine whether a two-dimensional work is conceptually separable from its utilitarian features. First, is the design a pictorial, graphic, or sculptural work? If yes, is it a design of a useful article?⁸ If yes, what are the utilitarian aspects of the useful article?⁹ Can the viewer of the design identify pictorial, graphic, or sculptural features separately from the utilitarian aspects of the useful article? If so, can the pictorial, graphic, or sculptural features of the design of the useful article exist “independently of the utilitarian aspects of the [useful] article?” If any of the questions are answered negatively, then the utilitarian design is not copyrightable.

In this case, the court determined that the answers to all five questions were affirmative. First, the copyright registrations that Varsity received were for two-dimensional works of graphic art. Second, Varsity’s designs were sketches of cheerleading uniforms that did not merely portray clothing or information. Third, the utilitarian aspects of the cheerleading uniforms are to cover the body, absorb moisture, and

⁶ When a useful article contains two-dimensional figures that can be physically separated from it while leaving the useful article intact.

⁷ When a feature of the useful article is clearly recognizable as a pictorial, graphic, or sculptural work, notwithstanding the fact that it cannot be physically separated from the article by ordinary means.

⁸ An article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. If the design is not the design of a useful article, then there is no need to inquire into whether there are pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of the utilitarian aspects of the useful article.

⁹ See 17 U.S.C. §101 (2010) (defining “useful article”).

withstand cheerleading movements. Fourth, graphic features of Varsity’s designs and arrangements could be identified separately from the parts of the uniform covering the body and performing other utilitarian functions. Fifth, the designs may exist independently of the useful article because Varsity can transfer the designs from the uniform to other articles and may be incorporated onto a number of different uniforms. Thus, the court affirmatively answered all of the questions and held that Varsity’s designs were copyrightable subject matter because they “can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the cheerleading uniforms.”

In *Varsity*, the Sixth Circuit clarified its views on what falls under the subject matter of copyrightability. Transactional attorneys in the Sixth Circuit should know that the court adopted a *Skidmore* level of deference with regard to copyrights registered by the Copyright Office. This means that a registration certificate from the Copyright Office is considered a presumption of a valid copyright, which shifts the burden to the opposing party to rebut the presumption’s validity. Furthermore, the Sixth Circuit adopted its own hybrid version of the design-process test, which is used to determine whether the designs in question are separable from the useful article and the useful article’s utilitarian aspects.

LABOR AND EMPLOYMENT

Under Tennessee law, it is wrongful to discharge a public employee for engaging in conduct protected by the Tennessee Public Protection Act, regardless of a chain-of-command policy.
Williams v. City of Burns, 465 S.W.3d 96 (Tenn. 2015).

By FolaSade Omogun

In *Williams v. City of Burns*, the Tennessee Supreme Court addressed whether terminating a public employee for whistleblowing, when the employer had a separate process for reporting illegal activity and the employee did not follow it, is a non-retaliatory reason to fire an employee.

In 2008, Captain Larry Williams (“Williams”) drafted a new traffic citation policy for Chief Jerry Sumerour (the “Chief”).¹ The Police Department of the City of Burns (the “Department”) approved and set

¹ The City of Burns represented Chief.

into effect the new policy, which stated: “once an officer in the field issues a traffic citation, the issuing officer is not permitted to cancel the ticket or convert it into a warning.”

After the policy went into effect, Williams stopped a speeding driver, who turned out to be the Chief’s stepson. Williams issued the Chief’s stepson two speeding tickets. Later that evening, Chief asked Williams to stop by Chief’s home and to bring the traffic citations with him. While there, Chief asked Williams to write “warning” on the traffic tickets and give them to Chief. Williams initially refused because he did not want to violate the new traffic policy, but eventually did what Chief asked him to do.

The next morning, Williams met with the Mayor of Burns, Jeff Bishop (“Mayor”), at the Department and informed him of what happened; Chief also discussed the situation with Mayor and an attorney. Based on the conversation, Chief issued the tickets as warnings, “wrote up” Williams for discussing the situation with Mayor, because Mayor was outside of the chain of command, and threatened to fire Williams. Williams met with Mayor again and informed him that Chief was trying to fire him.

Mayor eventually called Chief and told him that the tickets should not be issued as warnings and scheduled a meeting with him. At the meeting, Mayor told Chief that Williams was trying to have him fired and that Williams discussed the situation with three other officers in the Department. Chief obtained written statements from the three officers and terminated Williams employment on April 9, 2008. Williams was terminated for “insubordination by violating the Department’s chain-of-command rules and by undermining Chief’s authority with the other police officers.”

On May 2, 2008, Williams filed suit in the Circuit Court for Dickerson County against the City of Burns, asserting a claim of retaliatory discharge under the Tennessee Public Protection Act (“TPPA”)². Williams claimed that he was terminated solely because he refused to remain silent about Chief’s violation of the traffic policy. The court granted summary judgment for the City of Burns (the “City”), reasoning that Williams failed to establish that City discharged him solely for refusing to participate in the matter. On appeal, the court reversed, holding that there were genuine issues of material fact in regard to:

² TENN. CODE ANN. §50-1-304 (2000).

1) whether Williams refused to participate in or remain silent about the ticket fixing; and 2) whether Williams failed to prove the actual motivation behind his discharge.

On remand, the trial court ruled in favor of City, reasoning that although Williams may have been discharged for refusing to participate in the ticket fixing plan, he was also terminated for violating the Department's rules by not following the chain-of-command; thus, Williams was not terminated solely for refusing to participate in the ticket fixing plan. On appeal, the court reversed and held in favor of Williams. The court reasoned that it was against the intent of the TPPA to require Williams to report illegal activity to the wrongdoer, and that Williams' disclosure to Mayor was protected under TPPA. Further, the court found that Chief's motivations to terminate Williams were not based on insubordination, and that there existed a pretext for retaliation.

Under Tennessee law, courts employ the doctrine of employment at will, which states that an employee may be fired at any time, with or without a reason; however, Tennessee recognizes the common law exception of retaliatory discharge, where an employee is fired for taking action that public policy encourages.³ The TPPA codified Tennessee's retaliatory discharge exception as follows: (1) the plaintiff was an employee of the defendant; (2) the plaintiff refused to *participate in* or *remain silent* about illegal activity; (3) the defendant employer discharged or terminated the plaintiff's employment; and (4) the defendant terminated the plaintiff's employment *solely* for the plaintiff's refusal to participate in or remain silent about the illegal activity.⁴ At the outset of the case, the Tennessee Supreme Court noted that only the second and fourth prong of the test were at issue; however, the trial court failed to apply the *Burdine*⁵ burden-shifting analysis to the parties' proof when analyzing the the prongs of the statute. Under *Burdine*, if a plaintiff proves a prima facie case of retaliation, a rebuttable presumption is created as to the defendant. If the defendant rebuts the presumption then the presumption of retaliation would have dropped from the case, resulting in the factfinder having to decide whether the termination was retaliatory. However, a plaintiff "must . . . have an opportunity to prove by a preponderance of the evidence that the

³ Tennessee's common law retaliatory discharge exception only applies to private employees; however, the TPPA also extends to public employees.

⁴ See TENN. CODE ANN. §50-1-304 (2000).

⁵ Tex. Dep't of Cmty. Affairs v. Burdine, 450 U.S. 248 (1981).

legitimate reasons offered by [the defendant] were not [his] true reasons, but were a pretext for [retaliation].”

Under *Burdine*, a plaintiff who asserts a claim under the TPPA establishes a prima facie case of retaliatory discharges by showing: 1) the plaintiff engaged in conduct protected by the TPPA; 2) the protected conduct was known to the defendant; 3) the defendant thereafter discharged the plaintiff; and 4) there was a causal connection between the protected conduct and the discharge. The court found that Williams satisfied his burden of establishing a prima facie case because: 1) he refused to remain silent about the ticket fixing; 2) the Chief knew about the conduct; 3) Williams was thereafter discharged; and 4) he was discharged because he refused to remain silent about the ticket fixing. Thereafter, Williams created a rebuttable presumption that Chief unlawfully retaliated against him solely because Williams refused to remain silent.

In order to rebut a prima facie case, the defendant need “only introduce admissible evidence showing that unlawful retaliation was not the *sole* cause of [termination].” At trial, Chief introduced evidence that Williams was fired for going above the chain of command, not because of Williams’ conduct. Thus, Chief shifted the burden back to Williams at trial.

The court then looked to whether Chief’s burden-shifting was mere pretext. Pretext can be shown by establishing: 1) the employer’s proffered reasons had no basis in fact; 2) that the proffered reasons did not actually motivate the discharge; or 3) that the reasons were insufficient to motivate the discharge. Whether a rebuttal is pretext should be determined in light of all of the evidence.

The court held that Chief’s rebuttal was mere pretext because, after the incident: 1) Chief was increasingly hostile toward Williams; 2) Williams was subject to heightened work scrutiny and discipline; 3) the narrow time-frame in which the protected conduct occurred and the termination; and 4) because Williams was fired for going above the chain of command – “to discipline an employee for going over the head of a supervisor allegedly involved in illegal . . . workplace activity undermines . . . the Legislature’s [intent in passing the TPPA].” Thus, the court held that Chief effectively admitted to discharging Williams in retaliation for going above the chain of command.

The Tennessee Supreme Court’s decision in *Williams* refined the *Burdine* test for use in retaliatory discharge claims under the TPPA.

Although the common law exception is only available to private employees, the TPPA expanded the exception to cover public employees. Because of the expansion, practicing attorneys and courts should know that the *Burdine* test must be used when interpreting a retaliatory discharge claim under the TPPA. Further, the court interpreted the TPPA's second prong to broadly construe "refusal to remain silent," stating that employers need not explicitly inform employees to remain silent in order for an employee to satisfy his burden of proof. As a result of this, the court's interpretation eases a plaintiff's claim under the TPPA and negates an employer defense: the fact that an employer did not tell an employee to remain silent is not a defense. Thus, employers should defend a retaliatory discharge claim under the TPPA by showing: 1) its reasons for discharge were not retaliatory; 2) its reasons for discharge were not pretextual; and 3) it did not discharge an employee for engaging in conduct protected by the TPPA.

PATENT

Under *Brulotte*, the Supreme Court held that patent royalty provisions are unenforceable after a patent expires, regardless of an express agreement; however, *Brulotte* does not apply to non-patent royalty provisions. *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401 (2015).

By Ann Pederson

In *Kimble v. Marvel Entm't, LLC*, the United States Supreme Court addressed whether its previous ruling in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) forced it to deem unenforceable a royalty provision for patent use, where the patent had expired and the contract provided no end date for royalty payments. Ultimately, the Court begrudgingly held that a patentee cannot continue to receive royalties after the expiration of a patent, regardless of a private contract to the contrary.

In 1990, Stephen Kimble ("Kimble") patented a toy that allowed persons to role-play as "a spider person" and shoot webs (pressurized foam string) from the palm of their hands. In 1997, Kimble sued Marvel Entertainment ("Marvel") for patent infringement because Marvel marketed a similar toy that resembled Kimble's patent. Ultimately, the parties settled and agreed that Marvel would purchase Kimble's patent and in exchange pay a three percent royalty on future sales of the toy and similar products; however, the agreement did not set an end date for the royalty payments.

After the settlement agreements concluded, Marvel discovered the Court's ruling in *Brulotte*, which had interpreted the patent laws to preclude a patentee from receiving royalties from sales made after a patent's expiration. Marvel thus sought a declaratory judgment in federal district court in order to confirm that it did not have to pay royalties after the expiration of the patent, notwithstanding the contract it entered into with Kimble. The district court held that *Brulotte* made the royalty payment provision unenforceable after the patent's expiration; the Ninth Circuit Court of Appeals affirmed. In 2014, the Supreme Court granted certiorari to decide whether *Brulotte* should be overruled because it prevents parties from freely entering into contracts.

Although the Court agreed that the problems caused by *Brulotte* unfairly impact individuals' contractual rights in this area of patent law, *stare decisis* forces it to stand by yesterday's decision and only overturn *Brulotte* if there is a "special justification" above and beyond the belief that the case was wrongly decided. Also, the Court noted that even though it might decide *Brulotte* differently today than it had previously, "respecting *stare decisis* means sticking to some wrong decisions."

In weighing the impact that *Brulotte* has on the freedom to contract in the area of patent law, the Court determined that no special justification exists to overturn *Brulotte* for the following reasons: 1) *Brulotte* has been well-settled law for approximately fifty years; 2) Congress considered multiple changes to *Brulotte* over the years, and *Brulotte* survived each one; 3) nothing about *Brulotte* has proved to be unworkable or ambiguous; 4) the Court would bring in a new round of litigation if it were to overturn *Brulotte*; 5) if *Brulotte* were overturned, the Court would be hesitant that enforcing the contract would push the patent away from the public sphere of free use and back into the party's hands; and 6) the Court would prefer to leave the matter in Congress' hands and not unsettle stable law.

Based on the aforementioned, the Court held that *stare decisis* prevents it from overturning *Brulotte* and that relief must be sought from Congress, not the courts. *Brulotte* is well-settled law and easy to apply; the rule only requires a court to ask whether a licensing agreement provides for royalty payments after a patent's expiration. Moreover, the Court distinguished *Brulotte* and clarified that the case does not apply to non-patent royalties and that patent royalties may be received post-expiration only if the royalties are for deferred payments from the patent's use during its living twenty-year period.

In light of this decision, attorneys should know that *Brulotte* is the controlling case when contracting for patent royalties and that, regardless of express agreement, contractual provisions for royalty payments after a patent expires are unenforceable. The fact that the parties may not know about *Brulotte* at the time of of contracting has no bearing on the Court’s analysis because the Court intended *Brulotte* to be simple: if a contract calls for royalty provisions after a patent’s expiration, that provision is unenforceable. Attorneys should negotiate alternatives that would allow a party to receive non-royalty payments, or other compensation, after a patent expires and moves into the public domain.

WILLS AND ESTATES

Under Tennessee law, a child is considered born “out of wedlock,” regardless of the mother’s marital status at the time of the child’s birth, if the child’s biological father is not and has never been married to the child’s mother, therefore giving the child standing to assert a claim of inheritance against the biological father’s estate. *In re* Estate of Tucker, No. E2014-02112-COA-R3-CV, 2015 WL 7068134, 2015 Tenn. App. LEXIS 901 (Tenn. Ct. App. Nov. 12, 2015).

By Cameron Kapperman

In *In re Estate of Tucker*, the Tennessee Court of Appeals addressed whether, under TENN. CODE ANN. § 31-2-105(a)(2)(B) (2015), a child whose mother was married at the time of the child’s birth is a child born out of wedlock, where the child’s biological father was not the mother’s husband – therefore giving the child standing to assert a claim of inheritance against the biological father’s estate.

In May of 2010, Ola Irene Tucker (“Deceased”) died unmarried and intestate. Deceased had three children, of which all three died leaving behind children. In September of 2010, two grandchildren, Dianna Allen (“Ms. Allen”) and Michael Bivens (“Mr. Bivens”), filed a petition in the Probate Court for Loudon County, Tennessee. They sought the administration of Deceased’s estate (“Estate”) and requested their appointment as co-administrators.¹ The trial court granted their requests and issued them Letters of Administration.

¹ The petition also listed three additional living grandchildren.

During the administration of the Estate, question arose as to who was the father of Ms. Allen's . Ms. Allen claimed that one of Deceased's sons was her biological father, even though Ms. Allen was born while her mother was married to a different man.

The trial court held an evidentiary hearing to determine whether Ms. Allen was a child of Deceased's son and therefore entitled to an inheritance via intestate succession. The trial court held that under Tennessee law:² 1) Ms. Allen was not born out of wedlock because her mother was married to another man; and 2) Ms. Allen therefore lacked standing to assert a claim of inheritance.

Under Tennessee law, for purposes of intestate succession, a parent-child relationship must be established in order to determine succession. A person born out of wedlock is automatically considered a child of the mother. However, in order for the person to also be considered a child of the father, paternity must be established by an adjudication: 1) before the father dies; or 2) by clear and convincing proof. Further, the father must have openly treated the child as his own and supported the child.³

On appeal, the Tennessee Court of Appeals addressed the issue of whether Ms. Allen was a child born of out wedlock and could therefore have standing to assert a claim of inheritance.⁴ The court applied its previous holding in *In re Estate of Armstrong*⁵, noting that the intent of the Tennessee General Assembly, when it enacted TENN. CODE ANN. § 31-2-105(a)(2)(B) (2015), was "to allow a child to inherit from her biological father even if [the biological father] and the child's mother . . ." were not, nor have ever been married to each other at the time of the child's birth.

The *Tucker* Court emphasized that it was possible for Ms. Allen to be a child born out of wedlock, for purposes of TENN. CODE ANN. § 31-2-105(a)(2)(B) (2015), if she could establish: 1) the requisite proof that Deceased's son was her father; and 2) that Ms. Allen's mother and

² TENN. CODE ANN. § 31-2-105(a)(2)(B) (2015).

³ *Id.*

⁴ The Tennessee Supreme Court has never decided the issue of whether a child whose mother was married at the time of the child's birth could be a child born of wedlock. However, the Tennessee Court of Appeals addressed the issue in *In re Armstrong*, 859 S.W.2d 323, 327-28 (Tenn. Ct. App. 1993).

⁵ *Id.* (child born out of wedlock even though mother married to different man).

Deceased's son were not and had never been married at the time of Ms. Allen's birth – regardless of whether Ms. Allen's mother was married to another man. The court remanded the case back to the trial court to determine whether Ms. Allen proved, by clear and convincing evidence, that Deceased's son was her biological father, therefore giving her standing to assert a claim of inheritance.

The court's ruling reflects its desire to: 1) follow legislative intent that out of wedlock children be able to inherit from their biological parents; and 2) clarify the role a mother's status has in determining a child's status. In light of this decision, Tennessee attorneys should be aware that, although the Tennessee Supreme Court has not decided this issue, the Tennessee Court of Appeals completely disregards the mother's status. Generally, if a child establishes a father's paternity by clear and convincing evidence, the child is considered born out of wedlock and has standing to assert a claim of inheritance against the biological father's estate via intestate succession.