



## **Recent IP Cases and Developments**

**April 17, 2019**

**6:00 p.m. – 8:00 p.m.**

**Connecticut Science Center  
Hartford, CT**

**CT Bar Institute Inc.**

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## Lawyers' Principles of Professionalism

As a lawyer I must strive to make our system of justice work fairly and efficiently. In order to carry out that responsibility, not only will I comply with the letter and spirit of the disciplinary standards applicable to all lawyers, but I will also conduct myself in accordance with the following Principles of Professionalism when dealing with my client, opposing parties, their counsel, the courts and the general public.

Civility and courtesy are the hallmarks of professionalism and should not be equated with weakness;

I will endeavor to be courteous and civil, both in oral and in written communications;

I will not knowingly make statements of fact or of law that are untrue;

I will agree to reasonable requests for extensions of time or for waiver of procedural formalities when the legitimate interests of my client will not be adversely affected;

I will refrain from causing unreasonable delays;

I will endeavor to consult with opposing counsel before scheduling depositions and meetings and before rescheduling hearings, and I will cooperate with opposing counsel when scheduling changes are requested;

When scheduled hearings or depositions have to be canceled, I will notify opposing counsel, and if appropriate, the court (or other tribunal) as early as possible;

Before dates for hearings or trials are set, or if that is not feasible, immediately after such dates have been set, I will attempt to verify the availability of key participants and witnesses so that I can promptly notify the court (or other tribunal) and opposing counsel of any likely problem in that regard;

I will refrain from utilizing litigation or any other course of conduct to harass the opposing party;

I will refrain from engaging in excessive and abusive discovery, and I will comply with all reasonable discovery requests;

In depositions and other proceedings, and in negotiations, I will conduct myself with dignity, avoid making groundless objections and refrain from engaging in acts of rudeness or disrespect;

I will not serve motions and pleadings on the other party or counsel at such time or in such manner as will unfairly limit the other party's opportunity to respond;

In business transactions I will not quarrel over matters of form or style, but will concentrate on matters of substance and content;

I will be a vigorous and zealous advocate on behalf of my client, while recognizing, as an officer of the court, that excessive zeal may be detrimental to my client's interests as well as to the proper functioning of our system of justice;

While I must consider my client's decision concerning the objectives of the representation, I nevertheless will counsel my client that a willingness to initiate or engage in settlement discussions is consistent with zealous and effective representation;

Where consistent with my client's interests, I will communicate with opposing counsel in an effort to avoid litigation and to resolve litigation that has actually commenced;

I will withdraw voluntarily claims or defense when it becomes apparent that they do not have merit or are superfluous;

I will not file frivolous motions;

I will make every effort to agree with other counsel, as early as possible, on a voluntary exchange of information and on a plan for discovery;

I will attempt to resolve, by agreement, my objections to matters contained in my opponent's pleadings and discovery requests;

In civil matters, I will stipulate to facts as to which there is no genuine dispute;

I will endeavor to be punctual in attending court hearings, conferences, meetings and depositions;

I will at all times be candid with the court and its personnel;

I will remember that, in addition to commitment to my client's cause, my responsibilities as a lawyer include a devotion to the public good;

I will endeavor to keep myself current in the areas in which I practice and when necessary, will associate with, or refer my client to, counsel knowledgeable in another field of practice;

I will be mindful of the fact that, as a member of a self-regulating profession, it is incumbent on me to report violations by fellow lawyers as required by the Rules of Professional Conduct;

I will be mindful of the need to protect the image of the legal profession in the eyes of the public and will be so guided when considering methods and content of advertising;

I will be mindful that the law is a learned profession and that among its desirable goals are devotion to public service, improvement of administration of justice, and the contribution of uncompensated time and civic influence on behalf of those persons who cannot afford adequate legal assistance;

I will endeavor to ensure that all persons, regardless of race, age, gender, disability, national origin, religion, sexual orientation, color, or creed receive fair and equal treatment under the law, and will always conduct myself in such a way as to promote equality and justice for all.

It is understood that nothing in these Principles shall be deemed to supersede, supplement or in any way amend the Rules of Professional Conduct, alter existing standards of conduct against which lawyer conduct might be judged or become a basis for the imposition of civil liability of any kind.

*--Adopted by the Connecticut Bar Association House of Delegates on June 6, 1994*

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# Recent IP Cases and Developments (EIP190304)

Wednesday, April 17, 2019

## Agenda

- I. Discussion of Patent Developments - 35 min. (includes 5-10 minutes Q&A)  
Speaker: **Matthew S. Murphy**, Axinn Veltrop & Harkrider LLP
- II. Discussion of Trademark Developments - 35 Min. (includes 5-10 minutes Q&A)  
Speaker: **Delphine Knight Brown**, Axinn Veltrop & Harkrider LLP
- III. Discussion of Copyright Developments - 35 Min. (includes 5-10 minutes Q&A)  
Speaker: **Justin Durelli**, McCormick Paulding & Hubert LLP
- IV. Question and Answer Session - 15 Minutes



# Faculty Biographies

## **Alaine C. Doolan** **Counsel, Robinson+Cole**

**Alaine Doolan** focuses her practice primarily in the areas of intellectual property, brand management, corporate transactions, technology, and Internet-related law. She works with clients from a broad range of industries, such as food and beverage, fashion and merchandising, software solutions, and health care. She is a member of the firm's Business Transactions and Intellectual Property + Technology Law Groups.

### **Intellectual Property and Technology**

Alaine works to protect corporate brands through the prosecution, maintenance, and enforcement of trademarks, copyrights, and domain names domestically and worldwide. She works with clients to develop strategies for launching and protecting new brands. She also advises clients on a variety of intellectual property infringement matters, and she handles opposition, cancellation, and appeal proceedings before the U.S. Trademark Trial and Appeal Board. Alaine also secures and protects clients' intellectual property through the preparation of various documents, including assignments, security interests, and nondisclosure and coexistence agreements. She has worked for two large consumer products companies and managed 4,000-plus worldwide trademark portfolios for both.

She handles e-commerce and Internet law issues, including end user license agreements, Software as a Service (SaaS) agreements, social media issues, online advertising, promotions, blogs, testimonials and sweepstakes, website terms of use and privacy policies, domain name disputes, and takedown requests.

### **Trade Regulation**

Alaine advises clients on regulatory matters related to print, digital, and mobile advertising for compliance with the Food and Drug Administration and the Federal Trade Commission.

### **Corporate Transactions**

Alaine assists the Business Transactions Practice in corporate transactions and mergers & acquisitions. She frequently handles the transfer of intangible and technology-related assets. This transaction work includes advising on purchase agreements, intellectual property portfolios, performing due diligence relating to intellectual property and technology assets, and preparing and negotiating various intellectual property documents and agreements. Alaine also supports the firm's Finance Group in various financial transactions through the evaluation of intellectual property portfolios used to secure loans and the preparation of security interests and releases.

### **Pro Bono and Community Involvement**

Alaine has served as a volunteer attorney in the Truancy Intervention Project, which provides legal advocates to children in contentious family court cases. Through her involvement with the project, she serves as a mentor to students who have attendance problems. She is also a Hartford County Bar Association mentor. Alaine is president and founder of BEE the Best, Inc. (Backpacks for Excellence in Education), a non-profit organization that collects and donates backpacks and supplies for school children to the Truancy Intervention Project and other non-profit organizations.

Alaine is an adjunct faculty member at the University of Hartford, where she teaches a course on Intellectual Property, a class which covers trademarks, copyrights, trade secrets, and patents.

**Justin Durelli**  
**McCormick Paulding & Huber LLP**

**Justin** has patent prosecution experience in the areas of mechanical and electro-mechanical devices, chemical sensors, protective surface coatings, microfluid devices, chemical processes, medical devices, heat transfer systems, and industrial equipment. Justin also has a strong understanding of international patent filing strategies. Prior to joining McCormick, Paulding & Huber, Justin worked in General Electric's Global Patent Operation.

As part of his Master's program, Justin studied in a research laboratory focused on innovative membrane fabrication techniques designed for water purification applications. Justin's research experience includes characterization of polymer blends, particularly, ionomer blends.

**Delphine Knight Brown**  
**Partner, Axinn Veltrop & Harkrider LLP**

**Delphine Knight Brown** is a litigator whose practice focuses on complex intellectual property and technology cases. Her patent litigation experience, including Hatch-Waxman cases for several generic pharmaceutical companies, has involved pharmaceutical, medical device, computer software and hardware, and business method patents as well as misappropriation of trade secret claims and unfair competition matters. Delphine also handles complex copyright and trademark infringement and licensing matters.

Delphine's experience includes representing foreign corporations and their subsidiaries and affiliates in legal proceedings in the United States. She represents corporations in state and federal courts nationwide in pretrial, trial, arbitrations and appellate proceedings.

**Matthew S. Murphy**  
**Counsel, Axinn Veltrop & Harkrider LLP**

**Matt Murphy** practices in the areas of intellectual property and complex litigation. He has represented clients in the pharmaceutical, life sciences, medical device, consumer driven healthcare, and lighting industries in a variety of legal matters, including patent litigation, trade secret disputes, sham litigation proceedings, and contract actions. In connection with this work, Matt has contributed to the development of novel remedies arguments to defend a number of multi-million dollar claims.

Prior to joining the firm, Matt spent seven years actively conducting research and development for leading pharmaceutical and medical device companies. He relies on his combination of real world experience and expanding legal knowledge to counsel clients on a variety of technical and complex patent issues.

# Patent Materials



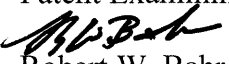
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Commissioner for Patents  
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**MEMORANDUM**

**DATE:** April 19, 2018

**TO:** Patent Examining Corps

**FROM:**   
Robert W. Bahr  
Deputy Commissioner  
for Patent Examination Policy

**SUBJECT: Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (*Berkheimer v. HP, Inc.*)**

The USPTO recognizes that unless careful consideration is given to the particular contours of subject matter eligibility (35 U.S.C. § 101), it could “swallow all of patent law.” *Alice Corp. v. CLS Bank International*, 573 U.S. \_\_\_, \_\_\_, 134 S. Ct. 2347, 2352 (2014) (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 71, 132 S. Ct. 1289, 1293-1294 (2012)). This memorandum provides additional USPTO guidance that will further clarify how the USPTO is determining subject matter eligibility in accordance with prevailing jurisprudence. Specifically, this memorandum addresses the limited question of whether an additional element (or combination of additional elements) represents well-understood, routine, conventional activity. The USPTO is determined to continue its mission to provide clear and predictable patent rights in accordance with this rapidly evolving area of the law, and to that end, may issue further guidance in the future.

The U. S. Court of Appeals for the Federal Circuit (Federal Circuit) recently issued a precedential decision holding that the question of whether certain claim limitations represent well-understood, routine, conventional activity raised a disputed factual issue, which precluded summary judgment that all of the claims at issue were not patent eligible. *See Berkheimer v. HP Inc.*, 881 F.3d 1360 (Fed. Cir. 2018). Shortly thereafter, the Federal Circuit reaffirmed the *Berkheimer* standard in the context of a judgment on the pleadings and judgment as a matter of law.<sup>1</sup> While summary judgment, judgment on the pleadings, and judgment as a matter of law

<sup>1</sup> In *Aatrix Software, Inc. v. Green Shades Software, Inc.*, 882 F.3d 1121 (Fed. Cir. 2018), the Federal Circuit reversed a judgment on the pleadings of ineligibility, similarly finding that whether the claims in the challenged patent perform well-understood, routine, conventional activities is an issue of fact. In *Exergen Corp. v. Kaz USA, Inc.*, Nos. 2016-2315, 2016-2341, 2018 WL 1193529, at \*1 (Fed. Cir. Mar. 8, 2018) (non-precedential), the Federal Circuit affirmed a district court’s denial of a motion for judgment as a matter of law of patent ineligibility (thus

standards in civil litigation are generally inapplicable during the patent examination process, *Berkheimer* informs the inquiry into whether an additional element (or combination of additional elements) represents well-understood, routine, conventional activity.

**I. Federal Circuit Decision in *Berkheimer*:** In *Berkheimer*, the invention relates to digitally processing and archiving files in a digital asset management system. The patent specification explains that the system eliminates redundant storage of common text and graphical elements, which improves system operation efficiency and reduces storage costs. With respect to *Mayo/Alice* step 1 (step 2A in the USPTO’s guidance), the Federal Circuit held that the claims are directed to the abstract ideas of parsing and comparing data (claims 1-3 and 9), parsing, comparing, and storing data (claim 4), and parsing, comparing, storing, and editing data (claims 5-7) based upon a comparison of these claims to claims held to be abstract in prior Federal Circuit decisions. *Berkheimer*, 881 F.3d at 1366-67. With respect to *Mayo/Alice* step 2 (step 2B in the USPTO’s guidance), the Federal Circuit considered the elements of each claim both individually and as an ordered combination, recognizing that “whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is a question of fact.” *Id.* at 1367-68. While observing that the specification discussed purported improvements (*e.g.*, reducing redundancy and enabling one-to-many editing as the purported improvements), the Federal Circuit held claims 1-3 and 9 ineligible because they do not include limitations that realize these purported improvements. *Id.* at 1369-70.

In contrast, the Federal Circuit held that claims 4-7 do contain limitations directed to purported improvements described in the specification (*e.g.*, claim 4 recites “storing a reconciled object structure in the archive without substantial redundancy,” which the specification explains improves system operating efficiency and reduces storage costs), raising a genuine issue of material fact as to whether the purported improvements were more than well-understood, routine, conventional activity previously known in the industry. *Id.* at 1370. The Federal Circuit therefore reversed the district court’s decision on summary judgment that claims 4-7 are patent ineligible, and remanded for further fact finding as to the eligibility of those claims. *Id.* at 1370-71.

Finally, the Federal Circuit drew a distinction between what is well-understood, routine, conventional, and what is simply known in the prior art, cautioning that the mere fact that something is disclosed in a piece of prior art does not mean it was a well-understood, routine, conventional activity or element. *Id.* at 1369.

**II. Well-Understood, Routine, Conventional Activity:** While the *Berkheimer* decision does not change the basic subject matter eligibility framework as set forth in MPEP § 2106, it does provide clarification as to the inquiry into whether an additional element (or combination of additional elements) represents well-understood, routine, conventional activity. Specifically, the Federal Circuit held that “[w]hether something is well-understood, routine, and conventional to a skilled artisan at the time of the patent is a factual determination.” *Id.* at 1369.

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upholding the district court’s conclusion that the claims were drawn to a patent eligible invention), concluding that the district court’s fact finding that the claimed combination was not proven to be well-understood, routine, conventional was not clearly erroneous.

As set forth in MPEP § 2106.05(d)(I), an examiner should conclude that an element (or combination of elements) represents well-understood, routine, conventional activity **only** when the examiner can readily conclude that the element(s) is widely prevalent or in common use in the relevant industry. This memorandum clarifies that such a conclusion must be based upon a factual determination that is supported as discussed in section III below. This memorandum further clarifies that the analysis as to whether an element (or combination of elements) is widely prevalent or in common use is the same as the analysis under 35 U.S.C. § 112(a) as to whether an element is so well-known that it need not be described in detail in the patent specification.<sup>2</sup>

The question of whether additional elements represent well-understood, routine, conventional activity is distinct from patentability over the prior art under 35 U.S.C. §§ 102 and 103. This is because a showing that additional elements are obvious under 35 U.S.C. § 103, or even that they lack novelty under 35 U.S.C. § 102, is not by itself sufficient to establish that the additional elements are well-understood, routine, conventional activities or elements to those in the relevant field. *See* MPEP § 2106.05. As the Federal Circuit explained: “[w]hether a particular technology is well-understood, routine, and conventional goes beyond what was simply known in the prior art. The mere fact that something is disclosed in a piece of prior art, for example, does not mean it was well-understood, routine, and conventional.” *Berkheimer*, 881 F.3d at 1369.

**III. Impact on Examination Procedure:** This memorandum revises the procedures set forth in MPEP § 2106.07(a) (Formulating a Rejection For Lack of Subject Matter Eligibility) and MPEP § 2106.07(b) (Evaluating Applicant’s Response).

**A. Formulating Rejections:** In a step 2B analysis, an additional element (or combination of elements) is not well-understood, routine or conventional unless the examiner finds, and expressly supports a rejection in writing with, one or more of the following:

1. A citation to an express statement in the specification or to a statement made by an applicant during prosecution that demonstrates the well-understood, routine, conventional nature of the additional element(s). A specification demonstrates the well-understood, routine, conventional nature of additional elements when it describes the additional elements as well-understood or routine or conventional (or an equivalent term), as a commercially available product, or in a manner that indicates that the additional elements are sufficiently well-known that the specification does not need to describe the particulars of such additional elements to satisfy 35 U.S.C. § 112(a). A finding that an element is

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<sup>2</sup> *See Genetic Techs. Ltd. v. Merial LLC*, 818 F.3d 1369, 1377 (Fed. Cir. 2016) (supporting the position that amplification was well-understood, routine, conventional for purposes of subject matter eligibility by observing that the patentee expressly argued during prosecution of the application that amplification was a technique readily practiced by those skilled in the art to overcome the rejection of the claim under 35 U.S.C. 112, first paragraph); *see also Lindemann Maschinenfabrik GMBH v. Am. Hoist & Derrick Co.*, 730 F.2d 1452, 1463 (Fed. Cir. 1984) (“[T]he specification need not disclose what is well known in the art.”); *In re Myers*, 410 F.2d 420, 424 (CCPA 1969) (“A specification is directed to those skilled in the art and need not teach or point out in detail that which is well-known in the art.”); *Exergen Corp.*, 2018 WL 1193529, at \*4 (holding that “[I]ike indefiniteness, enablement, or obviousness, whether a claim is directed to patent eligible subject matter is a question of law based on underlying facts,” and noting that the Supreme Court has recognized that “the inquiry ‘might sometimes overlap’ with other fact-intensive inquiries like novelty under 35 U.S.C. § 102”).

well-understood, routine, or conventional cannot be based only on the fact that the specification is silent with respect to describing such element.

2. A citation to one or more of the court decisions discussed in MPEP § 2106.05(d)(II) as noting the well-understood, routine, conventional nature of the additional element(s).
3. A citation to a publication that demonstrates the well-understood, routine, conventional nature of the additional element(s). An appropriate publication could include a book, manual, review article, or other source that describes the state of the art and discusses what is well-known and in common use in the relevant industry. It does not include all items that might otherwise qualify as a “printed publication” as used in 35 U.S.C. § 102.<sup>3</sup> Whether something is disclosed in a document that is considered a “printed publication” under 35 U.S.C. § 102 is a distinct inquiry from whether something is well-known, routine, conventional activity. A document may be a printed publication but still fail to establish that something it describes is well-understood, routine, conventional activity. *See Exergen Corp.*, 2018 WL 1193529, at \*4 (the single copy of a thesis written in German and located in a German university library considered to be a “printed publication” in *Hall* “would not suffice to establish that something is ‘well-understood, routine, and conventional activity previously engaged in by scientists who work in the field’”). The nature of the publication and the description of the additional elements in the publication would need to demonstrate that the additional elements are widely prevalent or in common use in the relevant field, comparable to the types of activity or elements that are so well-known that they do not need to be described in detail in a patent application to satisfy 35 U.S.C. § 112(a). For example, while U.S. patents and published applications are publications, merely finding the additional element in a single patent or published application would not be sufficient to demonstrate that the additional element is well-understood, routine, conventional, unless the patent or published application demonstrates that the additional element are widely prevalent or in common use in the relevant field.
4. A statement that the examiner is taking official notice of the well-understood, routine, conventional nature of the additional element(s). This option should be used **only** when the examiner is certain, based upon his or her personal knowledge, that the additional element(s) represents well-understood, routine, conventional activity engaged in by those in the relevant art, in that the additional elements are widely prevalent or in common use in the relevant field, comparable to the types of activity or elements that are so well-known that they do not need to be described in detail in a patent application to satisfy 35 U.S.C. § 112(a). Procedures for taking official notice and addressing an applicant’s challenge to official notice are discussed in MPEP § 2144.03.

**B. Evaluating Applicant’s Response:** If an applicant challenges the examiner’s position that the additional element(s) is well-understood, routine, conventional activity, the examiner should reevaluate whether it is readily apparent that the additional elements are in actuality well-

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<sup>3</sup> See, e.g., *In re Klopfenstein*, 380 F.3d 1345 (Fed. Cir. 2004) (publicly displayed slide presentation); *In re Hall*, 781 F.2d 897 (Fed. Cir. 1986) (doctoral thesis shelved in a library); *Mass. Inst. of Tech. v. AB Fortia*, 774 F.2d 1104, 1108-09 (Fed. Cir. 1985) (paper orally presented at a scientific meeting and distributed upon request); *In re Wyer*, 655 F.2d 221 (CCPA 1981) (patent application laid open to public inspection).

understood, routine, conventional activities to those who work in the relevant field. If the examiner has taken official notice per paragraph (4) of section (III)(A) above that an element(s) is well-understood, routine, conventional activity, and the applicant challenges the examiner's position, specifically stating that such element(s) is not well-understood, routine, conventional activity, the examiner must then provide one of the items discussed in paragraphs (1) through (3) of section (III)(A) above, or an affidavit or declaration under 37 CFR 1.104(d)(2) setting forth specific factual statements and explanation to support his or her position. As discussed previously, to represent well-understood, routine, conventional activity, the additional elements must be widely prevalent or in common use in the relevant field, comparable to the types of activity or elements that are so well-known that they do not need to be described in detail in a patent application to satisfy 35 U.S.C. § 112(a).

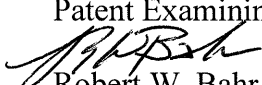
The MPEP will be updated in due course to incorporate the changes put into effect by this memorandum.





Commissioner for Patents  
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MEMORANDUM

**DATE:** June 7, 2018  
**TO:** Patent Examining Corps  
**FROM:**   
Robert W. Bahr  
Deputy Commissioner  
for Patent Examination Policy

**SUBJECT: Recent Subject Matter Eligibility Decision: *Vanda Pharmaceuticals Inc. v. West-Ward Pharmaceuticals***

On April 13, 2018, the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) held the claims at issue in *Vanda Pharmaceuticals Inc. v. West-Ward Pharmaceuticals*, 887 F.3d 1117 (Fed. Cir. 2018), **patent eligible** under 35 U.S.C. § 101 because they are not “directed to” a judicial exception. The claims recite a method of treating a patient having schizophrenia with iloperidone, a drug known to cause QTc prolongation (a disruption of the heart’s normal rhythm that can lead to serious health problems) in patients having a particular genotype associated with poor drug metabolism. In particular, a representative claim is below:

A method for treating a patient with iloperidone, wherein the patient is suffering from schizophrenia, the method comprising the steps of:

**determining** whether the patient is a CYP2D6 poor metabolizer by:

**obtaining** or having obtained a biological sample from the patient;

and

**performing** or having performed a genotyping assay on the biological sample to determine if the patient has a CYP2D6 poor metabolizer genotype; and

if the patient has a CYP2D6 poor metabolizer genotype, then internally **administering** iloperidone to the patient in an amount of 12 mg/day or less, and

if the patient does not have a CYP2D6 poor metabolizer genotype, then internally **administering** iloperidone to the patient in an amount that is greater than 12 mg/day, up to 24 mg/day,

wherein a risk of QTc prolongation for a patient having a CYP2D6 poor metabolizer genotype is lower following the internal administration of 12 mg/day

or less than it would be if the iloperidone were administered in an amount of greater than 12 mg/day, up to 24 mg/day.

The primary steps include “determining” with a genotyping assay, and then “administering” a certain quantity of drug based on that determination, in order to “treat a particular disease.” *Id.* at 1134. The Federal Circuit distinguished *Mayo*,<sup>1</sup> stating: “The inventors recognized the relationships between iloperidone, CYP2D6 metabolism, and QTc prolongation, but that is not what they claimed. They claimed an **application** of that relationship. Unlike the claim at issue in *Mayo*, the claims here require a treating doctor to administer iloperidone.” *Id.* at 1135 (emphasis added). As a result, the Federal Circuit held the claims in *Vanda* patent eligible under the first step of the *Alice/Mayo* framework (Step 2A in the USPTO’s subject matter eligibility guidance), because the claims “are directed to a method of using iloperidone to treat schizophrenia,” rather than being “directed to” a judicial exception.

The Federal Circuit’s decision in *Vanda* illustrates several important points regarding the subject matter eligibility analysis. First, the Federal Circuit evaluated the claims as a whole, including the arguably conventional genotyping and treatment steps, when determining that the claim was not “directed to” the recited natural relationship between the patient’s genotype and the risk of QTc prolongation. The importance of evaluating the claims as a whole in Step 2A was also emphasized by the Federal Circuit in previous cases, such as *Finjan Inc. v. Blue Coat Systems, Inc.*, 879 F.3d 1299 (Fed. Cir. 2018), and *Core Wireless Licensing S.A.R.L., v. LG Electronics, Inc.*, 880 F.3d 1356 (Fed. Cir. 2018). The two prior cases are discussed in a memorandum dated April 2, 2018 to examiners titled “Recent Subject Matter Eligibility Decisions.”

Second, the Federal Circuit cited the Supreme Court “[t]o further underscore the distinction between method of treatment claims and those in *Mayo*.” *Id.* at 1135. Method of treatment claims (which **apply** natural relationships as opposed to being “directed to” them) were identified by the Supreme Court as *not* being implicated by its decisions in *Mayo* and *Myriad* because they “confine their reach to particular applications.” *Id.* The Federal Circuit noted that while the “claim in *Mayo* recited administering a thiopurine drug to a patient, the claim as a whole was not directed to the application of a drug to treat a particular disease.” *Id.* at 1134. That is, while the *Mayo* claims recited a step of administering a drug to a patient, that step was performed in order to gather data about the natural relationships, and thus was ancillary to the overall diagnostic focus of the claims. The *Mayo* claims were not “method of treatment” claims that practically apply a natural relationship.

Lastly, the Federal Circuit did **not** consider whether or not the treatment steps were routine or conventional when making its “directed to” determination. Since the claim was determined eligible in the step 2A “directed to” part of the test, there was no need to conduct a step 2B analysis.

The USPTO’s current subject matter eligibility guidance and training examples are consistent with the Federal Circuit’s decision in *Vanda*, with the understanding that: (1) “method of treatment” claims that practically apply natural relationships should be considered **patent**

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<sup>1</sup> *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66 (2012).

**eligible** under Step 2A of the USPTO’s subject matter eligibility guidance; and (2) it is not necessary for “method of treatment” claims that practically apply natural relationships to include nonroutine or unconventional steps to be considered **patent eligible** under 35 U.S.C. § 101. For example, claims 5 and 6 of USPTO Example 29 (Diagnosing and Treating Julitis) should be considered patent eligible under Step 2A of the USPTO’s subject matter eligibility guidance in light of the Federal Circuit decision in *Vanda*.

This memorandum addresses the limited question of how to evaluate the patent eligibility of “method of treatment claims” in light of the Federal Circuit decision in *Vanda*. The USPTO is determined to continue its mission to provide clear and predictable patent rights in accordance with this rapidly evolving area of the law, and to that end, may issue further guidance in the area of subject matter eligibility in the future.

# Notices

This section of the FEDERAL REGISTER contains documents other than rules or proposed rules that are applicable to the public. Notices of hearings and investigations, committee meetings, agency decisions and rulings, delegations of authority, filing of petitions and applications and agency statements of organization and functions are examples of documents appearing in this section.

## DEPARTMENT OF COMMERCE

### United States Patent and Trademark Office

[Docket No. PTO-P-2018-0053]

#### 2019 Revised Patent Subject Matter Eligibility Guidance

**AGENCY:** United States Patent and Trademark Office, Commerce.

**ACTION:** Examination Guidance; Request for comments.

**SUMMARY:** The United States Patent and Trademark Office (USPTO) has prepared revised guidance (2019 Revised Patent Subject Matter Eligibility Guidance) for use by USPTO personnel in evaluating subject matter eligibility. The 2019 Revised Patent Subject Matter Eligibility Guidance revises the procedures for determining whether a patent claim or patent application claim is directed to a judicial exception (laws of nature, natural phenomena, and abstract ideas) under Step 2A of the USPTO's Subject Matter Eligibility Guidance in two ways. First, the 2019 Revised Patent Subject Matter Eligibility Guidance explains that abstract ideas can be grouped as, e.g., mathematical concepts, certain methods of organizing human activity, and mental processes. Second, this guidance explains that a patent claim or patent application claim that recites a judicial exception is not "directed to" the judicial exception if the judicial exception is integrated into a practical application of the judicial exception. A claim that recites a judicial exception, but is not integrated into a practical application, is directed to the judicial exception under Step 2A and must then be evaluated under Step 2B (inventive concept) to determine the subject matter eligibility of the claim. The USPTO is seeking public comment on its subject matter eligibility guidance, and particularly the 2019 Revised Patent Subject Matter Eligibility Guidance.

**DATES:**

**Applicable Date:** The 2019 Revised Patent Subject Matter Eligibility Guidance is effective on January 7, 2019. The 2019 Revised Patent Subject Matter Eligibility Guidance applies to all applications, and to all patents resulting from applications, filed before, on, or after January 7, 2019.

**Comment Deadline Date:** Written comments must be received on or before March 8, 2019.

**ADDRESSES:** Comments must be sent by electronic mail message over the internet addressed to: *Eligibility2019@uspto.gov*.

Electronic comments submitted in plain text are preferred, but also may be submitted in ADOBE® portable document format or MICROSOFT WORD® format. Comments not submitted electronically should be submitted on paper in a format that facilitates convenient digital scanning into ADOBE® portable document format. The comments will be available for viewing via the USPTO's internet website (<http://www.uspto.gov>). Because comments will be made available for public inspection, information that the submitter does not desire to make public, such as an address or phone number, should not be included in the comments.

**FOR FURTHER INFORMATION CONTACT:** June E. Cohan, Senior Legal Advisor, at 571-272-7744 or Carolyn Kosowski, Senior Legal Advisor, at 571-272-7688, both with the Office of Patent Legal Administration.

**SUPPLEMENTARY INFORMATION:** Patent subject matter eligibility under 35 U.S.C. 101 has been the subject of much attention over the past decade. Recently, much of that attention has focused on how to apply the U.S. Supreme Court's framework for evaluating eligibility (often called the *Alice/Mayo* test).<sup>1</sup> Properly applying the *Alice/Mayo* test in a consistent manner has proven to be difficult, and has caused uncertainty in this area of the law. Among other things, it has become difficult in some cases for inventors, businesses, and other patent stakeholders to reliably and predictably determine what subject matter is patent-eligible. The legal uncertainty surrounding Section 101 poses unique

<sup>1</sup> *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208, 217-18 (2014) (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66 (2012)).

challenges for the USPTO, which must ensure that its more than 8500 patent examiners and administrative patent judges apply the *Alice/Mayo* test in a manner that produces reasonably consistent and predictable results across applications, art units and technology fields.

Since the *Alice/Mayo* test was announced and began to be extensively applied, the courts and the USPTO have tried to consistently distinguish between patent-eligible subject matter and subject matter falling within a judicial exception. Even so, patent stakeholders have expressed a need for more clarity and predictability in its application. In particular, stakeholders have expressed concern with the proper scope and application of the "abstract idea" exception. Some courts share these concerns, for example as demonstrated by several recent concurrences and dissents in the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") calling for changes in the application of Section 101 jurisprudence.<sup>2</sup> Many stakeholders, judges, inventors, and practitioners across the spectrum have argued that something needs to be done to increase clarity and consistency in how Section 101 is currently applied.

To address these and other concerns, the USPTO is revising its examination procedure with respect to the first step of the *Alice/Mayo* test<sup>3</sup> (Step 2A of the USPTO's Subject Matter Eligibility Guidance as incorporated into the Manual of Patent Examining Procedure ("MPEP") 2106)<sup>4</sup> by: (1) Providing groupings of subject matter that is considered an abstract idea; and (2) clarifying that a claim is not "directed to" a judicial exception if the judicial exception is integrated into a practical application of that exception.

<sup>2</sup> See, e.g., *Interval Licensing LLC, v. AOL, Inc.*, 896 F.3d 1335, 1348 (Fed. Cir. 2018) (Plager, J., concurring in part and dissenting in part); *Smart Sys. Innovations, LLC v. Chicago Transit Auth.*, 873 F.3d 1364, 1377 (Fed. Cir. 2017) (Linn, J., dissenting in part and concurring in part); *Berkheimer v. HP Inc.*, 890 F.3d 1369, 1376 (Fed. Cir. 2018) (Lourie, J., joined by Newman, J., concurring in denial of rehearing en banc).

<sup>3</sup> The first step of the *Alice/Mayo* test is to determine whether the claims are "directed to" a judicial exception. *Alice*, 573 U.S. at 217 (citing *Mayo*, 566 U.S. at 77).

<sup>4</sup> All references to the MPEP in the 2019 Revised Patent Subject Matter Eligibility Guidance are to the Ninth Edition, Revision 08-2017 (rev. Jan. 2018), unless otherwise indicated.

Section I of this 2019 Revised Patent Subject Matter Eligibility Guidance explains that the judicial exceptions are for subject matter that has been identified as the “basic tools of scientific and technological work,”<sup>5</sup> which includes “abstract ideas” such as mathematical concepts, certain methods of organizing human activity, and mental processes; as well as laws of nature and natural phenomena. Only when a claim recites a judicial exception does the claim require further analysis in order to determine its eligibility. The groupings of abstract ideas contained in this guidance enable USPTO personnel to more readily determine whether a claim recites subject matter that is an abstract idea.

Section II explains that the USPTO has set forth a revised procedure, rooted in Supreme Court caselaw, to determine whether a claim is “directed to” a judicial exception under the first step of the *Alice/Mayo* test (USPTO Step 2A).

Section III explains the revised procedure that will be applied by the USPTO. The procedure focuses on two aspects of Revised Step 2A: (1) Whether the claim recites a judicial exception; and (2) whether a recited judicial exception is integrated into a practical application. Only when a claim recites a judicial exception and fails to integrate the exception into a practical application, is the claim “directed to” a judicial exception, thereby triggering the need for further analysis pursuant to the second step of the *Alice/Mayo* test (USPTO Step 2B). Finally, if further analysis at Step 2B is needed (for example to determine whether the claim merely recites well-understood, routine, conventional activity), this 2019 Revised Patent Subject Matter Eligibility Guidance explains that the examiner or administrative patent judge will proceed in accordance with existing USPTO guidance as modified in April 2018.<sup>6</sup>

The USPTO is seeking public comment on its subject matter eligibility guidance, and particularly the 2019 Revised Patent Subject Matter Eligibility Guidance. The USPTO is determined to continue its mission to provide predictable and reliable patent rights in

accordance with this rapidly evolving area of the law. The USPTO’s ultimate goal is to draw distinctions between claims to principles in the abstract and claims that integrate those principles into a practical application. To that end, the USPTO may issue further guidance, or modify the current guidance, in the future based on its review of the comments received, further experience of the USPTO and its stakeholders, and additional judicial actions. Implementation of examination guidance on eligibility is an iterative process and may continue with periodic supplements. The USPTO invites the public to submit suggestions on eligibility-related topics to address in future guidance supplements as part of their comments on the USPTO’s subject matter eligibility guidance.

**Impact on Examination Procedure and Prior Examination Guidance:** This 2019 Revised Patent Subject Matter Eligibility Guidance supersedes MPEP 2106.04(II) (Eligibility Step 2A: Whether a Claim Is Directed to a Judicial Exception) to the extent it equates claims “reciting” a judicial exception with claims “directed to” a judicial exception, along with any other portion of the MPEP that conflicts with this guidance. A chart identifying portions of the MPEP that are affected by this guidance will be available for viewing via the USPTO’s internet website (<http://www.uspto.gov>). This 2019 Revised Patent Subject Matter Eligibility Guidance also supersedes all versions of the USPTO’s “Eligibility Quick Reference Sheet Identifying Abstract Ideas” (first issued in July 2015 and updated most recently in July 2018). Eligibility-related guidance issued prior to the Ninth Edition, R–08.2017, of the MPEP (published Jan. 2018) should not be relied upon. However, any claim considered patent eligible under prior guidance should be considered patent eligible under this guidance.

This guidance does not constitute substantive rulemaking and does not have the force and effect of law. The guidance sets out agency policy with respect to the USPTO’s interpretation of the subject matter eligibility requirements of 35 U.S.C. 101 in view of decisions by the Supreme Court and the Federal Circuit. The guidance was developed as a tool for internal USPTO management and does not create any right or benefit, substantive or procedural, enforceable by any party against the USPTO. Rejections will continue to be based upon the substantive law, and it is those rejections that are appealable to the Patent Trial and Appeal Board (PTAB) and the courts. All USPTO personnel

are, as a matter of internal agency management, expected to follow the guidance. Failure of USPTO personnel to follow the guidance, however, is not, in itself, a proper basis for either an appeal or a petition.

### I. Groupings of Abstract Ideas

The Supreme Court has held that the patent eligibility statute, Section 101, contains an implicit exception for “[l]aws of nature, natural phenomena, and abstract ideas,” which are “the basic tools of scientific and technological work.”<sup>7</sup> Yet, the Court has explained that “[a]t some level, all inventions embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas,” and has cautioned “to tread carefully in construing this exclusionary principle lest it swallow all of patent law.”<sup>8</sup>

Since the *Alice* case, courts have been “compare[ing] claims at issue to those claims already found to be directed to an abstract idea in previous cases.”<sup>9</sup> Likewise, the USPTO has issued guidance to the patent examining corps about Federal Circuit decisions applying the *Alice/Mayo* test, for instance describing the subject matter claimed in the patent in suit and noting whether or not certain subject matter has been identified as an abstract idea.<sup>10</sup>

<sup>7</sup> *Alice Corp.*, 573 U.S. at 216 (internal citation and quotation marks omitted); *Mayo*, 566 U.S. at 71.

<sup>8</sup> *Id.* (internal citation and quotation marks omitted).

<sup>9</sup> See *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1334 (Fed. Cir. 2016); see also *Amdocs (Israel) Ltd. v. Openet Telecom, Inc.*, 841 F.3d 1288, 1294 (Fed. Cir. 2016) (“[T]he decisional mechanism courts now apply [to identify an abstract idea] is to examine earlier cases in which a similar or parallel descriptive nature can be seen—what prior cases were about, and which way they were decided.”).

<sup>10</sup> See, e.g., 2014 Interim Guidance on Subject Matter Eligibility, 79 FR 74618, 74628–32 (Dec. 16, 2014) (discussing concepts identified as abstract ideas); July 2015 Update: Subject Matter Eligibility (Jul. 30, 2015), at 3–5, available at <https://www.uspto.gov/sites/default/files/documents/ieg-july-2015-update.pdf> (same); USPTO Memorandum of May 19, 2016, “Recent Subject Matter Eligibility Decisions (*Enfish, LLC v. Microsoft Corp.* and *TLI Communications LLC v. A.V. Automotive, LLC*),” at 2 (May 19, 2016), available at [https://www.uspto.gov/sites/default/files/documents/ieg-may-2016\\_enfish\\_memo.pdf](https://www.uspto.gov/sites/default/files/documents/ieg-may-2016_enfish_memo.pdf) [hereinafter, “USPTO *Enfish* Memorandum”] (discussing the abstract idea in *TLI Communications LLC v. A.V. Automotive, LLC*, 823 F.3d 607 (Fed. Cir. 2016)); USPTO Memorandum of November 2, 2016, “Recent Subject Matter Eligibility Decisions,” at 2 (Nov. 2, 2016), available at <https://www.uspto.gov/sites/default/files/documents/McRo-Bascom-Memo.pdf> [hereinafter, “USPTO *McRo* Memorandum”] (discussing how the claims in *McRo, Inc. v. Bandai Namco Games America Inc.*, 837 F.3d 1299 (Fed. Cir. 2016), were directed to an improvement instead of an abstract idea); USPTO Memorandum of April 2, 2018, “Recent Subject Matter Eligibility Decisions” (Apr. 2, 2018), available at <https://www.uspto.gov/sites/default/files/documents/memo-recent-sme-ctdec-20180402.pdf> [hereinafter

Continued

<sup>5</sup> *Mayo*, 566 U.S. at 71 (“Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work” (quoting *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)).

<sup>6</sup> USPTO Memorandum of April 19, 2018, “Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (*Berkheimer v. HP, Inc.*)” (Apr. 19, 2018), available at <https://www.uspto.gov/sites/default/files/documents/memo-berkheimer-20180419.PDF> [hereinafter “USPTO *Berkheimer* Memorandum”].

While that approach was effective soon after *Alice* was decided, it has since become impractical. The Federal Circuit has now issued numerous decisions identifying subject matter as abstract or non-abstract in the context of specific cases, and that number is continuously growing. In addition, similar subject matter has been described both as abstract and not abstract in different cases.<sup>11</sup> The growing body of precedent has become increasingly more difficult for examiners to apply in a predictable manner, and concerns have been raised that different examiners within and between technology centers may reach inconsistent results.

The USPTO, therefore, aims to clarify the analysis. In accordance with judicial precedent and in an effort to improve consistency and predictability, the 2019 Revised Patent Subject Matter Eligibility Guidance extracts and synthesizes key concepts identified by the courts as abstract ideas to explain that the abstract idea exception includes the following groupings of subject matter, when recited as such in a claim limitation(s) (that is, when recited on their own or per se):

“USPTO *Finjan* Memorandum”] (discussing how the claims in *Finjan Inc. v. Blue Coat Systems, Inc.*, 879 F.3d 1299 (Fed. Cir. 2018), and *Core Wireless Licensing, S.A.R.L. v. LG Electronics, Inc.*, 880 F.3d 1356 (Fed. Cir. 2018), were directed to improvements instead of abstract ideas); USPTO *Berkheimer* Memorandum at 2 (discussing the abstract idea in *Berkheimer*); MPEP 2106.04(a) (reviewing cases that did and did not identify abstract ideas).

<sup>11</sup> E.g., compare *TLI Commc'ns*, 823 F.3d at 611, with *Enfish*, 822 F.3d at 1335, and *Visual Memory LLC v. NVIDIA Corp.*, 867 F.3d 1253, 1258 (Fed. Cir. 2017). While computer operations such as “output of data analysis . . . can be abstract,” *Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1056 (Fed. Cir. 2017), “software-based innovations can [also] make ‘non-abstract improvements to computer technology’ and be deemed patent-eligible subject matter at step 1 [of the *Mayo/Alice* test],” *Finjan*, 879 F.3d at 1304 (quoting *Enfish*, 822 F.3d at 1335). Indeed, the Federal Circuit has held that “improvements in computer-related technology” and “claims directed to software” are not “inherently abstract.” *Enfish*, 822 F.3d at 1335; see also *Visual Memory*, 867 F.3d at 1258. These developments in the caselaw can create complications for the patent-examination process. For example, claims in one application could be deemed to be abstract, whereas slightly different claims directed to the same or similar subject matter could be determined to reflect a patent eligible “improvement.” Alternatively, claims in one application could be found to be abstract, whereas claims to the same or similar subject matter in another application, containing additional or different embodiments in the specification, could be deemed eligible as not directed to an abstract idea. In other words, the finding that the subject matter claimed in a prior patent was “abstract” as claimed may not determine whether similar subject matter in another application, claimed somewhat differently or supported by a different disclosure, is directed to an abstract idea and therefore patent ineligible.

(a) Mathematical concepts—mathematical relationships, mathematical formulas or equations, mathematical calculations;<sup>12</sup>

(b) Certain methods of organizing human activity—fundamental economic principles or practices (including hedging, insurance, mitigating risk); commercial or legal interactions (including agreements in the form of contracts; legal obligations; advertising, marketing or sales activities or behaviors; business relations); managing personal behavior or relationships or interactions between people (including social activities, teaching, and following rules or instructions);<sup>13</sup> and

(c) Mental processes—concepts performed in the human mind<sup>14</sup> (including an observation, evaluation, judgment, opinion).<sup>15</sup>

<sup>12</sup> *Bilski v. Kappos*, 561 U.S. 593, 611 (2010) (“The concept of hedging . . . reduced to a mathematical formula . . . is an unpatentable abstract idea[.]”); *Diamond v. Diehr*, 450 U.S. 175, 191 (1981) (“A mathematical formula as such is not accorded the protection of our patent laws”) (citing *Benson*, 409 U.S. 63; *Parker v. Flook*, 437 U.S. 584, 594 (1978) (“[T]he discovery of [a mathematical formula] cannot support a patent unless there is some other inventive concept in its application.”); *Benson*, 409 U.S. at 71–72 (concluding that permitting a patent on the claimed invention “would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself”); *Mackay Radio & Telegraph Co. v. Radio Corp. of Am.*, 306 U.S. 86, 94 (1939) (“[A] scientific truth, or the mathematical expression of it, is not patentable invention[.]”); *SAP America, Inc. v. InvestPic, LLC*, 898 F.3d 1161, 1163 (Fed. Cir. 2018) (holding that claims to a “series of mathematical calculations based on selected information” are directed to abstract ideas); *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344, 1350 (Fed. Cir. 2014) (holding that claims to a “process of organizing information through mathematical correlations” are directed to an abstract idea); *Bancorp Servs., LLC v. Sun Life Assurance Co. of Can. (U.S.)*, 687 F.3d 1266, 1280 (Fed. Cir. 2012) (identifying the concept of “managing a stable value protected life insurance policy by performing calculations and manipulating the results” as an abstract idea).

<sup>13</sup> *Alice*, 573 U.S. at 219–20 (concluding that use of a third party to mediate settlement risk is a “fundamental economic practice” and thus an abstract idea); *id.* (describing the concept of risk hedging identified as an abstract idea in *Bilski* as “a method of organizing human activity”); *Bilski*, 561 U.S. at 611–612 (concluding that hedging is a “fundamental economic practice” and therefore an abstract idea); *Bancorp*, 687 F.3d at 1280 (concluding that “managing a stable value protected life insurance policy by performing calculations and manipulating the results” is an abstract idea); *Inventor Holdings, LLC v. Bed Bath & Beyond, Inc.*, 876 F.3d 1372, 1378–79 (Fed. Cir. 2017) (holding that concept of “local processing of payments for remotely purchased goods” is a “fundamental economic practice, which *Alice* made clear is, without more, outside the patent system.”); *OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1362–63 (Fed. Cir. 2015) (concluding that claimed concept of “offer-based price optimization” is an abstract idea “similar to other ‘fundamental economic concepts’ found to be abstract ideas by the Supreme Court and this court”); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1355 (Fed. Cir. 2014) (holding that concept of “creating a contractual relationship—a ‘transaction performance guaranty’” is an abstract idea); *In re Comiskey*, 554 F.3d 967, 981 (Fed. Cir. 2009) (claims directed to “resolving a legal dispute between two parties by the decision of a human arbitrator” are ineligible);

*Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 715 (Fed. Cir. 2014) (holding that claim “describe[ing] only the abstract idea of showing an advertisement before delivering free content” is patent ineligible); *In re Ferguson*, 558 F.3d 1359, 1364 (Fed. Cir. 2009) (holding methods “directed to organizing business or legal relationships in the structuring of a sales force (or marketing company)” to be ineligible); *Credit Acceptance*, 859 F.3d 1044 at 1054 (“The Board determined that the claims are directed to the abstract idea of ‘processing an application for financing a purchase.’ . . . We agree.”); *Interval Licensing*, 896 F.3d at 1344–45 (concluding that “[s]tanding alone, the act of providing someone an additional set of information without disrupting the ongoing provision of an initial set of information is an abstract idea,” observing that the district court “pointed to the nontechnical human activity of passing a note to a person who is in the middle of a meeting or conversation as further illustrating the basic, longstanding practice that is the focus of the [patent ineligible] claimed invention.”); *Voter Verified, Inc. v. Election Systems & Software, LLC*, 887 F.3d 1376, 1385 (Fed. Cir. 2018) (finding the concept of “voting, verifying the vote, and submitting the vote for tabulation,” a “fundamental activity” that humans have performed for hundreds of years, to be an abstract idea); *In re Smith*, 815 F.3d 816, 818 (Fed. Cir. 2016) (concluding that “[a]pplicants’ claims, directed to rules for conducting a wagering game” are abstract).

<sup>14</sup> If a claim, under its broadest reasonable interpretation, covers performance in the mind but for the recitation of generic computer components, then it is still in the mental processes category unless the claim cannot practically be performed in the mind. See *Intellectual Ventures I LLC v. Symantec Corp.*, 838 F.3d 1307, 1318 (Fed. Cir. 2016) (“[W]ith the exception of generic computer-implemented steps, there is nothing in the claims themselves that foreclose them from being performed by a human, mentally or with pen and paper.”); *Mortg. Grader, Inc. v. First Choice Loan Servs. Inc.*, 811 F.3d 1314, 1324 (Fed. Cir. 2016) (holding that computer-implemented method for “anonymous loan shopping” was an abstract idea because it could be “performed by humans without a computer”); *Versata Dev. Grp. v. SAP Am., Inc.*, 793 F.3d 1306, 1335 (Fed. Cir. 2015) (“Courts have examined claims that required the use of a computer and still found that the underlying, patent-ineligible invention could be performed via pen and paper or in a person’s mind.”); *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1375, 1372 (Fed. Cir. 2011) (holding that the incidental use of “computer” or “computer readable medium” does not make a claim otherwise directed to process that “can be performed in the human mind, or by a human using a pen and paper” patent eligible); *id.* at 1376 (distinguishing *Research Corp. Techs. v. Microsoft Corp.*, 627 F.3d 859 (Fed. Cir. 2010), and *SIRF Tech., Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319 (Fed. Cir. 2010), as directed to inventions that “could not, as a practical matter, be performed entirely in a human’s mind”). Likewise, performance of a claim limitation using generic computer components does not necessarily preclude the claim limitation from being in the mathematical concepts grouping, *Benson*, 409 U.S. at 67, or the certain methods of organizing human activity grouping, *Alice*, 573 U.S. at 219–20.

<sup>15</sup> *Mayo*, 566 U.S. at 71 (“[M]ental processes[] and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.” (quoting *Benson*, 409 U.S. at 67)); *Flook*, 437 U.S. at 589 (same); *Benson*, 409 U.S. at 67, 65 (noting that the claimed “conversion of [binary-coded decimal] numerals to pure binary numerals can be done mentally,” i.e., “as a person



Claims that do not recite matter that falls within these enumerated groupings of abstract ideas should not be treated as reciting abstract ideas, except as follows: In the rare circumstance in which a USPTO employee believes a claim limitation that does not fall within the enumerated groupings of abstract ideas should nonetheless be treated as reciting an abstract idea, the procedure described in Section III.C for analyzing the claim should be followed.

## II. “Directed To” a Judicial Exception

The Supreme Court has long distinguished between principles themselves (which are not patent eligible) and the integration of those principles into practical applications (which are patent eligible).<sup>16</sup> Similarly,

would do it by head and hand.”); *Synopsys, Inc. v. Mentor Graphics Corp.*, 839 F.3d 1138, 1139, (Fed. Cir. 2016) (holding that claims to the mental process of “translating a functional description of a logic circuit into a hardware component description of the logic circuit” are directed to an abstract idea, because the claims “read on an individual performing the claimed steps mentally or with pencil and paper”); *Mortg. Grader*, 811 F.3d at 1324 (concluding that concept of “anonymous loan shopping” is an abstract idea because it could be “performed by humans without a computer”); *In re BRCA1 & BRCA2-Based Hereditary Cancer Test Patent Litig.*, 774 F.3d 755, 763 (Fed. Cir. 2014) (concluding that concept of “comparing BRCA sequences and determining the existence of alterations” is an “abstract mental process”); *In re Brown*, 645 F. App’x 1014, 1017 (Fed. Cir. 2016) (non-precedential) (claim limitations “encompass the mere idea of applying different known hair styles to balance one’s head. Identifying head shape and applying hair designs accordingly is an abstract idea capable, as the Board notes, of being performed entirely in one’s mind”).

<sup>16</sup> See, e.g., *Alice*, 573 U.S. at 217 (explaining that “in applying the § 101 exception, we must distinguish between patents that claim the ‘building[ing] block[s]’ of human ingenuity and those that integrate the building blocks into something more” (quoting *Mayo*, 566 U.S. at 89) and stating that *Mayo* “set forth a framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts”); *Mayo*, 566 U.S. at 80, 84 (noting that the Court in *Diehr* found “the overall process patent eligible because of the way the additional steps of the process integrated the equation into the process as a whole,” but the Court in *Benson* “held that simply implementing a mathematical principle on a physical machine, namely a computer, was not a patentable application of that principle”); *Bilski*, 561 U.S. at 611 (“*Diehr* explained that while an abstract idea, law of nature, or mathematical formula could not be patented, ‘an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.’” (quoting *Diehr*, 450 U.S. at 187) (emphasis in original)); *Diehr*, 450 U.S. at 187, 192 n.14 (explaining that the process in *Flook* was ineligible not because it contained a mathematical formula, but because it did not provide an application of the formula); *Mackay Radio*, 306 U.S. at 94 (“While a scientific truth, or the mathematical expression of it, is not patentable invention, a novel and useful structure created with the aid of knowledge of scientific truth may be.”); *Le Roy v. Atham*, 55 U.S. (14 How.) 156, 175 (1852) (“The elements of the [natural phenomena] exist; the

in a growing body of decisions, the Federal Circuit has distinguished between claims that are “directed to” a judicial exception (which require further analysis to determine their eligibility) and those that are not (which are therefore patent eligible).<sup>17</sup> For example, an improvement in the functioning of a computer or other technology or technological field may render a claim patent eligible at step one of the *Alice/Mayo* test even if it recites an abstract idea, law of nature, or natural phenomenon.<sup>18</sup> Moreover, recent Federal Circuit jurisprudence has indicated that eligible subject matter can often be identified either at the first or the second step of the *Alice/Mayo* test.<sup>19</sup>

invention is not in discovering them, but in applying them to useful objects.”).

<sup>17</sup> See, e.g., MPEP 2106.06(b) (summarizing *Enfish*, *McRO*, and other cases that were eligible as improvements to technology or computer functionality instead of abstract ideas); USPTO *Finjan* Memorandum (discussing *Finjan*, and *Core Wireless*); USPTO Memorandum of June 7, 2018, “Recent Subject Matter Eligibility Decision: *Vanda Pharmaceuticals Inc. v. West-Ward Pharmaceuticals*,” available at <https://www.uspto.gov/sites/default/files/documents/memo-vanda-20180607.PDF> [hereinafter “USPTO *Vanda* Memorandum”]; *BASCOM Glob. Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1352 (Fed. Cir. 2016) (concluding that claims could be eligible if ordered combination of limitations “transform the abstract idea . . . into a particular, practical application of that abstract idea.”); *Arrhythmia Research Tech., Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1056–57 (Fed. Cir. 1992) (“As the jurisprudence developed, inventions that were implemented by the mathematically-directed performance of computers were viewed in the context of the practical application to which the computer-generated data were put.”); *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1315 (Fed. Cir. 2013) (Moore, J., joined by Rader, C.J., and Linn and O’Malley, JJ., dissenting in part) (“The key question is thus whether a claim recites a sufficiently concrete and practical application of an abstract idea to qualify as patent-eligible.”). *aff’d*, 573 U.S. 208 (2014).

<sup>18</sup> See, e.g., *McRO*, 837 F.3d at 1316; *Enfish*, 822 F.3d at 1336; *Core Wireless*, 880 F.3d at 1362.

<sup>19</sup> See, e.g., *Vanda Pharm. Inc. v. West-Ward Pharm. Int’l Ltd.*, 887 F.3d 1117, 1134 (Fed. Cir. 2018) (“If the claims are not directed to a patent ineligible concept at step one, we need not address step two of the inquiry.”); *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042, 1050 (Fed. Cir. 2016) (holding that claimed invention is patent eligible because it is not directed to a patent-ineligible concept under step one or is an inventive application of the patent-ineligible concept under step two); *Enfish*, 822 F.3d at 1339 (noting that eligibility determination can be reached either because claims not directed to an abstract idea under step one or recite a concrete improvement under step two); *McRO*, 837 F.3d at 1313 (recognizing that the “court must look to the claims as an ordered combination” in determining patentability “[w]hether at step one or step two of the *Alice* test”); *Amdocs*, 841 F.3d at 1294 (observing that recent cases “suggest that there is considerable overlap between step one and step two, and in some situations [the inventive concept] analysis could be accomplished without going beyond step one”). See also *Ancora Techs. v. HTC Am.*, 908 F.3d 1343, 1349 (Fed. Cir. 2018) (noting, in accord with the “recognition of overlaps between

These revised patent examination procedures are designed to more accurately and consistently identify claims that recite a practical application of a judicial exception (and thus are not “directed to” a judicial exception), thereby increasing predictability and consistency in the patent eligibility analysis. This analysis is performed at USPTO Step 2A, and incorporates certain considerations that have been applied by the courts at step one and at step two of the *Alice/Mayo* framework, given the recognized overlap in the steps depending on the facts of any given case.

In accordance with judicial precedent, and to increase consistency in examination practice, the 2019 Revised Patent Subject Matter Eligibility Guidance sets forth a procedure to determine whether a claim is “directed to” a judicial exception under USPTO Step 2A. Under the procedure, if a claim recites a judicial exception (a law of nature, a natural phenomenon, or an abstract idea as grouped in Section I, above), it must then be analyzed to determine whether the recited judicial exception is integrated into a practical application of that exception. A claim is not “directed to” a judicial exception, and thus is patent eligible, if the claim as a whole integrates the recited judicial exception into a practical application of that exception. A claim that integrates a judicial exception into a practical application will apply, rely on, or use the judicial exception in a manner that imposes a meaningful limit on the judicial exception, such that the claim is more than a drafting effort designed to monopolize the judicial exception.

## III. Instructions for Applying Revised Step 2A During Examination

Examiners should determine whether a claim satisfies the criteria for subject matter eligibility by evaluating the claim in accordance with the criteria discussed in MPEP 2106, *i.e.*, whether the claim is to a statutory category (Step 1) and the *Alice/Mayo* test for judicial exceptions (Steps 2A and 2B). The procedure set forth herein (referred to as “revised Step 2A”) changes how examiners should apply the first step of the *Alice/Mayo* test, which determines whether a claim is “directed to” a judicial exception.

As before, Step 1 of the USPTO’s eligibility analysis entails considering whether the claimed subject matter falls within the four statutory categories of

some step one and step two considerations,” that its conclusion of eligibility at step one is “indirectly reinforced by some of [its] prior holdings under step two”).

patentable subject matter identified by 35 U.S.C. 101: Process, machine, manufacture, or composition of matter. The 2019 Revised Patent Subject Matter Eligibility Guidance does not change Step 1 or the streamlined analysis, which are discussed in MPEP 2106.03 and 2106.06, respectively. Examiners may continue to use a streamlined analysis (Pathway A) when the patent eligibility of a claim is self-evident.

Step 2A of the 2019 Revised Patent Subject Matter Eligibility Guidance is a two-prong inquiry. In Prong One, examiners evaluate whether the claim recites a judicial exception.<sup>20</sup> This prong is similar to procedures in prior guidance except that when determining if a claim recites an abstract idea, examiners now refer to the subject matter groupings of abstract ideas in Section I instead of comparing the claimed concept to the USPTO's prior "Eligibility Quick Reference Sheet Identifying Abstract Ideas."

- If the claim recites a judicial exception (*i.e.*, an abstract idea enumerated in Section I of the 2019 Revised Patent Subject Matter Eligibility Guidance, a law of nature, or a natural phenomenon), the claim requires further analysis in Prong Two.

- If the claim does not recite a judicial exception (a law of nature, natural phenomenon, or subject matter within the enumerated groupings of abstract ideas in Section I), then the claim is eligible at Prong One of revised Step 2A. This concludes the eligibility analysis, except in the rare circumstance described below.<sup>21</sup>

- In the rare circumstance in which an examiner believes a claim limitation that does not fall within the enumerated groupings of abstract ideas should nonetheless be treated as reciting an abstract idea, the procedure described in Section III.C for analyzing the claim should be followed.

In Prong Two, examiners evaluate whether the claim recites additional elements that integrate the exception into a practical application of that

exception. This prong adds a more detailed eligibility analysis to step one of the *Alice/Mayo* test (USPTO Step 2A) than was required under prior guidance.

- If the recited exception is integrated into a practical application of the exception, then the claim is eligible at Prong Two of revised Step 2A. This concludes the eligibility analysis.

- If, however, the additional elements do not integrate the exception into a practical application, then the claim is directed to the recited judicial exception, and requires further analysis under Step 2B (where it may still be eligible if it amounts to an "inventive concept").<sup>22</sup>

The following discussion provides additional detail on this revised procedure.

#### A. Revised Step 2A

##### 1. Prong One: Evaluate Whether the Claim Recites a Judicial Exception

In Prong One, examiners should evaluate whether the claim recites a judicial exception, *i.e.*, an abstract idea, a law of nature, or a natural phenomenon. If the claim does not recite a judicial exception, it is not directed to a judicial exception (Step 2A: NO) and is eligible. This concludes the eligibility analysis. If the claim does recite a judicial exception, then it requires further analysis in Prong Two of Revised Step 2A to determine whether it is directed to the recited exception, as explained in Section III.A.2 of the 2019 Revised Patent Subject Matter Eligibility Guidance.

For abstract ideas, Prong One represents a change as compared to prior guidance. To determine whether a claim recites an abstract idea in Prong One, examiners are now to: (a) Identify the specific limitation(s) in the claim under examination (individually or in combination) that the examiner believes recites an abstract idea; and (b) determine whether the identified limitation(s) falls within the subject matter groupings of abstract ideas enumerated in Section I of the 2019 Revised Patent Subject Matter Eligibility Guidance. If the identified limitation(s) falls within the subject matter groupings of abstract ideas enumerated in Section I, analysis should proceed to Prong Two in order to evaluate whether the claim integrates the abstract idea into a

practical application. When evaluating Prong One, examiners are no longer to use the USPTO's "Eligibility Quick Reference Sheet Identifying Abstract Ideas," which has been superseded by this document.

In the rare circumstance in which an examiner believes a claim limitation that does not fall within the enumerated groupings of abstract ideas should nonetheless be treated as reciting an abstract idea, the procedure described in Section III.C for analyzing the claim should be followed.

For laws of nature and natural phenomena, Prong One does not represent a change. Examiners should continue to follow existing guidance to identify whether a claim recites one of these exceptions,<sup>23</sup> and if it does, proceed to Prong Two of the 2019 Revised Patent Subject Matter Eligibility Guidance in order to evaluate whether the claim integrates the law of nature or natural phenomenon into a practical application.

##### 2. Prong Two: If the Claim Recites a Judicial Exception, Evaluate Whether the Judicial Exception Is Integrated Into a Practical Application

In Prong Two, examiners should evaluate whether the claim as a whole integrates the recited judicial exception into a practical application of the exception. A claim that integrates a judicial exception into a practical application will apply, rely on, or use the judicial exception in a manner that imposes a meaningful limit on the judicial exception, such that the claim is more than a drafting effort designed to monopolize the judicial exception. When the exception is so integrated, then the claim is not directed to a judicial exception (Step 2A: NO) and is eligible. This concludes the eligibility analysis. If the additional elements do not integrate the exception into a practical application, then the claim is directed to the judicial exception (Step 2A: YES), and requires further analysis under Step 2B (where it may still be eligible if it amounts to an inventive concept), as explained in Section III.B of the 2019 Revised Patent Subject Matter Eligibility Guidance.

Prong Two represents a change from prior guidance. The analysis under Prong Two is the same for all claims reciting a judicial exception, whether the exception is an abstract idea, a law of nature, or a natural phenomenon.

Examiners evaluate integration into a practical application by: (a) Identifying whether there are any additional elements recited in the claim beyond

<sup>20</sup> This notice does not change the type of claim limitations that are considered to recite a law of nature or natural phenomenon. For more information about laws of nature and natural phenomena, including products of nature, see MPEP 2106.04(b) and (c).

<sup>21</sup> Even if a claim is determined to be patent eligible under section 101, this or any other step of the eligibility analysis does not end the inquiry. The claims must also satisfy the other conditions and requirements for patentability, for example, under section 102 (novelty), 103 (nonobviousness), or 112 (enablement, written description, definiteness). *Bilski*, 561 U.S. at 602. Examiners should take care not to confuse or intermingle patentability requirements of these separate sections with patent eligibility analysis under section 101.

<sup>22</sup> See, e.g., *Amdocs*, 841 F.3d at 1300, 1303; *BASCOM*, 827 F.3d at 1349–52; *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1257–59 (Fed. Cir. 2014); USPTO *Berkheimer* Memorandum; see also *Rapid Litig.*, 827 F.3d at 1050 (holding that claimed invention is patent eligible because it is not directed to a patent-ineligible concept under step one or is an inventive application of the patent-ineligible concept under step two).

<sup>23</sup> See MPEP 2106.04(b)–(c).



the judicial exception(s); and (b) evaluating those additional elements individually and in combination to determine whether they integrate the exception into a practical application, using one or more of the considerations laid out by the Supreme Court and the Federal Circuit, for example those listed below. While some of the considerations listed below were discussed in prior guidance in the context of Step 2B, evaluating them in revised Step 2A promotes early and efficient resolution of patent eligibility, and increases certainty and reliability. Examiners should note, however, that revised Step 2A specifically excludes consideration of whether the additional elements represent well-understood, routine, conventional activity. Instead, analysis of well-understood, routine, conventional activity is done in Step 2B. Accordingly, in revised Step 2A examiners should ensure that they give weight to all additional elements, whether or not they are conventional, when evaluating whether a judicial exception has been integrated into a practical application.

In the context of revised Step 2A, the following exemplary considerations are indicative that an additional element (or combination of elements)<sup>24</sup> may have integrated the exception into a practical application:

- An additional element reflects an improvement in the functioning of a computer, or an improvement to other technology or technical field;<sup>25</sup>
- an additional element that applies or uses a judicial exception to effect a particular treatment or prophylaxis for a disease or medical condition;<sup>26</sup>

<sup>24</sup> USPTO guidance uses the term “additional elements” to refer to claim features, limitations, and/or steps that are recited in the claim beyond the identified judicial exception. Again, whether an additional element or combination of elements integrate the exception into a practical application should be evaluated on the claim as a whole.

<sup>25</sup> For example, a modification of internet hyperlink protocol to dynamically produce a dual-source hybrid web page. See MPEP 2106.05(a) for more information concerning improvements in the functioning of a computer or to any other technology or technical field, including a discussion of the exemplar provided herein, which is based on *DDR Holdings*, 773 F.3d at 1258–59. See also USPTO *Finjan* Memorandum (discussing *Finjan* and *Core Wireless*).

<sup>26</sup> For example, an immunization step that integrates an abstract idea into a specific process of immunizing that lowers the risk that immunized patients will later develop chronic immune-mediated diseases. See, e.g., *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057, 1066–68 (Fed. Cir. 2011). See also *Vanda Pharm. Inc. v. West-Ward Pharm. Int'l Ltd.*, 887 F.3d 1117, 1135 (Fed. Cir. 2018) (holding claims to the practical application of the natural relationships between iloperidone, CYP2D6 metabolism, and QTc prolongation to treat schizophrenia, not merely the recognition of those relationships, to be patent

- an additional element implements a judicial exception with, or uses a judicial exception in conjunction with, a particular machine or manufacture that is integral to the claim;<sup>27</sup>

- an additional element effects a transformation or reduction of a particular article to a different state or thing;<sup>28</sup> and

- an additional element applies or uses the judicial exception in some other meaningful way beyond generally linking the use of the judicial exception to a particular technological environment, such that the claim as a whole is more than a drafting effort designed to monopolize the exception.<sup>29</sup>

This is not an exclusive list, and there may be other examples of integrating the exception into a practical application.

The courts have also identified examples in which a judicial exception has not been integrated into a practical application:

- An additional element merely recites the words “apply it” (or an equivalent) with the judicial exception, or merely includes instructions to implement an abstract idea on a computer, or merely uses a computer as a tool to perform an abstract idea;<sup>30</sup>

eligible at *Mayo/Alice* step 1 (USPTO Step 2A)), and USPTO *Vanda* Memorandum (discussing *Vanda*).

<sup>27</sup> For example, a Fourdrinier machine (which is understood in the art to have a specific structure comprising a headbox, a paper-making wire, and a series of rolls) that is arranged in a particular way that uses gravity to optimize the speed of the machine while maintaining quality of the formed paper web. See MPEP 2106.05(b) for more information concerning use of a judicial exception with, or in conjunction with, a particular machine or manufacture, including a discussion of the exemplar provided herein, which is based on *Eibel Process Co. v. Minnesota & Ontario Paper Co.*, 261 U.S. 45, 64–65 (1923).

<sup>28</sup> For example, a process that transforms raw, uncured synthetic rubber into precision-molded synthetic rubber products by using a mathematical formula to control operation of the mold. See MPEP 2106.05(c) for more information concerning transformation or reduction of a particular article to a different state or thing, including a discussion of the exemplar provided herein, which is based on *Diehr*, 450 U.S. at 184.

<sup>29</sup> For example, a combination of steps including installing rubber in a press, closing the mold, constantly measuring the temperature in the mold, and automatically opening the press at the proper time, all of which together meaningfully limited the use of a mathematical equation to a practical application of molding rubber products. See MPEP 2106.05(e) for more information on this consideration, including a discussion of the exemplar provided herein, which is based on *Diehr*, 450 U.S. at 184, 187. See also USPTO *Finjan* Memorandum (discussing *Finjan* and *Core Wireless*).

<sup>30</sup> For example, a limitation indicating that a particular function such as creating and maintaining electronic records is performed by a computer, without specifying how. See MPEP 2106.05(f) for more information concerning mere instructions to apply a judicial exception, including a discussion of the exemplar provided herein, which is based on *Alice*, 573 U.S. at 222–26. See

- an additional element adds insignificant extra-solution activity to the judicial exception;<sup>31</sup> and

- an additional element does no more than generally link the use of a judicial exception to a particular technological environment or field of use.<sup>32</sup>

It is critical that examiners consider the claim as a whole when evaluating whether the judicial exception is meaningfully limited by integration into a practical application of the exception. Some elements may be enough on their own to meaningfully limit an exception, but other times it is the combination of elements that provide the practical application. When evaluating whether an element (or combination of elements) integrates an exception into a practical application, examiners should give careful consideration to both the element and how it is used or arranged in the claim as a whole. Because revised Step 2A does not evaluate whether an additional element is well-understood, routine, conventional activity, examiners are reminded that a claim that includes conventional elements may still integrate an exception into a practical application, thereby satisfying the subject matter eligibility requirement of Section 101.<sup>33</sup>

*also Benson*, 409 U.S. 63 (holding that merely implementing a mathematical principle on a general purpose computer is a patent ineligible abstract idea); *Credit Acceptance Corp. v. Westlake Services*, 859 F.3d 1044 (Fed. Cir. 2017) (using a computer as a tool to process an application for financing a purchase).

<sup>31</sup> For example, a mere data gathering such as a step of obtaining information about credit card transactions so that the information can be analyzed in order to detect whether the transactions were fraudulent. See MPEP 2106.05(g) for more information concerning insignificant extra-solution activity, including a discussion of the exemplar provided herein, which is based on *CyberSource*, 654 F.3d at 1375. See also *Mayo*, 566 U.S. at 79 (concluding that additional element of measuring metabolites of a drug administered to a patient was insignificant extra-solution activity, which was insufficient to confer patent eligibility); *Flook*, 437 U.S. at 590 (step of adjusting an alarm limit based on the output of a mathematical formula was “post-solution activity” and did not render method patent eligible).

<sup>32</sup> For example, a claim describing how the abstract idea of hedging could be used in the commodities and energy markets, or a claim limiting the use of a mathematical formula to the petrochemical and oil-refining fields. See MPEP 2106.05(h) concerning generally linking use of a judicial exception to a particular technological environment or field of use, including a discussion of the exemplars provided herein, which are based on *Bilski*, 561 U.S. at 612, and *Flook*, 437 U.S. at 588–90. Thus, the mere application of an abstract method of organizing human activity in a particular field is not sufficient to integrate the judicial exception into a practical application.

<sup>33</sup> Of course, such claims must also satisfy the other conditions and requirements of patentability, for example, under section 102 (novelty), 103 (nonobviousness), and 112 (enablement, written description, definiteness). *Bilski*, 561 U.S. at 602.

*B. Step 2B: If the Claim Is Directed to a Judicial Exception, Evaluate Whether the Claim Provides an Inventive Concept*

It is possible that a claim that does not “integrate” a recited judicial exception is nonetheless patent eligible. For example the claim may recite additional elements that render the claim patent eligible even though a judicial exception is recited in a separate claim element.<sup>34</sup> Along these lines, the Federal Circuit has held claims eligible at the second step of the *Alice/Mayo* test (USPTO Step 2B) because the additional elements recited in the claims provided “significantly more” than the recited judicial exception (e.g., because the additional elements were unconventional in combination).<sup>35</sup> Therefore, if a claim has been determined to be directed to a judicial exception under revised Step 2A, examiners should then evaluate the additional elements individually and in combination under Step 2B to determine whether they provide an inventive concept (i.e., whether the additional elements amount to significantly more than the exception itself). If the examiner determines that the element (or combination of elements) amounts to significantly more than the exception itself (Step 2B: YES), the claim is eligible, thereby concluding the eligibility analysis. If the examiner determines that the element and combination of elements does not amount to significantly more than the exception itself, the claim is ineligible (Step 2B: NO) and the examiner should reject the claim for lack of subject matter eligibility.

While many considerations in Step 2A need not be reevaluated in Step 2B, examiners should continue to consider in Step 2B whether an additional element or combination of elements:

- Adds a specific limitation or combination of limitations that are not well-understood, routine, conventional activity in the field, which is indicative that an inventive concept may be present; or
- simply appends well-understood, routine, conventional activities previously known to the industry,

<sup>34</sup> See, e.g., *Diehr*, 450 U.S. at 187 (“Our earlier opinions lend support to our present conclusion that a claim drawn to subject matter otherwise statutory does not become nonstatutory simply because it uses a mathematical formula, computer program, or digital computer.”); *id.* at 185 (“Our conclusion regarding respondents’ claims is not altered by the fact that in several steps of the process a mathematical equation and a programmed digital computer are used.”).

<sup>35</sup> See, e.g., *Amdocs*, 841 F.3d at 1300, 1303; *BASCOM*, 827 F.3d at 1349–52; *DDR Holdings*, 773 F.3d at 1257–59.

specified at a high level of generality, to the judicial exception, which is indicative that an inventive concept may not be present.<sup>36</sup>

For this reason, if an examiner had previously concluded under revised Step 2A that, e.g., an additional element was insignificant extra-solution activity, they should reevaluate that conclusion in Step 2B. If such reevaluation indicates that the element is unconventional or otherwise more than what is well-understood, routine, conventional activity in the field, this finding may indicate that an inventive concept is present and that the claim is thus eligible.<sup>37</sup> For example, when evaluating a claim reciting an abstract idea such as a mathematical equation and a series of data gathering steps that collect a necessary input for the equation, an examiner might consider the data gathering steps to be insignificant extra-solution activity in revised Step 2A, and therefore find that the judicial exception is not integrated into a practical application.<sup>38</sup> However, when the examiner reconsiders the data gathering steps in Step 2B, the examiner could determine that the combination of steps gather data in an unconventional way and therefore include an “inventive concept,” rendering the claim eligible at Step 2B.<sup>39</sup> Likewise, a claim that does

<sup>36</sup> In accordance with existing guidance, an examiner’s conclusion that an additional element (or combination of elements) is well understood, routine, conventional activity must be supported with a factual determination. For more information concerning evaluation of well-understood, routine, conventional activity, see MPEP 2106.05(d), as modified by the USPTO *Berkheimer* Memorandum.

<sup>37</sup> *Mayo*, 566 U.S. at 82 (“[S]imply appending conventional steps, specified at a high level of generality, to laws of nature, natural phenomena, and abstract ideas cannot make those laws, phenomena, and ideas patentable.”); *but see id.* at 85 (“[T]he claimed process included not only a law of nature but also several unconventional steps (such as inserting the receptacle, applying heat to the receptacle externally, and blowing the air into the furnace) that confined the claims to a particular, useful application of the principle.” (discussing the old English case, *Neilson v. Harford*, Webster’s Patent Cases 295 (1841))).

<sup>38</sup> See *supra* note 34; see also *OIP Techs.*, 788 F.3d at 1363 (finding that gathering statistics generated based on customer testing for input to a pricing calculation “fail[s] to ‘transform’ the claimed abstract idea into a patent-eligible invention”).

<sup>39</sup> *Compare Flook*, 437 U.S. at 585–86 (holding claimed method of updating alarm limits to be ineligible because: “In essence, the method consists of three steps: an initial step which merely measures the present value of the process variable (e.g., the temperature); an intermediate step which uses an algorithm to calculate an updated alarm-limit value; and a final step in which the actual alarm limit is adjusted to the updated value. The only difference between the conventional methods of changing alarm limits and that described in respondent’s application rests in the second step—the mathematical algorithm or formula.”); *with Exergen Corp. v. Kaz USA, Inc.*, 725 F. App’x 959,

not meaningfully integrate a judicial exception into a practical application of the exception sufficient to pass muster at Step 2A, may nonetheless include additional subject matter that is unconventional and thus an “inventive concept” at Step 2B.<sup>40</sup>

*C. Treating a Claim Limitation That Does Not Fall Within the Enumerated Groupings of Abstract Ideas as Reciting an Abstract Idea*

In the rare circumstance in which an examiner believes a claim limitation that does not fall within the enumerated groupings of abstract ideas should

966 (Fed. Cir. 2018) (holding claimed body temperature detector to be eligible because: “Here, the patent is directed to the measurement of a natural phenomenon (core body temperature). Even if the concept of such measurement is directed to a natural phenomenon and is abstract at step one, the measurement method here was not conventional, routine, and well-understood. Following years and millions of dollars of testing and development, the inventor determined for the first time the coefficient representing the relationship between temporal-arterial temperature and core body temperature and incorporated that discovery into an unconventional method of temperature measurement.”).

<sup>40</sup> *Compare Berkheimer*, 881 F.3d at 1370 (holding independent claim 1 to be ineligible at *Alice* step 2: “The[] conventional limitations of claim 1, combined with limitations of analyzing and comparing data and reconciling differences between the data, fail to transform the abstract idea into a patent-eligible invention. The limitations amount to no more than performing the abstract idea of parsing and comparing data with conventional computer components”) (internal quotation marks and citation omitted); *with id.* (concluding that dependent claims 4–7 may be eligible: “Claims 4–7, in contrast, contain limitations directed to the arguably unconventional inventive concept described in the specification. Claim 4 recites ‘storing a reconciled object structure in the archive without substantial redundancy.’ The specification states that storing object structures in the archive without substantial redundancy improves system operating efficiency and reduces storage costs. It also states that known asset management systems did not archive documents in this manner. Claim 5 depends on claim 4 and further recites ‘selectively editing an object structure, linked to other structures to thereby effect a one-to-many change in a plurality of archived items.’ The specification states one-to-many editing substantially reduces effort needed to update files because a single edit can update every document in the archive linked to that object structure. This one-to-many functionality is more than ‘editing data in a straightforward copy-and-paste fashion,’ as characterized by the district court. According to the specification, conventional digital asset management systems cannot perform one-to-many editing because they store documents with numerous instances of redundant elements, rather than eliminate redundancies through the storage of linked object structures. Claims 6–7 depend from claim 5 and accordingly contain the same limitations. These claims recite a specific method of archiving that, according to the specification, provides benefits that improve computer functionality. . . . [T]here is at least a genuine issue of material fact in light of the specification regarding whether claims 4–7 archive documents in an inventive manner that improves these aspects of the disclosed archival system.”) (internal quotation marks and citations omitted).

nonetheless be treated as reciting an abstract idea (“tentative abstract idea”), the examiner should evaluate whether the claim as a whole integrates the recited tentative abstract idea into a practical application as explained in Section III.A.2. If the claim as a whole integrates the recited tentative abstract idea into a practical application, the claim is not directed to a judicial exception (Step 2A: NO) and is eligible (thus concluding the eligibility analysis). If the claim as a whole does not integrate the recited tentative abstract idea into a practical application, then the examiner should evaluate the additional elements individually and in combination to determine whether they provide an inventive concept as explained in Section III.B. If an additional element or combination of additional elements provides an inventive concept as explained in Section III.B (Step 2B: YES), the claim is eligible (thus concluding the eligibility analysis). If the additional element or combination of additional elements does not provide an inventive concept as explained in Section III.B (Step 2B: NO), the examiner should bring the application to the attention of the Technology Center Director. Any rejection in which a claim limitation, which does not fall within the enumerated abstract ideas (tentative abstract idea), is nonetheless treated as reciting an abstract idea must be approved by the Technology Center Director (which approval will be indicated in the file record of the application), and must provide a justification<sup>41</sup> for why such claim limitation is being treated as reciting an abstract idea.<sup>42</sup>

#### D. Compact Prosecution

Regardless of whether a rejection under 35 U.S.C. 101 is made, a complete examination should be made for every claim under each of the other patentability requirements: 35 U.S.C. 102, 103, 112, and 101 (utility, inventorship and double patenting) and non-statutory double patenting.<sup>43</sup> Compact prosecution, however, does not mandate that the patentability

<sup>41</sup> Such justification may include, for example, an explanation of why the element contains subject matter that, per se, invokes eligibility concerns similar to those expressed by the Supreme Court with regard to the judicial exceptions. See *supra* note 5.

<sup>42</sup> Similarly, in the rare circumstance in which a panel of administrative patent judges (or panel majority) believes that a claim reciting a tentative abstract idea should be treated as reciting an abstract idea, the matter should be brought to the attention of the PTAB leadership by a written request for clearance.

<sup>43</sup> See MPEP 2103 *et seq.* and 2106(III).

requirements be analyzed in any particular order.

Dated: December 20, 2018.

**Andrei Iancu,**

*Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.*

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**BILLING CODE 3510–16–P**

## DEPARTMENT OF COMMERCE

### United States Patent and Trademark Office

[Docket No. PTO–P–2018–0059]

#### Examining Computer-Implemented Functional Claim Limitations for Compliance With 35 U.S.C. 112

**AGENCY:** United States Patent and Trademark Office, Commerce.

**ACTION:** Examination guidance; request for comments.

**SUMMARY:** This guidance will assist United States Patent and Trademark Office (USPTO) personnel in the examination of claims in patent applications that contain functional language, particularly patent applications where functional language is used to claim computer-implemented inventions. Part I of this guidance addresses issues related to the examination of computer-implemented functional claims having means-plus-function limitations. Part II of this guidance addresses written description and enablement issues related to the examination of computer-implemented functional claims that recite only the idea of a solution or outcome to a problem but fail to recite details of how the solution or outcome is accomplished.

#### DATES:

**Applicable Date:** The Computer-Implemented Functional Claim Limitations Guidance is effective on January 7, 2019. The Computer-Implemented Functional Claim Limitations Guidance applies to all applications, and to all patents resulting from applications, filed before, on or after January 7, 2019.

**Comment Deadline Date:** Written comments must be received on or before March 8, 2019.

**ADDRESSES:** Comments must be sent by electronic mail message over the internet addressed to:

[112Guidance2019@uspto.gov](mailto:112Guidance2019@uspto.gov).

Electronic comments submitted in plain text are preferred, but also may be submitted in ADOBE® portable document format or MICROSOFT

WORD® format. Comments not submitted electronically should be submitted on paper in a format that facilitates convenient digital scanning into ADOBE® portable document format. The comments will be available for viewing via the USPTO’s internet website (<http://www.uspto.gov>). Because comments will be made available for public inspection, information that the submitter does not desire to make public, such as an address or phone number, should not be included in the comments.

#### FOR FURTHER INFORMATION CONTACT:

Nicole D. Haines, Senior Legal Advisor, at 571–272–7717 or Jeffrey R. West, Senior Legal Advisor, at 571–272–2226, both with the Office of Patent Legal Administration.

**SUPPLEMENTARY INFORMATION:** The patent examination process must ensure that: (1) The claims of an application have proper written description and enablement support under 35 U.S.C. 112(a)<sup>1</sup> in the disclosure of the application, and (2) functional limitations (*i.e.*, claim limitations that define an element in terms of the function it performs without reciting the structure, materials, or acts that perform the function) are properly treated as means (or step) plus function limitations under 35 U.S.C. 112(f), and are sufficiently definite under 35 U.S.C. 112(b), as appropriate. These requirements are particularly relevant to computer-implemented functional claims.

The U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) has recognized a problem with broad functional claiming without adequate structural support in the specification. *Williamson v. Citrix Online, LLC*, 792 F.3d 1339, 1349 (Fed. Cir. 2015) (en banc) (overruling the Federal Circuit’s previous application of a “strong” presumption that claim limitations lacking the word “means” are not subject to § 112(f) to address the resulting “proliferation of functional claiming untethered to [§ 112(f)] and free of the strictures set forth in the statute”); *Function Media, LLC v. Google, Inc.*, 708 F.3d 1310, 1319 (Fed. Cir. 2013) (“Section [112(f)] is intended

<sup>1</sup> Section 4 of the Leahy-Smith America Invents Act (AIA) designated pre-AIA 35 U.S.C. 112, ¶ 1 through 6, as 35 U.S.C. 112(a) through (f), effective as to applications filed on or after September 16, 2012. See Public Law 112–29, 4(c), 125 Stat. 284, 296 (2011). AIA 35 U.S.C. 112(a) and pre-AIA 35 U.S.C. 112, ¶ 1 are collectively referred to in this notice as 35 U.S.C. 112(a); AIA 35 U.S.C. 112(b) and pre-AIA 35 U.S.C. 112, ¶ 2 are collectively referred to in this notice as 35 U.S.C. 112(b); and AIA 35 U.S.C. 112(f) and pre-AIA 35 U.S.C. 112, ¶ 6 are collectively referred to in this notice as 35 U.S.C. 112(f).

Steven E. BERKHEIMER,  
Plaintiff-Appellant

v.

HP INC., fka Hewlett-Packard  
Company, Defendant-  
Appellee  
2017-1437

United States Court of Appeals,  
Federal Circuit.

Decided: February 8, 2018

**Background:** Patentee brought action for infringement of patent that described methods for digitally processing and archiving files. The United States District Court for the Northern District of Illinois, No. 1:12-cv-09023, John Z. Lee, J., 2015 WL 4999954 and 224 F.Supp.3d 635, construed patent, ruled claims were invalid, and granted summary judgment to alleged infringer. Patentee appealed.

**Holdings:** The Court of Appeals, Moore, Circuit Judge, held that:

- (1) district court did not clearly err in finding, based on alleged infringer's expert declaration, that term "minimal redundancy" was indefinite;
- (2) patent claims were directed to abstract ideas of parsing, comparing, storing, and/or editing data; but
- (3) genuine issue of material fact existed as to whether some of those claims contained transformative inventive concept.

Affirmed in part, vacated in part, and remanded.

#### 1. Patents ⇌1970(3)

Court of Appeals reviews indefiniteness determinations in a patent infringement action de novo except for necessary subsidiary fact findings, which are reviewed for clear error. 35 U.S.C.A. § 112.

#### 2. Patents ⇌817

Patent claims must particularly point out and distinctly claim the subject matter regarded as the invention. 35 U.S.C.A. § 112.

#### 3. Patents ⇌816

Lack of definiteness renders patent claims invalid. 35 U.S.C.A. § 112.

#### 4. Patents ⇌816

Patent claims, viewed in light of the specification and prosecution history, must inform those skilled in the art about the scope of the invention with reasonable certainty. 35 U.S.C.A. § 112.

#### 5. Patents ⇌822

District court did not clearly err in finding, based on alleged infringer's expert declaration in infringement action, that term "minimal redundancy" was indefinite, and thus rendered invalid claim in patent describing methods for digitally processing and archiving files; claim language was not reasonably clear as to what level of redundancy was acceptable for archive, specification used inconsistent terminology to describe level of redundancy, prosecution history did not add clarity, and alleged infringer's expert opined that, given this lack of explanation and specific examples of term, patent did not inform skilled artisan of meaning of minimal redundancy with reasonable certainty. 35 U.S.C.A. § 112.

#### 6. Courts ⇌96(7)

In patent appeals, the law of the regional circuit applies to issues not unique to patent law.

#### 7. Patents ⇌1970(4)

Patent eligibility is ultimately an issue of law that Court of Appeals reviews de novo. 35 U.S.C.A. § 101.

**8. Patents** ¶471

Patent eligibility inquiry may contain underlying issues of fact.

**9. Patents** ¶441

Courts may treat a patent claim as representative of patent eligibility in certain situations, such as if the patentee does not present any meaningful argument for the distinctive significance of any claim limitations not found in the representative claim or if the parties agree to treat a claim as representative. 35 U.S.C.A. § 101.

**10. Patents** ¶1957

Patentee preserved argument that dependent claims were separately patent eligible, on appeal from summary judgment for alleged infringer in action for infringement of patent that described methods for digitally processing and archiving files, where patentee maintained that limitations included in dependent claims bore on patent eligibility and he never agreed to make independent claim representative, but, to the contrary, made arguments addressed to reducing redundancy and enabling one-to-many editing that were not recited in independent claim. 35 U.S.C.A. § 101.

**11. Patents** ¶452

Because patent protection does not extend to claims that monopolize the building blocks of human ingenuity, claims directed to laws of nature, natural phenomena, and abstract ideas are not patent eligible. 35 U.S.C.A. § 101.

**12. Patents** ¶452, 455

To distinguish between claims that claim patent ineligible subject matter and those that integrate the building blocks of human ingenuity into something more, court first determines whether the claims at issue are directed to a patent-ineligible concept, and if so, court considers the elements of each claim both individually and

as an ordered combination to determine whether the additional elements transform the nature of the claim into a patent-eligible application. 35 U.S.C.A. § 101.

**13. Patents** ¶460

Claims in patent for methods for digitally processing and archiving files were directed to abstract ideas of parsing, comparing, storing, and/or editing data, and thus claims were patent ineligible absent additional inventive concept; specification described parser that determined and extracted components of standardized document or item representation and reassembled components into composite output files, and while parser transformed data from source to object code, this did not demonstrate non-abstractness without improvement in computer functionality. 35 U.S.C.A. § 101.

**14. Patents** ¶455

Claims directed to abstract idea contain inventive concept and thus are patent eligible when the claim limitations involve more than performance of well-understood, routine, and conventional activities previously known to the industry.

**15. Patents** ¶455

In determining whether claims directed to abstract idea contain inventive concept and thus are patent eligible, determinative question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is a question of fact. 35 U.S.C.A. § 101.

**16. Patents** ¶1119

Any fact that is pertinent to patent invalidity conclusion must be proven by clear and convincing evidence. 35 U.S.C.A. § 101.

**17. Patents** ⇨471

Like indefiniteness, enablement, or obviousness, whether a claim recites patent eligible subject matter is a question of law which may contain underlying facts. 35 U.S.C.A. § 101.

**18. Patents** ⇨1935(5)

When there is no genuine issue of material fact regarding whether an abstract-idea directed claim element or claimed combination is well-understood, routine, and conventional to a skilled artisan in the relevant field, patent eligibility can be decided on summary judgment as a matter of law. 35 U.S.C.A. § 101.

**19. Patents** ⇨460

Claims in patent for methods for digitally processing and archiving files, which were directed to abstract idea of parsing and comparing data, lacked transformative inventive concept, and thus claims were patent ineligible; claim did not recite any of the purportedly unconventional activities disclosed in specification, such as eliminating redundancy of stored object structures or effecting a one-to-many change of linked documents within an archive. 35 U.S.C.A. § 101.

**20. Patents** ⇨1935(5)

Genuine issue of material fact existed as to whether claims that were directed to abstract ideas of parsing, comparing, storing, and/or editing data had transformative inventive concept and thus were patent eligible, precluding summary judgment in action for infringement of patent for methods for digitally processing and archiving files. 35 U.S.C.A. § 101.

**Patents** ⇨2091

7,447,713. Invalid in Part.

Appeal from the United States District Court for the Northern District of Illinois in No. 1:12-cv-09023, Judge John Z. Lee.

JAMES P. HANRATH, Much Shelist, PC, Chicago, IL, argued for plaintiff-appellant. Also represented by MICHAEL JOHN FEMAL; PAUL SKIERMONT, Skiermont Derby LLP, Dallas, TX.

WILLIAM R. PETERSON, Morgan, Lewis & Bockius LLP, Houston, TX, argued for defendant-appellee. Also represented by THOMAS R. DAVIS, DAVID JACK LEVY; JASON C. WHITE, NICHOLAS A. RESTAURI, Chicago, IL.

Before Moore, Taranto, and Stoll,  
Circuit Judges.

Moore, Circuit Judge.

Steven E. Berkheimer appeals the United States District Court for the Northern District of Illinois' summary judgment holding claims 1–7 and 9 of U.S. Patent No. 7,447,713 ('713 patent) invalid as ineligible under 35 U.S.C. § 101. Mr. Berkheimer also appeals the district court's decision holding claims 10–19 of the '713 patent invalid for indefiniteness. For the reasons discussed below, we affirm-in-part, vacate-in-part, and remand for further proceedings.

## BACKGROUND

The '713 patent relates to digitally processing and archiving files in a digital asset management system. '713 patent at 1:11–12. The system parses files into multiple objects and tags the objects to create relationships between them. *Id.* at 1:13–18, 16:26–36. These objects are analyzed and compared, either manually or automatically, to archived objects to determine whether variations exist based on predetermined standards and rules. *Id.* at 13:14–20, 16:37–51. This system eliminates redundant storage of common text and graphical ele-

ments, which improves system operating efficiency and reduces storage costs. *Id.* at 2:53–55, 16:52–54. The relationships between the objects within the archive allow a user to “carry out a one-to-many editing process of object-oriented data,” in which a change to one object carries over to all archived documents containing the same object. *Id.* at 15:65–16:2, 16:52–60.

Mr. Berkheimer sued HP Inc. in the Northern District of Illinois, alleging infringement of claims 1–7 and 9–19 of the ’713 patent. Following a *Markman* hearing, the district court concluded that the term “archive exhibits minimal redundancy” in claim 10 is indefinite and renders claim 10 and its dependents invalid. HP moved for summary judgment that claims 1–7 and 9 are patent ineligible under 35 U.S.C. § 101, and the district court granted the motion. Mr. Berkheimer appeals. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## DISCUSSION

### I. Indefiniteness

[1–4] We review indefiniteness determinations de novo except for necessary subsidiary fact findings, which we review for clear error. *Cox Commc’ns v. Sprint Commc’n Co.*, 838 F.3d 1224, 1228 (Fed. Cir. 2016). Under 35 U.S.C. § 112, patent claims must “particularly point[ ] out and distinctly claim[ ] the subject matter” regarded as the invention. A lack of definiteness renders the claims invalid. *Nautilus, Inc. v. Biosig Instruments, Inc.*, — U.S. —, 134 S.Ct. 2120, 2125, 189 L.Ed.2d 37 (2014). Claims, viewed in light of the specification and prosecution history, must “inform those skilled in the art about the scope of the invention with reasonable certainty.” *Id.* at 2129; see *Interval Licensing LLC v. AOL, Inc.*, 766 F.3d 1364, 1371 (Fed. Cir. 2014) (“The claims, when read in light of the specification and the prosecu-

tion history, must provide objective boundaries for those of skill in the art.”). This standard “mandates clarity, while recognizing that absolute precision is unattainable.” *Nautilus*, 134 S.Ct. at 2129. “Claim language employing terms of degree has long been found definite where it provided enough certainty to one of skill in the art when read in the context of the invention.” *Interval Licensing*, 766 F.3d at 1370.

[5] The district court analyzed the term “archive exhibits minimal redundancy” in claim 10 and determined that the intrinsic evidence “leaves a person skilled in the art with a highly subjective meaning of ‘minimal redundancy.’” *Berkheimer v. Hewlett-Packard Co.*, 2015 WL 4999954, at \*9–10 (N.D. Ill. Aug. 21, 2015). It relied on the declaration of HP’s expert, Dr. Schonfeld, to find that an ordinarily skilled artisan would not have known what the term “minimal redundancy” meant in claim 10. *Id.* at \*10. We hold that the district court’s subsidiary factual finding based on Dr. Schonfeld’s declaration was not clearly erroneous and affirm its indefiniteness determination for claims 10–19.

We look first to the language of the claim to determine whether the meaning of “minimal redundancy” is reasonably clear. Claim 10 recites “a storage medium, and a set of executable instructions for establishing an archive of documents represented by linked object oriented elements stored in the medium, wherein the archive exhibits minimal redundancy with at least some elements linked to pluralities of the elements.” Claims 11–19 depend from claim 10 and therefore include the same limitation. This claim language is not reasonably clear as to what level of redundancy in the archive is acceptable.

The specification uses inconsistent terminology to describe the level of redundancy that the system achieves. For exam-

ple, it describes “minimiz[ing] redundant objects,” ’713 patent at 16:50–51, “eliminating redundancy,” *id.* at 16:52, and “reducing redundancies,” *id.* at 15:18–19. The only example included in the specification is an archive that exhibits no redundancy. ’713 patent at 13:5–13. The claim language, however, does not require elimination of all redundancies from the archive. For example, the specification discloses providing users with “user interfaces and tools for examining and *choosing* the elimination of document and document element redundancies.” *Id.* at 6:60–65 (emphasis added). Indeed, Mr. Berkheimer acknowledges that “the invention attempts to minimize redundancy but may not in all cases achieve absolute [elimination of] redundancy.” Appellant Br. at 64. The specification contains no point of comparison for skilled artisans to determine an objective boundary of “minimal” when the archive includes *some* redundancies. *Sonix Tech. Co., Ltd. v. Publ’ns Int’l, Ltd.*, 844 F.3d 1370, 1379 (Fed. Cir. 2017) (holding that specific examples in the specification provided “points of comparison” that helped form an objective standard of the claim’s scope).

The prosecution history does not add clarity. In response to an indefiniteness rejection during prosecution, Mr. Berkheimer explained that the claim “desires to eliminate redundancy” but includes the word “minimal” because “to eliminate all redundancy in the field of the claimed invention is not likely.” J.A. 656. This does not explain how much redundancy is permitted.

In light of the lack of objective boundary or specific examples of what constitutes “minimal” in the claims, specification, and prosecution history, the district court properly considered and relied on extrinsic evidence. Relying on the specification’s lack of explanation and specific examples of this term, HP’s expert Dr. Schonfeld

opined that the patent does not inform a skilled artisan of the meaning of “archive exhibits minimal redundancy” with reasonable certainty. Mr. Berkheimer did not provide the court with expert testimony of his own. While Dr. Schonfeld’s explanation for his opinion was brief, it was not clear error for the district court to find that a skilled artisan would not have known the meaning of “minimal redundancy” with reasonable certainty.

Mr. Berkheimer’s argument that “the archive” provides an objective baseline to measure what exhibits “minimal redundancy” misses the point. He is correct that it is “the archive” that must exhibit “minimal redundancy,” but the issue is not *what* must exhibit minimal redundancy, but rather *how much* is minimal. Mr. Berkheimer’s only arguments on this point are that terms of degree are not required to have an objective boundary and a contrary holding would invalidate a large swath of patents relying on terms of degree such as “minimal” or “substantial.” Our case law is clear that the objective boundaries requirement applies to terms of degree. In *Sonix*, we held that the term “visually negligible” had an objective baseline to interpret the claims. 844 F.3d at 1378. In *Interval Licensing*, we held that the phrase “unobtrusive manner” lacked objective boundaries. 766 F.3d at 1371. We do not hold that all terms of degree are indefinite. We only hold that the term “minimal redundancy” is indefinite in light of the evidence in this case.

Accordingly, we affirm the district court’s determination that claims 10–19 are invalid as indefinite.

## II. Patent Eligibility

[6–8] In patent appeals, we apply the law of the regional circuit, here the Seventh Circuit, to issues not unique to patent law. *AbbVie Deutschland GmbH & Co.*,



*KG v. Janssen Biotech, Inc.*, 759 F.3d 1285, 1295 (Fed. Cir. 2014). The Seventh Circuit reviews a grant of summary judgment de novo, drawing all reasonable inferences in the light most favorable to the non-movant. *Arnett v. Webster*, 658 F.3d 742, 757 (7th Cir. 2011). Summary judgment is appropriate when “there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” FED. R. CIV. P. 56(a). Patent eligibility under 35 U.S.C. § 101 is ultimately an issue of law we review de novo. *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, 850 F.3d 1332, 1338 (Fed. Cir. 2017). The patent eligibility inquiry may contain underlying issues of fact. *Mortg. Grader, Inc. v. First Choice Loan Servs. Inc.*, 811 F.3d 1314, 1325 (Fed. Cir. 2016).

[9, 10] First, we address whether Mr. Berkheimer waived his ability to argue that the dependent claims are separately patent eligible. Courts may treat a claim as representative in certain situations, such as if the patentee does not present any meaningful argument for the distinctive significance of any claim limitations not found in the representative claim or if the parties agree to treat a claim as representative. *Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1352 (Fed. Cir. 2016); *Intellectual Ventures I LLC v. Symantec Corp.*, 838 F.3d 1307, 1316 & n.9 (Fed. Cir. 2016). Because Mr. Berkheimer maintained that limitations included in dependent claims 4–7 bear on patent eligibility and never agreed to make claim 1 representative, we hold that arguments going specifically to claims 4–7 are properly preserved on appeal.

Mr. Berkheimer never agreed to make claim 1 representative. In his opposition

brief to HP’s motion for summary judgment, he argued that claim 1 is not representative of the limitations found in the dependent claims. J.A. 1280. In particular, he argued that limitations in claim 5 drawn to effecting a one-to-many change add inventive concepts. *Id.* Other portions of his brief below argued that reducing redundancy and enabling one-to-many editing are patent eligible concepts. *See, e.g.*, J.A. 1278 (“The innovative aspects of the claims improve computerized digital asset and content management systems by enabling control of object and object relationship integrity, reducing redundancy, [and] linking objects to enable one to many editing. . . . Such improvements to computer functionality are precisely the kind of improvements that have been found patent eligible under *Alice*.” (internal citations omitted)). Because claim 1 does not recite reducing redundancy or enabling one-to-many editing, we interpret these arguments as applying to dependent claims 4–7, which include these limitations. Mr. Berkheimer makes these same arguments to us on appeal.

The district court stated that it was treating claim 1 as representative because claim 1 is the only asserted independent claim and Mr. Berkheimer focused “all of his primary arguments” on claim 1.<sup>1</sup> *Berkheimer v. Hewlett-Packard Co.*, 224 F.Supp.3d 635, 643 n.6 (N.D. Ill. Dec. 12, 2016). Neither rationale justifies treating claim 1 as representative. A claim is not representative simply because it is an independent claim. Indeed, Mr. Berkheimer advanced meaningful arguments regarding limitations found only in the dependent claims. In acknowledging that Mr. Berkheimer focused his “primary arguments” on claim 1, the district court necessarily

analyzed the dependent claims.

1. Though the district court stated it was treating claim 1 as representative, it separately

recognized that he raised arguments regarding the dependent claims. Thus, Mr. Berkheimer's separate arguments regarding claims 4–7 are not waived.

[11, 12] Turning to the merits of the § 101 inquiry, anyone who “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof” may obtain a patent. 35 U.S.C. § 101. Because patent protection does not extend to claims that monopolize the “building blocks of human ingenuity,” claims directed to laws of nature, natural phenomena, and abstract ideas are not patent eligible. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, — U.S. —, 134 S.Ct. 2347, 2354, 189 L.Ed.2d 296 (2014). The Supreme Court instructs courts to distinguish between claims that claim patent ineligible subject matter and those that “integrate the building blocks into something more.” *Id.* “First, we determine whether the claims at issue are directed to” a patent-ineligible concept. *Id.* at 2355. If so, “we consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Id.* (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 78–79, 132 S.Ct. 1289, 182 L.Ed.2d 321 (2012)).

Independent claim 1 recites:

1. A method of archiving an item in a computer processing system comprising:
  - presenting the item to a parser;
  - parsing the item into a plurality of multi-part object structures wherein portions of the structures have searchable information tags associated therewith;
  - evaluating the object structures in accordance with object structures previously stored in an archive;

presenting an evaluated object structure for manual reconciliation at least where there is a predetermined variance between the object and at least one of a predetermined standard and a user defined rule.

The district court construed “parser” as “a program that dissects and converts source code into object code” and “parsing” as using such a program. J.A. 47. It construed “evaluating the object structures in accordance with object structures previously stored in an archive” as “analyzing the plurality of multi-part object structures obtained by parsing and comparing it with object structures previously stored in the archive to determine if there is variance between the object and at least one of a predetermined standard and a user defined rule.” *Id.* These constructions are not challenged on appeal.

[13] At *Alice* step one, we must “determine whether the claims at issue are directed to a patent-ineligible concept.” *Alice*, 134 S.Ct. at 2355. The district court held claim 1 is directed to the abstract idea of “using a generic computer to collect, organize, compare, and present data for reconciliation prior to archiving.” *Berkheimer*, 224 F.Supp.3d at 644. Mr. Berkheimer argues the district court characterized the invention too broadly and simplistically, ignoring the core features of the claims. We hold that claims 1–3 and 9 are directed to the abstract idea of parsing and comparing data; claim 4 is directed to the abstract idea of parsing, comparing, and storing data; and claims 5–7 are directed to the abstract idea of parsing, comparing, storing, and editing data.

These claims are similar to claims we held directed to an abstract idea in prior cases. *See, e.g., In re TLI Commc'ns LLC Patent Litig.*, 823 F.3d 607, 613 (Fed. Cir. 2016); *Content Extraction & Transmission*

*LLC v. Wells Fargo Bank, Nat'l Ass'n*, 776 F.3d 1343, 1347 (Fed. Cir. 2014). In *Content Extraction*, the claims at issue generally recited “a method of 1) extracting data from hard copy documents using an automated digitizing unit such as a scanner, 2) recognizing specific information from the extracted data, and 3) storing that information in a memory.” 776 F.3d at 1345. We held those claims were directed to the abstract idea of “1) collecting data, 2) recognizing certain data within the collected data set, and 3) storing that recognized data in a memory.” *Id.* at 1347. Similarly, in *TLI*, the claims recited a “method for recording and administering digital images,” which involved “recording images using a digital pick up unit in a telephone unit,” digitally storing them, transmitting the digital images and classification information to a server, and storing the digital images in the server based on the classification information. 823 F.3d at 610. We held the claim at issue used only conventional computer components to implement the abstract idea of “classifying and storing digital images in an organized manner.” *Id.* at 613. Here, the specification explains that the parser “determines and extracts components of the standardized document or item representation” and reassembles the components “into composite output files.” ’713 patent at 3:61–4:17. Even though the parser separates the documents or items into smaller components than the claims determined to be abstract in *Content Extraction* and *TLI*, the concept is the same. The parsing and comparing of claims 1–3 and 9 are similar to the collecting and recognizing of *Content Extraction*, 776 F.3d at 1347, and the classifying in an organized manner of *TLI*, 823 F.3d at 613. Claim 4 adds the abstract concept of storing, and claims 5–7 add the abstract concept of editing.

Mr. Berkheimer argues that the claims are not abstract because the “parsing” lim-

itation roots the claims in technology and transforms the data structure from source code to object code. Limiting the invention to a technological environment does “not make an abstract concept any less abstract under step one.” *Intellectual Ventures I*, 850 F.3d at 1340. That the parser transforms data from source to object code does not demonstrate non-abstractness without evidence that this transformation improves computer functionality in some way. See *Visual Memory LLC v. NVIDIA Corp.*, 867 F.3d 1253, 1258 (Fed. Cir. 2017) (“[W]e must . . . ask whether the claims are directed to an improvement to computer functionality versus being directed to an abstract idea.” (internal quotations omitted)); *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335–36 (Fed. Cir. 2016) (“[T]he first step in the *Alice* inquiry in this case asks whether the focus of the claims [was] on the specific asserted improvement in computer capabilities . . . or, instead, on a process that qualifies as an ‘abstract idea’ for which computers are invoked merely as a tool.”). No such evidence exists on this record. Indeed, Mr. Berkheimer admitted that parsers had existed for years prior to his patent. J.A. 1106. Because the claims are directed to an abstract idea, we proceed to the second step of the *Alice* inquiry.

[14] At step two, we “consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent eligible application.” *Alice*, 134 S.Ct. at 2355 (quoting *Mayo*, 566 U.S. at 78–79, 132 S.Ct. 1289). The second step of the *Alice* test is satisfied when the claim limitations “involve more than performance of ‘well-understood, routine, [and] conventional activities previously known to the industry.’” *Content Extraction*, 776 F.3d at 1347–48 (quoting *Alice*, 134 S.Ct. at 2359).

[15–17] The question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is a question of fact. Any fact, such as this one, that is pertinent to the invalidity conclusion must be proven by clear and convincing evidence. See *Microsoft Corp. v. iLi Ltd. P'ship*, 564 U.S. 91, 95, 131 S.Ct. 2238, 180 L.Ed.2d 131 (2011). Like indefiniteness, enablement, or obviousness, whether a claim recites patent eligible subject matter is a question of law which may contain underlying facts. *Akzo Nobel Coatings, Inc. v. Dow Chem. Co.*, 811 F.3d 1334, 1343 (Fed. Cir. 2016) (“Indefiniteness is a question of law that we review de novo, [ ] subject to a determination of underlying facts.”); *Alcon Research Ltd. v. Barr Labs., Inc.*, 745 F.3d 1180, 1188 (Fed. Cir. 2014) (“Whether a claim satisfies the enablement requirement of 35 U.S.C. § 112 is a question of law that we review without deference, although the determination may be based on underlying factual findings, which we review for clear error.”); *Apple Inc. v. Samsung Elecs. Co., Ltd.*, 839 F.3d 1034, 1047 (Fed. Cir. 2016) (en banc) (“Obviousness is a question of law based on underlying facts.”). We have previously stated that “[t]he § 101 inquiry ‘may contain underlying factual issues.’” *Mortg. Grader*, 811 F.3d at 1325 (emphasis in original) (quoting *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1341 (Fed. Cir. 2013)). And the Supreme Court recognized that in making the § 101 determination, the inquiry “might sometimes overlap” with other fact-intensive inquiries like novelty under § 102. *Mayo*, 566 U.S. at 90, 132 S.Ct. 1289.

[18] As our cases demonstrate, not every § 101 determination contains genuine disputes over the underlying facts material to the § 101 inquiry. See, e.g., *Content*

*Extraction*, 776 F.3d at 1349 (patent owner conceded the argued inventive concept “was a routine function of scanning technology at the time the claims were filed”); *Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d 1363, 1370 (Fed. Cir. 2015) (patent owner argued an “interactive interface” is “a specific application of the abstract idea that provides an inventive concept” and did not dispute that the computer interface was generic). Whether a claim recites patent eligible subject matter is a question of law which may contain disputes over underlying facts. Patent eligibility has in many cases been resolved on motions to dismiss or summary judgment. Nothing in this decision should be viewed as casting doubt on the propriety of those cases. When there is no genuine issue of material fact regarding whether the claim element or claimed combination is well-understood, routine, conventional to a skilled artisan in the relevant field, this issue can be decided on summary judgment as a matter of law.

Here, the district court concluded that the claims do not contain an inventive concept under *Alice* step two because they describe “steps that employ only ‘well-understood, routine, and conventional’ computer functions” and are claimed “at a relatively high level of generality.” *Berkheimer*, 224 F.Supp.3d at 647–48 (quoting *Content Extraction*, 776 F.3d at 1348). Mr. Berkheimer argues portions of the specification referring to reducing redundancy and enabling one-to-many editing contradict the district court’s finding that the claims describe well-understood, routine, and conventional activities. He argues, both below and on appeal, that summary judgment is improper because whether the claimed invention is well-understood, routine, and conventional is an underlying fact question for which HP offered no evidence.

While patent eligibility is ultimately a question of law, the district court erred in concluding there are no underlying factual questions to the § 101 inquiry. *Id.* at 642. Whether something is well-understood, routine, and conventional to a skilled artisan at the time of the patent is a factual determination. Whether a particular technology is well-understood, routine, and conventional goes beyond what was simply known in the prior art. The mere fact that something is disclosed in a piece of prior art, for example, does not mean it was well-understood, routine, and conventional.

Mr. Berkheimer argues that the claimed combination improves computer functionality through the elimination of redundancy and the one-to-many editing feature, which provides inventive concepts. The specification of the '713 patent discusses the state of the art at the time the patent was filed and the purported improvements of the invention. Conventional digital asset management systems at the time included “numerous documents containing multiple instances of redundant document elements.” ’713 patent at 1:24–27. This redundancy in conventional systems led to “inefficiencies and increased costs.” *Id.* at 2:22–26. The specification explains that the claimed improvement increases efficiency and computer functionality over the prior art systems:

By eliminating redundancy in the archive 14, system operating efficiency will be improved, storage costs will be reduced and a one-to-many editing process can be implemented wherein a singular linked object, common to many documents or files, can be edited once and have the consequence of the editing process propagate through all of the linked documents and files. The one-to-many editing capability substantially reduces effort needed to up-date files which represent packages or packaging manuals

or the like as would be understood by those of skill in the art.

*Id.* at 16:52–60.

The specification describes an inventive feature that stores parsed data in a purportedly unconventional manner. This eliminates redundancies, improves system efficiency, reduces storage requirements, and enables a single edit to a stored object to propagate throughout all documents linked to that object. *Id.* The improvements in the specification, to the extent they are captured in the claims, create a factual dispute regarding whether the invention describes well-understood, routine, and conventional activities, *see Content Extraction*, 776 F.3d at 1347–48, so we must analyze the asserted claims and determine whether they capture these improvements, *Alice*, 134 S.Ct. at 2357.

[19] The parties dispute whether these improvements to computer functionality are captured in the claims. *See* Appellant Br. at 42; Appellee Br. at 39–40, 43–44. We conclude that claim 1 does not recite an inventive concept sufficient to transform the abstract idea into a patent eligible application. Claim 1 recites a method of archiving including parsing data, analyzing and comparing the data to previously stored data, and presenting the data for reconciliation when there is a variance. It does not include limitations which incorporate eliminating redundancy of stored object structures or effecting a one-to-many change of linked documents within an archive. It does not even require the storage of data after it is presented for manual reconciliation. Thus, it does not recite any of the purportedly unconventional activities disclosed in the specification. Mr. Berkheimer does not advance any separate arguments regarding claims 2–3 and 9. Even considering these claims separately, they recite patent ineligible subject matter for the same reason.

Mr. Berkheimer argues that claim 1 recites an improvement to computer functionality and digital asset management systems. Mr. Berkheimer, however, admitted that parsers and the functions they perform existed for years before his patent. J.A. 1106. These conventional limitations of claim 1, combined with limitations of analyzing and comparing data and reconciling differences between the data, “fail to transform th[e] abstract idea into a patent-eligible invention.” *Alice*, 134 S.Ct. at 2357. The limitations amount to no more than performing the abstract idea of parsing and comparing data with conventional computer components. Because claims 1–3 and 9 do not capture the purportedly inventive concepts, we hold that claims 1–3 and 9 are ineligible.

[20] Claims 4–7, in contrast, contain limitations directed to the arguably unconventional inventive concept described in the specification. Claim 4 recites “storing a reconciled object structure in the archive without substantial redundancy.” The specification states that storing object structures in the archive without substantial redundancy improves system operating efficiency and reduces storage costs. ’713 patent at 16:52–58. It also states that known asset management systems did not archive documents in this manner. *Id.* at 2:22–26. Claim 5 depends on claim 4 and further recites “selectively editing an object structure, linked to other structures to thereby effect a one-to-many change in a plurality of archived items.” The specification states one-to-many editing substantially reduces effort needed to update files because a single edit can update every document in the archive linked to that object structure. *Id.* at 16:58–60. This one-to-many functionality is more than “editing data in a straightforward copy-and-paste fashion,” as characterized by the district court. *Berkheimer*, 224 F.Supp.3d at 645.

According to the specification, conventional digital asset management systems cannot perform one-to-many editing because they store documents with numerous instances of redundant elements, rather than eliminate redundancies through the storage of linked object structures. ’713 patent at 1:22–55, 4:4–9, 16:52–60. Claims 6–7 depend from claim 5 and accordingly contain the same limitations. These claims recite a specific method of archiving that, according to the specification, provides benefits that improve computer functionality.

HP argues that redundancy and efficiency are considerations in any archival system, including paper-based systems. The district court agreed. *Berkheimer*, 224 F.Supp.3d at 647. At this stage of the case, however, there is at least a genuine issue of material fact in light of the specification regarding whether claims 4–7 archive documents in an inventive manner that improves these aspects of the disclosed archival system. Whether claims 4–7 perform well-understood, routine, and conventional activities to a skilled artisan is a genuine issue of material fact making summary judgment inappropriate with respect to these claims.

We do not decide today that claims 4–7 are patent eligible under § 101. We only decide that on this record summary judgment was improper, given the fact questions created by the specification’s disclosure.

#### CONCLUSION

For the foregoing reasons, we affirm the district court’s decision that claims 10–19 of the ’713 patent are invalid as indefinite and its grant of summary judgment that claims 1–3 and 9 of the ’713 patent are ineligible under 35 U.S.C. § 101. We vacate the district court’s grant of summary judgment that claims 4–7 are ineligible

under § 101 and remand for further proceedings.

**AFFIRMED-IN-PART, VACATED-IN-PART, AND REMANDED**

**COSTS**

No costs.



**IN RE: NORDT DEVELOPMENT  
CO., LLC, Appellant**

2017-1445

United States Court of Appeals,  
Federal Circuit.

Decided February 8, 2018

**Background:** During patent prosecution, examiner rejected as anticipated claims in patent application directed to an elastic knee brace having a framework and a hinge with a strut and arm components, and patentee appealed. The United States Patent and Trademark Office, Patent Trial and Appeal Board (PTAB), No. 13/241,865, 2016 WL 6560183, affirmed rejection of claims. Patentee appealed.

**Holding:** The Court of Appeals, Stoll, Circuit Judge, held that remand to PTAB was warranted to construe term “injection molded.”

Vacated and remanded.

**1. Patents ⇌1138**

The Court of Appeals reviews the Patent Trial and Appeal Board’s (PTAB) claim construction, which is based on a review of only intrinsic evidence, de novo.

**2. Patents ⇌1409**

Claim term “injection molded” in patent application directed to an elastic knee brace having a framework and a hinge with a strut and arm components was structural limitation, rather than process, warranting remand to Patent Trial and Appeal Board (PTAB) to construe term in patent prosecution; although application described “injection molded” as a process of manufacture, specification conveyed structural meaning to “injection molded,” and patentee asserted that there were clear structural differences between knee brace made with fabric components and a knee brace made with injection-molded components.

**3. Patents ⇌1317**

Words of limitation that can connote with equal force a structural characteristic of the product or a process of manufacture are commonly and by default interpreted in their structural sense, unless the patentee has demonstrated otherwise.

**Patents ⇌2091**

6,238,360. Cited.

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. 13/241,865.

JEREMY COOPER DOERRE, Tillman Wright PLLC, Charlotte, NC, argued for appellant.

JOSEPH GERARD PICCOLO, Office of the Solicitor, United States Patent and Trademark Office, Alexandria, VA, argued for appellee Joseph Matal. Also represented by NATHAN K. KELLEY, Alexandria, VA, THOMAS W. KRAUSE, WILLIAM LAMARCA, Alexandria, VA.

Before Moore, Taranto, and Stoll,  
Circuit Judges.

VANDA PHARMACEUTICALS v. WEST-WARD PHARMACEUTICALS 1117

Cite as 887 F.3d 1117 (Fed. Cir. 2018)

classified under HTSUS Heading 2008, then it falls within HTSUS Subheading 2008.19.90. *See Well Luck*, 208 F.Supp.3d at 1377; *see also* Appellee's Br. 1 (arguing that the subject merchandise properly is classified under HTSUS Subheading 2008.19.90). *See generally* Appellant's Br. (failing to argue for the application of any other Subheading under HTSUS Heading 2008). Therefore, we conclude that the subject merchandise properly is classified under HTSUS Subheading 2008.19.90.

CONCLUSION

We have considered Well Luck's remaining arguments and find them unpersuasive. Accordingly, the Judgment of the U.S. Court of International Trade is

**AFFIRMED**



**VANDA PHARMACEUTICALS  
INC., Plaintiff-Appellee**

**Aventisub LLC, Plaintiff**

v.

**WEST-WARD PHARMACEUTICALS  
INTERNATIONAL LIMITED, West-  
Ward Pharmaceuticals Corp., Defen-  
dants-Appellants**

2016-2707, 2016-2708

United States Court of Appeals,  
Federal Circuit.

Decided: April 13, 2018

**Background:** Owner of patent related to a method of treating schizophrenia patients with iloperidone wherein the dosage range was based on the patient's genotype brought infringement action against manu-

facturer of generic drug. Following bench trial, the United States District Court for the District of Delaware, Nos. 1:13-cv-01973-GMS, 1:14-cv-00757-GMS, Gregory M. Sleet, J., 203 F.Supp.3d 412, determined that patent claims were infringed and not invalid. Manufacturer appealed.

**Holdings:** The Court of Appeals, Lourie, Circuit Judge, held that:

- (1) district court had subject matter jurisdiction over patent infringement suit;
- (2) patent owner established that if proposed product were marketed, it would infringe patent;
- (3) claims were directed to patent eligible subject matter; and
- (4) claims were not invalid for lack of adequate written description.

Affirmed.

Prost, Chief Judge, filed a dissenting opinion.

**1. Federal Courts** ⇌ 3567, 3603(2)

On appeal from a bench trial, the Court of Appeals reviews a district court's conclusions of law de novo and its findings of fact for clear error.

**2. Federal Courts** ⇌ 3603(7)

A factual finding is only clearly erroneous if, despite some supporting evidence, the court is left with the definite and firm conviction that a mistake has been made.

**3. Patents** ⇌ 1590, 1713

District court had subject matter jurisdiction over patent infringement suit against manufacturer of generic drug, although drug patent issued after Abbreviated New Drug Application (ANDA) was filed and complaint was filed before ANDA applicant submitted a Paragraph IV certification for the asserted patent; complaint alleged infringement by filing ANDA, and



actual controversy existed between the parties from the time when the suit was commenced. 28 U.S.C.A. §§ 1331, 1338(a); 35 U.S.C.A. § 271(e)(2).

#### 4. Federal Courts ⇌2106

To qualify as a case fit for federal-court adjudication, an actual controversy must be extant at all stages of review, including at the time the complaint is filed.

#### 5. Patents ⇌1848, 1970(15)

In a bench trial, infringement is a question of fact that the Court of Appeals reviews for clear error.

#### 6. Patents ⇌1590, 1668

A patent infringement inquiry under statute stating that submitting application for drug claimed in patent is infringement if purpose of submission is to obtain approval to engage in commercial manufacture, use, or sale of drug before expiration of patent, is focused on a comparison of the asserted patent claims against the product that is likely to be sold following Abbreviated New Drug Application (ANDA) approval. 35 U.S.C.A. § 271(e)(2)(A).

#### 7. Patents ⇌1824

The patentee bears the burden of proving infringement under statute stating that submitting application for drug claimed in patent is infringement if purpose of submission is to obtain approval to engage in commercial manufacture, use, or sale of drug before expiration of patent by a preponderance of the evidence. 35 U.S.C.A. § 271(e)(2)(A).

#### 8. Federal Courts ⇌3574

The Court of Appeals reviews the district court's statutory interpretation without deference.

#### 9. Patents ⇌1590

Amendments to an Abbreviated New Drug Application (ANDA), including a

Paragraph IV certification for a later-issued patent, can constitute an act of patent infringement under statute stating that submitting application for drug claimed in patent is infringement if purpose of submission is to obtain approval to engage in commercial manufacture, use, or sale of drug before expiration of patent. 35 U.S.C.A. § 271(e)(2).

#### 10. Patents ⇌1590

A filer of an Abbreviated New Drug Application (ANDA) is subject to an infringement claim on a patent that issues after the filing of the ANDA, but before FDA approval. 35 U.S.C.A. § 271(e)(2)(A).

#### 11. Patents ⇌1668

Owner of patent related to a method of treating schizophrenia patients with iloperidone wherein the dosage range was based on the patient's genotype established that if proposed Abbreviated New Drug Application (ANDA) product were marketed, it would infringe patent under statute stating that submitting application for drug claimed in patent was infringement if purpose of submission was to obtain approval to engage in commercial manufacture, use, or sale of drug before expiration of patent, as required for finding of inducement; proposed label recommended that physicians perform genotyping tests on iloperidone patients as claimed in patent. 35 U.S.C.A. §§ 271(b), 271(e)(2).

#### 12. Patents ⇌1600

Direct infringement is a necessary predicate for a finding of induced infringement in the usual patent infringement case. 35 U.S.C.A. § 271(b).

#### 13. Patents ⇌1600

For a finding of induced infringement, it must be established that the defendant

possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. 35 U.S.C.A. § 271(b).

#### 14. Patents ⇌1832

Circumstantial evidence can support a finding of specific intent to induce infringement. 35 U.S.C.A. § 271(b).

#### 15. Patents ⇌1832

A proposed label that instructs users to perform the patented method may provide evidence of the Abbreviated New Drug Application (ANDA) applicant's affirmative intent to induce infringement. 35 U.S.C.A. § 271(b).

#### 16. Patents ⇌1668

When proof of specific intent depends on the label accompanying the marketing of a drug inducing infringement by physicians, the label must encourage, recommend, or promote infringement. 35 U.S.C.A. § 271(b).

#### 17. Patents ⇌1600

A person can be liable for inducing an infringing use of a product even if the product has substantial noninfringing uses. 35 U.S.C.A. § 271(b).

#### 18. Patents ⇌465

Claims in patent related to a method of treating schizophrenia patients with iloperidone wherein the dosage range was based on the patient's genotype were directed to patent eligible subject matter; claims were a new way of using an existing drug that was safer for patients because it reduced the risk of QTc prolongation, and claims recited steps of carrying out a dosage regimen based on results of genetic testing and did not broadly tie up doctor's subsequent treatment decision. 35 U.S.C.A. § 101.

#### 19. Patents ⇌451

At step one of the patent eligibility analysis, it is not enough to merely identify a patent-ineligible concept underlying the claim; the court must determine whether that patent-ineligible concept is what the claim is directed to. 35 U.S.C.A. § 101.

#### 20. Patents ⇌441

If the claims are not directed to a patent ineligible concept at step one of the patent eligibility analysis, the court need not address step two of the inquiry. 35 U.S.C.A. § 101.

#### 21. Patents ⇌907(6)

Claims in patent related to a method of treating schizophrenia patients with iloperidone wherein the dosage range was based on the patient's genotype were not invalid for lack of adequate written description; patent reported results of tests comparing the concentrations iloperidone's two main metabolites, and changes in QTc interval upon administration of doses of iloperidone, both with and without the addition of a cytochrome P450 2D6 gene (CYP2D6) inhibitor, to individuals with wildtype or a poor metabolizer genotype associated with two common CYP2D6 polymorphisms, and explained that reported results showed that patients could be more safely treated with iloperidone if the dose of iloperidone was adjusted based on the CYP2D6 genotype of each patient, and provided examples of such doses.

#### 22. Patents ⇌907(2, 3)

To satisfy the written description requirement the patent disclosure must reasonably convey to those skilled in the art that the inventor had possession of the claimed subject matter as of the filing date.

#### 23. Patents ⇌1957

Competitor in patent infringement action waived its written description chal-

lence to patent related to a method of treating schizophrenia patients with iloperidone wherein the dosage range was based on the patient's genotype with respect to non-poor metabolizers by failing to properly present it to the trial court.

#### 24. Patents ⇌1863

Injunction prohibiting manufacturer of proposed Abbreviated New Drug Application (ANDA) product from engaging in the commercial manufacture, use, offer to sell, sale in or importation into the United States of product prior the expiration of patent related to a method of treating schizophrenia patients with iloperidone wherein the dosage range was based on the patient's genotype was warranted, upon finding of patent infringement under statute stating that submitting application for drug claimed in patent was infringement if purpose of submission was to obtain approval to engage in commercial manufacture, use, or sale of drug before expiration of patent. 35 U.S.C.A. § 271(e)(4).

#### 25. Federal Courts ⇌3258

Without filing a cross-appeal, an appellee may urge in support of a decree any matter appearing in the record, although his argument may involve an attack upon the reasoning of the lower court, but may not attack the decree with a view either to enlarging his own rights thereunder or of lessening the rights of his adversary.

#### 26. Federal Courts ⇌3258

A party that is not adversely affected by a judgment lacks standing to cross-appeal.

#### Patents ⇌2091

8,586,610. Valid and Infringed.

#### Patents ⇌2094

39,198. Cited.

Appeals from the United States District Court for the District of Delaware in Nos. 1:13-cv-01973-GMS, 1:14-cv-00757-GMS, Judge Gregory M. Sleet.

NICHOLAS P. GROOMBRIDGE, Paul, Weiss, Rifkind, Wharton & Garrison LLP, New York, NY, argued for plaintiff-appellee. Also represented by KIRA A. DAVIS, DANIEL KLEIN, ERIC ALAN STONE, JOSEPHINE YOUNG.

KENNETH G. SCHULER, Latham & Watkins LLP, Chicago, IL, argued for defendants-appellants. Also represented by DANIEL BROWN, New York, NY; ROBERT J. GAJARSA, Washington, DC.

Before PROST, Chief Judge, LOURIE and HUGHES, Circuit Judges.

Dissenting opinion filed by Chief Judge Prost.

LOURIE, Circuit Judge.

West-Ward Pharmaceuticals International Limited and West-Ward Pharmaceuticals Corp. (collectively, "West-Ward") appeal from the decision of the United States District Court for the District of Delaware holding, after a bench trial, claims 1–9, 11–13, and 16 ("the asserted claims") of U.S. Patent 8,586,610 ("the '610 patent") infringed and not invalid. *See Vanda Pharm. Inc. v. Roxane Labs., Inc.*, 203 F.Supp.3d 412 (D. Del. 2016) ("*Opinion*"). For the following reasons, we affirm.

#### BACKGROUND

##### I.

Aventisub LLC ("Aventisub") owns and Vanda Pharmaceuticals Inc. ("Vanda" and collectively, with Aventisub, "Plaintiffs") holds an exclusive worldwide license to U.S. Reissue Patent 39,198 ("the '198 patent"). The '198 patent expired on Novem-

ber 15, 2016.<sup>1</sup> Vanda also owns the '610 patent, which will expire on November 2, 2027.

The '610 patent relates to a method of treating schizophrenia patients with iloperidone wherein the dosage range is based on the patient's genotype. The cytochrome P450 2D6 gene ("CYP2D6") encodes an enzyme known to metabolize a large number of drugs, including iloperidone. '610 patent col. 1 ll. 29–36. The '610 patent teaches "that treatment of a patient, who has lower CYP2D6 activity than a normal person, with a drug[, such as iloperidone,] that is pre-disposed to cause QT<sup>2</sup> prolongation and is metabolized by the CYP2D6 enzyme, can be accomplish[ed] more safely by administering a lower dose of the drug than would be administered to a person who has normal CYP2D6 enzyme activity." *Id.* col. 2 ll. 15–21. QT prolongation can lead to serious cardiac problems. The '610 patent refers to patients who have lower than normal CYP2D6 activity as CYP2D6 poor metabolizers. It provides examples of dose reductions for poor metabolizers compared to the dose given to someone with a wildtype genotype. *Id.* col. 9 ll. 34–47, col. 11 ll. 22–28.

Claim 1 of the '610 patent is representative and reads as follows:

A method for treating a patient with iloperidone, wherein the patient is suffering from schizophrenia, the method comprising the steps of:

determining whether the patient is a CYP2D6 poor metabolizer by:

obtaining or having obtained a biological sample from the patient;  
and

1. The parties have not appealed any determinations with respect to the '198 patent. The parties stipulated to the infringement of claim 3 of the '198 patent and the court concluded that claim 3 would not have been obvious.

performing or having performed a genotyping assay on the biological sample to determine if the patient has a CYP2D6 poor metabolizer genotype;  
and

if the patient has a CYP2D6 poor metabolizer genotype, then internally administering iloperidone to the patient in an amount of 12 mg/day or less, and

if the patient does not have a CYP2D6 poor metabolizer genotype, then internally administering iloperidone to the patient in an amount that is greater than 12 mg/day, up to 24 mg/day,

wherein a risk of QTc prolongation for a patient having a CYP2D6 poor metabolizer genotype is lower following the internal administration of 12 mg/day or less than it would be if the iloperidone were administered in an amount of greater than 12 mg/day, up to 24 mg/day.

*Id.* col. 17 ll. 2–25.

Vanda owns New Drug Application ("NDA") 22-192 for Fanapt® (iloperidone), an atypical antipsychotic approved by the U.S. Food and Drug Administration ("FDA") in 2009 under 21 U.S.C. § 355(b) for the treatment of patients with schizophrenia. Vanda was able to obtain FDA approval for iloperidone based, at least in part, on the invention disclosed in the '610 patent, which reduces the side effects associated with QTc prolongation, enabling safer treatment of patients with schizophrenia. The '198 patent and the '610 patent are listed in connection with Fanapt® in the FDA's *Approved Drug Products with Therapeutic Equivalence Evaluations*, commonly known as the "Orange Book."

2. The QT interval is the time between the Q and T waves of the heart rhythm. When corrected for the patient's heart rate it is abbreviated QTc.

## II.

In 2013, West-Ward<sup>3</sup> filed Abbreviated New Drug Application (“ANDA”) 20-5480 seeking approval to commercially manufacture, use, offer to sell, and sell a generic version of Fanapt® in 1 mg, 2 mg, 4 mg, 6 mg, 8 mg, 10 mg, and 12 mg strengths for the treatment of schizophrenia pursuant to 21 U.S.C. § 355(j). At that time, the ’610 patent had not yet issued and only the ’198 patent was listed in the Orange Book. The ANDA contained a certification per 21 U.S.C. § 355(j)(2)(A)(vii)(IV) (“Paragraph IV certification”) that the ’198 patent was invalid and/or would not be infringed by West-Ward. West-Ward then sent the notice required by 21 U.S.C. § 355(j)(2)(B) (“Paragraph IV notice”) of its Paragraph IV certification. On November 25, 2013, Plaintiffs filed Civil Action No. 13-1973 (“2013 suit”) in the U.S. District Court for the District of Delaware (“district court”) alleging infringement of the ’198 patent.

The proposed ANDA label is substantially identical in all material respects to the Fanapt® label. The proposed label states that: iloperidone is “indicated for the treatment of adults with schizophrenia,” J.A. 15104 § 1; “[t]he recommended target dosage of iloperidone tablets is 12 to 24 mg/day,” J.A. 15103; “[t]he recommended starting dose for iloperidone tablets is 1 mg twice daily,” J.A. 15105 § 2.1; and “[i]loperidone must be titrated slowly from a low starting dose,” J.A. 15105 § 2.1. The proposed label provides that the “[i]loperidone dose should be reduced by one-half for poor metabolizers of CYP2D6 [see *Pharmacokinetics* (12.3)].” J.A. 15105 § 2.2. Section 5.2, entitled “QT Prolongation,” explains: “iloperidone was associated with QTc prolongation of 9 msec at an iloperidone dose of 12 mg twice daily” and

3. During the pendency of this appeal, ownership of ANDA 20-5480 transferred from Roxane Laboratories Inc. to West-Ward. For sim-

that “[c]aution is warranted when prescribing iloperidone . . . in patients with reduced activity of CYP2D6 [see *Clinical Pharmacology* (12.3)].” J.A. 5106–07 § 5.2.

## III.

Meanwhile, the ’610 patent issued on November 19, 2013, and on June 16, 2014, Vanda filed Civil Action No. 14-757 (“2014 suit”) in the district court alleging infringement of the ’610 patent. On January 15, 2015, Vanda listed the ’610 patent in the Orange Book for Fanapt®. On May 6, 2015, West-Ward sent Vanda a Paragraph IV notice with respect to the ’610 patent notifying Vanda that it amended ANDA 20-5480 to contain a Paragraph IV certification that the ’610 patent is invalid and/or not infringed. J.A. 19696; see 21 U.S.C. § 355(j)(2)(B)(ii)(II). The district court consolidated the 2013 and 2014 suits.

Following a bench trial, the district court found that West-Ward’s proposed products induce infringement of the asserted claims of the ’610 patent, but do not contributorily infringe them. *Opinion*, 203 F.Supp.3d at 435. The court held that West-Ward’s “submission of a paragraph IV certification for the ’610 [p]atent is an act of infringement” and that Vanda’s expert Dr. Alva “practiced the steps of the ’610 [p]atent claims” with Fanapt®. *Id.* at 433. The court found that the proposed ANDA label “recommends”: (1) “practitioners use iloperidone to treat patients suffering from schizophrenia”; (2) “oral administration of iloperidone tablets at 12 to 24 mg/day to non-genotypic CYP2D6 poor metabolizers and 12 mg/day or less to genotypic CYP2D6 poor metabolizers”; and (3) “practitioners perform or have performed

plicity, we refer to the ANDA applicant throughout as West-Ward.

a genotyping assay to determine whether patients are CYP2D6 poor metabolizers.” *Id.* at 432 (first citing J.A. 15104–05 §§ 1, 2.1, 2.2; then citing J.A. 15120–21 § 12.3).

The district court also held that the asserted claims were not invalid under § 101, § 103, or § 112 for lack of written description. The court did conclude that “the asserted claims depend upon laws of nature,” specifically, “the relationship between iloperidone, CYP2D6 metabolism, and QTc prolongation.” *Id.* at 428–29. But the court explained that the ’610 patent “addresses natural relationships to which the claims add conducting CYP2D6 genotyping tests to determine the appropriate dose of iloperidone to reduce QTc-related risks.” *Id.* at 429. “The court f[ound] that while it may have been conventional to investigate for side-effects, [West-Ward] has not proven by clear and convincing evidence that the precise test and the discovered results were routine or conventional.” *Id.* The court found that the data disclosed in the patent were “sufficient to support possession of the claimed dosage range, even if not statistically significant.” *Id.* at 431.

The court determined that 35 U.S.C. § 271(e)(4)(A) relief was unavailable for the ’610 patent because it did not issue until after the ANDA was filed.<sup>4</sup> *Id.* at 435. The court determined that injunctive relief was appropriate, however, pursuant to its “general equitable power.” *Id.* The court enjoined West-Ward from engaging in the commercial manufacture, use, offer to sell, sale in or importation into the United States of West-Ward’s ANDA product prior to the expiration of the ’610 patent. The

4. The court specifically stated that Vanda was “not entitled to relief pursuant to 35 U.S.C. § 271(e)(4)(A) for the ’610 [p]atent because the ’610 [p]atent did not issue until after the effective date of any FDA approval of [West-Ward’s] ANDA. . . .” *Opinion*, 203 F.Supp.3d at 435. But the parties have treated the dis-

court further ordered that “[t]he effective date of any [FDA] approval of [West-Ward’s] ANDA No. 20-5480 shall be a date not earlier than the latest of the expiration of the ’610 [p]atent or any applicable exclusivities and extensions.” J.A. 33

West-Ward timely appealed from the district court’s final judgment. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## DISCUSSION

[1, 2] On appeal from a bench trial, we review a district court’s conclusions of law *de novo* and its findings of fact for clear error. *Golden Blount, Inc. v. Robert H. Peterson Co.*, 365 F.3d 1054, 1058 (Fed. Cir. 2004). A factual finding is only clearly erroneous if, despite some supporting evidence, we are left with the definite and firm conviction that a mistake has been made. *United States v. U.S. Gypsum Co.*, 333 U.S. 364, 395, 68 S.Ct. 525, 92 L.Ed. 746 (1948); *see also Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556, 1559 (Fed. Cir. 1986) (“The burden of overcoming the district court’s factual findings is, as it should be, a heavy one.”).

### I. Jurisdiction

[3] We must first address whether the district court properly exercised jurisdiction over the 2014 suit. On November 16, 2017, we directed supplemental briefing on jurisdiction. Both parties responded with supplemental briefing, which, *inter alia*, addressed whether there is district court jurisdiction under the Drug Price Competition and Patent Term Restoration Act of 1984 (“the Hatch-Waxman Act”), Pub. L.

tribut court’s reference to “the effective date of any FDA approval” as a typographical error, and the district court’s rationale as being based on the ’610 patent not having issued until after the filing date of the ANDA. *See* Appellant Br. 28; Appellee Br. 60 & n.6. We do the same.

No. 98-417, 98 Stat. 1585 (1984) over an action in which the asserted patent issued after the ANDA was filed and the complaint was filed before the ANDA applicant submitted a Paragraph IV certification for the asserted patent.

Vanda argues that its allegations of infringement under 35 U.S.C. § 271(e)(2) created subject matter jurisdiction in the district court under 28 U.S.C. § 1331 and § 1338(a), and presented a justiciable controversy. Vanda further argues that the Declaratory Judgment Act, 28 U.S.C. § 2201, provides an alternative basis for jurisdiction because it alleged that West-Ward would infringe the '610 patent under 35 U.S.C. § 271(a), (b), or (c) by selling iloperidone.

West-Ward argues that 35 U.S.C. § 271(e)(2) does not create a basis for subject matter jurisdiction over Vanda's infringement claims. West-Ward contends that a claim for § 271(e)(2) infringement can only be based on patents that have issued before an ANDA is filed. Moreover, West-Ward argues, even if the amended Paragraph IV certification could qualify as an act of infringement under § 271(e)(2), jurisdiction would still be lacking because the certification was not made before the 2014 suit was filed. West-Ward further argues that there is declaratory judgment jurisdiction over its claims for relief, but not over Vanda's claims for infringement.

We agree with Vanda that the district court had jurisdiction over this case. We have previously explained that:

By enacting § 271(e)(2), Congress thus established a specialized new cause of action for patent infringement. When patentees pursue this route, their claims necessarily arise under an Act of Congress relating to patents. In short, “[o]nce Congress creates an act of infringement, jurisdiction in the district

courts is proper under 28 U.S.C. § 1338(a).”

*AstraZeneca Pharm. LP v. Apotex Corp. (AstraZeneca II)*, 669 F.3d 1370, 1377 (Fed. Cir. 2012) (alteration in original) (quoting *Allergan, Inc. v. Alcon Labs., Inc.*, 324 F.3d 1322, 1330 (Fed. Cir. 2003)). The Supreme Court has similarly explained that “the federal courts have jurisdiction over [a suit alleging infringement under § 271(e)(2)] for a single, simple reason: It ‘ar[ose] under a[n] Act of Congress relating to patents.’” *Caraco Pharm. Labs., Ltd. v. Novo Nordisk A/S (Caraco II)*, 566 U.S. 399, 412 n.5, 132 S.Ct. 1670, 182 L.Ed.2d 678 (2012) (second and third alterations in original) (quoting 28 U.S.C. § 1338(a)).

Here, Vanda's complaint alleged that West-Ward infringed the '610 patent under 35 U.S.C. § 271(e)(2)(A) by filing the ANDA. J.A. 10002. Nothing more was required to establish the district court's subject matter jurisdiction pursuant to 28 U.S.C. § 1338(a). *See AstraZeneca II*, 669 F.3d at 1377 (explaining that “the requirements for jurisdiction in the district courts are met once a patent owner alleges that another's filing of an ANDA infringes its patent under § 271(e)(2), and this threshold jurisdictional determination does not depend on the ultimate merits of the claims”).

West-Ward's arguments relating to whether there was a qualifying act of infringement raise potential merits problems, not jurisdictional issues. We have previously rejected the argument that a court's jurisdiction “hinged on whether [plaintiff] asserted a ‘valid’ claim under § 271(e)(2).” *Id.* The Supreme Court has similarly explained that “[t]he want of an infringing act [under § 271(e)(2)] is a merits problem, not a jurisdictional one.” *Caraco II*, 566 U.S. at 412 n.5, 132 S.Ct. 1670. Thus, whether Vanda alleged, and subse-

quently proved, an infringing act is a merits question, not a jurisdictional one.

[4] Moreover, an actual controversy has existed between the parties from the time when the suit was commenced. *See Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1339–45 (Fed. Cir. 2007) (reversing district court’s conclusion that it lacked jurisdiction because there was no justiciable controversy between the ANDA applicant and NDA holder where there was a prior suit between the parties involving a different patent to which the ANDA applicant had submitted a Paragraph IV certification). “To qualify as a case fit for federal-court adjudication, ‘an actual controversy must be extant at all stages of review,’” including “‘at the time the complaint is filed.’” *Arizonans for Official English v. Arizona*, 520 U.S. 43, 67, 117 S.Ct. 1055, 137 L.Ed.2d 170 (1997) (quoting *Preiser v. Newkirk*, 422 U.S. 395, 401, 95 S.Ct. 2330, 45 L.Ed.2d 272 (1975)). Here, West-Ward had filed an ANDA and Vanda had sued it. The mere fact that West-Ward had not submitted a Paragraph IV certification for the ’610 patent until after Vanda filed suit does not establish that there was not a justiciable controversy over which the court could exercise jurisdiction. *See Glaxo, Inc. v. Novopharm, Ltd.*, 110 F.3d 1562, 1569 (Fed. Cir. 1997) (“[Section] 271(e)(2) provide[s] patentees with a defined act of infringement sufficient to create case or controversy jurisdiction to enable a court to promptly resolve any dispute concerning infringement and validity.”); *DuPont Merck Pharm. Co. v. Bristol-Myers Squibb Co.*, 62 F.3d 1397, 1401 (Fed. Cir. 1995) (reversing a district court’s determination in declaratory judgment action “that an actual controversy would only occur upon [ANDA

applicants’] filing of paragraph IV certifications”).<sup>5</sup>

Thus, the district court properly had jurisdiction over the ’610 patent under the Hatch-Waxman Act.

## II. Infringement

[5–7] In a bench trial, infringement is a question of fact that we review for clear error. *Alza Corp. v. Mylan Labs., Inc.*, 464 F.3d 1286, 1289 (Fed. Cir. 2006). An infringement inquiry pursuant to 35 U.S.C. § 271(e)(2)(A) “is focused on a comparison of the asserted patent [claims] against ‘the product that is likely to be sold following ANDA approval.’” *Alcon Research Ltd. v. Barr Labs., Inc.*, 745 F.3d 1180, 1186 (Fed. Cir. 2014) (quoting *Abbott Labs. v. TorPharm, Inc.*, 300 F.3d 1367, 1373 (Fed. Cir. 2002)). The patentee bears the burden of proving infringement by a preponderance of the evidence. *Warner–Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1366 (Fed. Cir. 2003).

### A. The Applicability of 35 U.S.C. § 271(e)(2)(A)

[8] We first address whether, beyond the jurisdictional question, a claim for infringement of the ’610 patent under 35 U.S.C. § 271(e)(2)(A) can lie where the ’610 patent issued after the original ANDA was submitted and Vanda sued West-Ward for infringement of the asserted claims prior to West-Ward submitting a Paragraph IV certification. The district court held that West-Ward’s submission of the Paragraph IV certification for the ’610 patent was an act of infringement. *See Opinion*, 203 F.Supp.3d at 433. We review the district court’s statutory interpretation without deference. *Warner–Lambert*, 316 F.3d at 1355.

5. Because we determine that 28 U.S.C. § 1338(a) provides a proper basis for jurisdic-

tion, we do not reach the parties’ declaratory judgment jurisdiction arguments.



[9] Vanda argues that it proved an act of infringement under 35 U.S.C. § 271(e)(2). According to Vanda, “[w]here a patent issues after an ANDA is filed but before FDA approval, and where—as here—the applicant submits a Paragraph IV certification directed at the new patent, that amendment of the ANDA is an act of infringement under Section 271(e)(2).” Appellee Br. 60.

West-Ward responds that there can be no infringement under § 271(e)(2) because the ANDA was filed before the ’610 patent issued. West-Ward contends that the statutorily defined act of infringement excludes amendments to an ANDA and “only reaches ANDAs submitted ‘for a drug claimed in a *patent* or the use of which is claimed in a *patent*’—not a drug that might or might not later be claimed in a patent or one that has been claimed in a provisional patent application or a patent-pending.” Reply Br. 33 (emphases in original) (quoting 35 U.S.C. § 271(e)(2)(A)) (other internal quotation marks omitted).

The Hatch-Waxman Act amended the Federal Food, Drug, and Cosmetic Act and the patent laws to enable generic drugs to be more easily approved and to respond to loss of effective patent life resulting from the requirement that drug products require premarket testing and then must undergo FDA review, actions that consume significant portions of a patent term. See *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 669–70, 110 S.Ct. 2683, 110 L.Ed.2d 605 (1990). The Hatch-Waxman Act “str[ikes] a balance between two competing policy interests: (1) inducing pioneering research and development of new drugs and (2) enabling competitors to bring low-cost, generic copies of those drugs to market.” *Andrx Pharm., Inc. v. Biovail Corp.*, 276 F.3d 1368, 1371 (Fed. Cir. 2002).

Section 202 of the Act, codified at 35 U.S.C. § 271(e)(2)(A), created an “artificial” act of infringement. *Eli Lilly*, 496 U.S. at 678, 110 S.Ct. 2683. That provision provides in relevant part:

It shall be *an act of infringement* to submit . . . *an application* under section 505(j) of the Federal Food, Drug, and Cosmetic Act[, codified at 21 U.S.C. § 355(j),] . . . *for a drug* claimed in a patent or *the use of which is claimed in a patent*, . . . if the purpose of such submission is to obtain approval under such Act to engage in the commercial manufacture, use, or sale of a drug . . . claimed in a patent or the use of which is claimed in a patent before the expiration of such patent.

35 U.S.C. § 271(e)(2) (emphases added). It “facilitates the early resolution of patent disputes between generic and pioneering drug companies by providing that the mere act of filing a Paragraph IV ANDA constitutes an act of patent infringement.” *Caraco Pharm. Labs., Ltd. v. Forest Labs., Inc. (Caraco I)*, 527 F.3d 1278, 1283 (Fed. Cir. 2008). Litigation does not have to be delayed until actual sale of an accused product.

Although we agree with West-Ward that only an issued patent can give rise to a valid infringement claim under § 271(e)(2)(A), we disagree that that conclusion precludes Vanda’s infringement claim in this case. The ’610 patent is a patent “for a drug . . . the use of which is claimed in a patent,” 35 U.S.C. § 271(e)(2)(A), as contemplated in the Act even though it issued after West-Ward filed its ANDA. West-Ward subsequently amended its ANDA to include a Paragraph IV certification for the ’610 patent after it issued. The infringement analysis under § 271(e)(2)(A) “require[s] consideration of the amended ANDA.” *Ferring B.V. v. Watson Labs., Inc.-Fla.*, 764 F.3d 1382,

1390 (Fed. Cir. 2014). “There is no support for the proposition that the question of infringement must be addressed solely based on the initial ANDA filing, given that the statute contemplates that the ANDA will be amended as a matter of course.” *Id.* Thus, amendments to an ANDA, including a Paragraph IV certification for a later-issued patent, can constitute an act of infringement under § 271(e)(2)(A). *See Bristol-Myers Squibb Co. v. Royce Labs., Inc.*, 69 F.3d 1130, 1135 (Fed. Cir. 1995) (holding that by amending an ANDA to include a Paragraph IV certification, the applicant “committed an act of infringement under the Hatch-Waxman Act because it sought ‘to obtain approval . . . to engage in the commercial manufacture, use, or sale of a drug . . . claimed in a patent . . . before the expiration of such patent’” (alternations in original) (quoting 35 U.S.C. § 271(e)(2)(A) ) ).

[10] Here, it is undisputed that West-Ward amended the ANDA by submitting a Paragraph IV certification regarding the ’610 patent after that patent issued. J.A. 19696; J.A. 6414–15; Appellant Br. 10; Appellee Br. 59. Such an act is a qualifying act of infringement under § 271(e)(2)(A).<sup>6</sup> A filer of an ANDA is therefore subject to a § 271(e)(2)(A) infringement claim on a patent that issues after the filing of the ANDA, but before FDA approval. The resolution of infringement claims under § 271(e)(2)(A) for patents that issue after an ANDA is submitted, but before it is approved, “facilitates the early resolution of patent disputes between generic and pioneering drug companies” in accordance

6. We note that West-Ward did not argue to the district court at the pleadings stage that the complaint should be dismissed for failure to state a claim upon which relief could be granted on this basis. *Cf. AstraZeneca II*, 669 F.3d at 1381 (concluding that “the district court erred in part by concluding that [paten-

tee’s] failure to state a cognizable § 271(e)(2) claim defeated its jurisdiction” and affirming the dismissal for “fail[ure] to state a § 271(e)(2) claim” where applicant moved to dismiss both for lack of jurisdiction and failure to state a claim).

with the purpose of § 271(e)(2)(A). *Caraco I*, 527 F.3d at 1283.

The FDA regulatory framework and the legislative history further demonstrate that West-Ward is incorrect in asserting that “application” in § 271(e)(2)(A) excludes amendments to the ANDA. Sections 101 and 102 of the Hatch-Waxman Act amended the Federal Food, Drug, and Cosmetics Act to create an abbreviated regulatory pathway for approval of generic drugs, codified at 21 U.S.C. § 355(j), and to require NDA applicants to file certain patent information with the FDA, codified at 21 U.S.C. § 355(b)(1), (c)(2). NDA holders have a continuing obligation to amend the NDA to include the same patent information for patents that issue after the NDA is approved. *See* 21 U.S.C. § 355(c)(2). The FDA lists this patent information in the Orange Book.

ANDA applications must contain one of four certifications for patents “for which information is required to be filed under [21 U.S.C. § 355(b) or (c) ]”: (1) “that such patent information has not been filed;” (2) “that such patent has expired;” (3) “the date on which such patent will expire;” and (4) “that such patent is invalid or will not be infringed by the manufacture, use, or sale of the new drug for which the application is submitted.” 21 U.S.C. § 355(j)(2)(A)(vii). If the ANDA applicant makes a Paragraph IV certification, it must provide notice to the NDA holder of the certification. *Id.* § 355(j)(2)(B). Prior to FDA approval, ANDA applicants generally must amend or supplement ANDAs to submit an appropriate patent certification for patents that issue after submission of

tee’s] failure to state a cognizable § 271(e)(2) claim defeated its jurisdiction” and affirming the dismissal for “fail[ure] to state a § 271(e)(2) claim” where applicant moved to dismiss both for lack of jurisdiction and failure to state a claim).

the ANDA. *See id.* § 355(j)(2)(B)(ii)(II); 21 C.F.R. § 314.94(a)(12)(viii)(C)(ii). Thus, the regulatory framework expressly contemplates certifications for patents that issue after the ANDA is filed.

The type of certification under 21 U.S.C. § 355(j)(2)(A)(vii) impacts when FDA approval may be made effective. 21 U.S.C. § 355(j)(5). If an ANDA applicant submits a Paragraph IV certification, the statute provides for a thirty-month stay of effective FDA approval that may be shortened or lengthened in certain circumstances. *Id.* § 355(j)(5)(B)(iii). Congressional amendment of the thirty-month stay provision since the enactment of the Hatch-Waxman Act further supports the conclusion that “application” in 35 U.S.C. § 271(e)(2) includes amendments to the ANDA.

As originally enacted, the Hatch-Waxman Act provided for a thirty-month stay as long as the suit was brought within 45 days of receipt of the Paragraph IV notice. *See Hatch-Waxman Act*, Pub. L. 98-417, § 101, 98 Stat. at 1589. Multiple thirty-month stays could therefore be triggered for the same ANDA as a consequence of the ANDA applicant submitting Paragraph IV certifications and notices for patents listed in the Orange Book that issued both before and after the submission of the original ANDA application. *See Andrx*, 276 F.3d at 1378 (noting that FDA “treated the listing in the Orange Book of [a patent that issued after the ANDA was submitted] as requiring a new thirty-month stay of its approval of Andrx’s ANDA”).

In 2003, Congress amended 21 U.S.C. § 355(j) to eliminate the possibility of multiple thirty-month stays for the same ANDA. *See Medicare Prescription Drug, Improvement, and Modernization Act of 2003* (“the MMA”), Pub. L. 108-173,

§ 1101, 117 Stat. 2066, 2449 (2003); H.R. Conf. Rep. No. 108-391, at 835–36 (2003), *reprinted in* 2003 U.S.C.C.A.N. 1808, 2187. The MMA changed the requirements to obtain a thirty-month stay to add that the patent information for the patent to which the Paragraph IV certification is directed must have been submitted to the FDA “before the date on which the [ANDA] application (excluding an amendment or supplement to the application) . . . was submitted.” MMA, Pub. L. 108-173, § 1101(a)(2), 117 Stat. at 2449 (emphasis added) (codified at 21 U.S.C. § 355(j)(5)(B)(iii)). The MMA did not contain a corresponding amendment to 35 U.S.C. § 271(e)(2) to exclude amendments and supplements to the ANDA as cognizable acts of infringement even though it amended § 271(e) in other ways. *Id.* § 1101(d), 117 Stat. at 2457. This history thus further supports the conclusion that “application” in § 271(e)(2) includes amendments to the ANDA. *See Gross v. FBL Fin. Servs., Inc.*, 557 U.S. 167, 174, 129 S.Ct. 2343, 174 L.Ed.2d 119 (2009) (“When Congress amends one statutory provision but not another, it is presumed to have acted intentionally.”). Thus, the district court properly conducted its infringement analysis for the ’610 patent pursuant to 35 U.S.C. § 271(e)(2)(A).

#### B. Inducement<sup>7</sup>

[11] We now turn to the merits of the infringement finding. West-Ward argues that the district court clearly erred in finding that it would induce infringement because Vanda failed to prove the requisite direct infringement and specific intent to induce infringement. Vanda responds that the district court correctly found that

7. Because we conclude that the district court did not clearly err in finding induced infringement, we need not and do not reach Vanda’s

arguments in the alternative on contributory infringement.

West-Ward will induce infringement of the asserted claims.

[12–14] The statute provides that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.” 35 U.S.C. § 271(b). However, direct infringement is a necessary predicate for a finding of induced infringement in the usual patent infringement case. *Limelight Networks, Inc. v. Akamai Techs., Inc.*, — U.S. —, 134 S.Ct. 2111, 2117, 189 L.Ed.2d 52 (2014). It also “must be established that the defendant possessed specific intent to encourage another’s infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement.” *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006) (en banc in relevant part) (internal quotation omitted). Circumstantial evidence can support a finding of specific intent to induce infringement. *AstraZeneca LP v. Apotex, Inc. (AstraZeneca I)*, 633 F.3d 1042, 1060 (Fed. Cir. 2010) (citing *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

[15, 16] We have held that “[i]nducement can be found where there is ‘[e]vidence of active steps taken to encourage direct infringement,’ which can in turn be found in ‘advertising an infringing use or instructing how to engage in an infringing use.’” *Takeda Pharm. U.S.A., Inc. v. West-Ward Pharm. Corp.*, 785 F.3d 625, 630–31 (Fed. Cir. 2015) (second alteration in original) (quoting *Metro-Goldwyn-Mayer Studios Inc. v. Gorkster, Ltd.*, 545 U.S. 913, 936, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005)). Where “the proposed label instructs users to perform the patented method . . . the proposed label may provide evidence of [the ANDA applicant’s] affirmative intent to induce infringement.” *AstraZeneca I*, 633 F.3d at 1060. When proof of specific intent depends on the label accompanying the marketing of a

drug inducing infringement by physicians, “[t]he label must encourage, recommend, or promote infringement.” *Takeda*, 785 F.3d at 631. The contents of the label itself may permit the inference of specific intent to encourage, recommend, or promote infringement. See *Sanofi v. Watson Labs. Inc.*, 875 F.3d 636, 646 (Fed. Cir. 2017).

West-Ward argues that the district court clearly erred in finding that its proposed label “satisfies” the asserted claims because the language of the label itself cannot constitute direct infringement of the asserted method claims. See *Opinion*, 203 F.Supp.3d at 432. West-Ward also contends that the court clearly erred in finding that Dr. Alva practiced the asserted claims because he never administered an allegedly infringing dose to a poor metabolizer.

Vanda responds that it did not need to prove instances of direct infringement by physicians because this is a Hatch-Waxman case where infringement is statutorily-defined to be the filing of an ANDA or an amendment thereto, not by selling a product. Even though not required, Vanda contends, it identified a doctor, Dr. Alva, who practiced the steps of the asserted claims with Fanapt®. Vanda argues that the asserted claims do not require that a single physician administer iloperidone to both poor and non-poor CYP2D6 metabolizers, and that West-Ward’s argument to the contrary is waived because it was raised for the first time on appeal.

We agree with Vanda that a patentee does not need to prove an actual past instance of direct infringement by a physician to establish infringement under 35 U.S.C. § 271(e)(2)(A). As we have explained, “section 271(e)(2)(A) makes it possible for a patent owner to have the court determine whether, if a particular drug were put on the market, it would infringe the relevant patent.” *Bristol-Myers*

*Squibb*, 69 F.3d at 1135 (emphases in original). A § 271(e)(2)(A) infringement suit differs from typical infringement suits in that the infringement inquiries “are *hypothetical* because the allegedly infringing product has not yet been marketed.” *Warner-Lambert*, 316 F.3d at 1365 (emphasis added); see also *Glaxo*, 110 F.3d at 1570 (“The relevant inquiry is whether patentee has proven by a preponderance of the evidence that the alleged infringer will likely market an infringing product.”).

Similarly, patentees in Hatch-Waxman litigations asserting method patents do not have to prove that prior use of the NDA-approved drug satisfies the limitations of the asserted claims. See, e.g., *Sanofi*, 875 F.3d at 643 (affirming induced finding where the district court found “the inducing act will be the marketing by [ANDA applicants] of their generic dronedarone drugs with the label described” and “the induced act will be the administration of dronedarone by medical providers to patients meeting the criteria set forth in the [claims at issue]”); *Eli Lilly & Co. v. Teva Parenteral Meds., Inc.*, 845 F.3d 1357, 1368 (Fed. Cir. 2017) (explaining “we have not required evidence regarding the general prevalence of the induced activity”); *AstraZeneca I*, 633 F.3d at 1057 (affirming district court’s grant of a preliminary injunction based on claims of induced infringement where the district court found that “the proposed label would cause some users to infringe the asserted method claims”); see also *Warner-Lambert*, 316 F.3d at 1364 (“The infringement case is therefore limited to an analysis of whether what the generic drug maker is requesting authorization for in the ANDA would be an act of infringement if performed.”).

Accordingly, Vanda can satisfy its burden to prove the predicate direct infringement by showing that if the proposed ANDA product were marketed, it would

infringe the ’610 patent. The district court made factual findings that the proposed label “recommends” that physicians perform the claimed steps, see *Opinion*, 203 F.Supp.3d at 432–33, and its analysis of the proposed label to assess potential direct infringement by physicians was proper under our precedent. See, e.g., *Ferring B.V. v. Watson Labs., Inc.-Fla.*, 764 F.3d 1401, 1408 (Fed. Cir. 2014) (“The infringement determination is thus based on consideration of all the relevant evidence, and because drug manufacturers are bound by strict statutory provisions to sell only those products that comport with the ANDA’s description of the drug, the ANDA itself dominates the analysis.” (internal quotation marks and alterations omitted)); *AstraZeneca I*, 633 F.3d at 1060 (explaining that the district court “correctly determined” that language in the ANDA label “would inevitably lead some consumers to practice the claimed method”).

Turning to specific intent, West-Ward argues that Vanda failed to prove that its proposed label would “‘encourage’ or ‘recommend’ a direct infringer (a psychiatrist or other physician) to perform each step of the claimed methods.” Appellant Br. 36 (quoting *Takeda*, 785 F.3d at 631). West-Ward contends that the substantial number of noninfringing uses precludes a finding of specific intent as a matter of law. See *Warner-Lambert*, 316 F.3d at 1365.

Vanda responds that the district court did not clearly err in finding that the proposed label recommends performance of all the claimed steps. Vanda argues that potential noninfringing uses do not preclude a finding of specific intent to induce infringement in this case.

We agree with Vanda that the district court did not clearly err in finding induced infringement of independent claims 1, 9,

and 13.<sup>8</sup> Section 2 of the proposed label is entitled “Dosage and Administration.” J.A. 15105 § 2. Section 2.1 entitled, “Usual Dose,” states:

Iloperidone must be titrated slowly from a low starting dose. . . . The recommended starting dose for iloperidone tablets is 1 mg twice daily. Dose increases to reach the *target range* of 6 to 12 mg twice daily (*12 to 24 mg/day*) may be made with daily dosage adjustments not to exceed 2 mg twice daily (4 mg/day). The *maximum recommended dose* is 12 mg twice daily (*24 mg/day*). . . . Prescribers should be mindful of the fact that patients need to be titrated to an effective dose of iloperidone.

*Id.* § 2.1 (emphases added). Section 2.2, entitled “Dosage in Special Populations,” states: “*Dosage adjustment for patients taking iloperidone who are poor metabolizers of CYP2D6*: Iloperidone dose should be *reduced by one-half* for poor metabolizers of CYP2D6 [*see Pharmacokinetics (12.3)*].” *Id.* § 2.2 (second emphasis added).

Section 12.3 of the proposed label, entitled “Pharmacokinetics,” states:

Approximately 7 to 10% of Caucasians and 3 to 8% of Black/African Americans lack the capacity to metabolize CYP2D6 substrates and are classified as poor metabolizers (PM), whereas the rest are intermediate, extensive or ultrarapid metabolizers. Co-administration of iloperidone with known strong inhibitors of CYP2D6 like fluoxetine results in a 2.3 fold increase in iloperidone plasma expo-

sure, and therefore one-half of the iloperidone dose should be administered. Similarly, PMs of CYP2D6 have higher exposure to iloperidone compared with [extensive metabolizers] and *PMs should have their dose reduced by one-half. Laboratory tests are available to identify CYP2D6 PMs.*

J.A. 15121 § 12.3 (emphasis added).

Thus, the district court did not clearly err in finding that § 12.3 “recommends that practitioners perform or have performed a genotyping assay to determine whether patients are CYP2D6 poor metabolizers.” *Opinion*, 203 F.Supp.3d at 432. Experts for both parties testified that the referred-to “laboratory tests” are “genotyping tests.” J.A. 6939 (234:8–235:13) (Vanda’s expert); J.A. 7103–04 (566:10–568:2) (West-Ward’s expert). The district court thus found that “when the label states that ‘laboratory tests’ are available to identify poor metabolizers, the label is referring to ‘genotyping tests.’” *Opinion*, 203 F.Supp.3d at 433 (citing testimony of both parties’ experts). We discern no clear error in this finding.

The label instructs practitioners that “PMs should have their dose reduced by one-half. [Genotyping tests] are available to identify CYP2D6 PMs.” J.A. 15121 § 12.3. The court did not clearly err in finding that this constitutes a recommendation to perform genotyping tests on iloperidone patients. That West-Ward introduced other evidence that could have supported a contrary finding does not compel the conclusion that the district court clearly erred. *See Anderson v. City*

8. Because we affirm the district court’s infringement findings with respect to these independent claims, we need not reach this issue regarding the dependent claims because any error in the district court’s analysis of the dependent claims is harmless. *See TiVo, Inc. v. EchoStar Commc’ns Corp.*, 516 F.3d 1290, 1312 (Fed. Cir. 2008) (affirming infringement

finding as to some but not all claims and explaining that “[b]ecause the damages calculation at trial was not predicated on the infringement of particular claims, and because we have upheld the jury’s verdict that all of the accused devices infringe the software claims, we affirm the damages award entered by the district court”).

of *Bessemer City*, 470 U.S. 564, 574, 105 S.Ct. 1504, 84 L.Ed.2d 518 (1985) (“Where there are two permissible views of the evidence, the factfinder’s choice between them cannot be clearly erroneous.”). Moreover, the court’s decision to credit the plausible testimony of certain witnesses and reject the testimony of West-Ward’s witness as not credible, *Opinion*, 203 F.Supp.3d at 433, “can virtually never be clear error,” *Anderson*, 470 U.S. at 575, 105 S.Ct. 1504.

We reject West-Ward’s contention that the lack of an express finding by the district court that the label recommends obtaining a biological sample requires a remand. The district court found induced infringement of the independent claims, which necessarily required a finding of inducement of the limitation requiring “obtaining or having obtained a biological sample from the patient.” ’610 patent col. 17 ll. 7–8 (claim 1), col. 18 ll. 9–10 (claim 9), col. 18 ll. 34–35 (claim 13). West-Ward has pointed to no evidence in the record to dispute the testimony of Vanda’s witnesses at trial that the genotyping assays the court found were recommended by the label require obtaining a biological sample. J.A. 6928 (190:14–191:1); J.A. 6939 (235:18–23). Given this undisputed evidence and the court’s finding that the label recommends genotyping assays, we see no clear error in the court’s implicit finding that the proposed label recommends obtaining a biological sample. *See, e.g., Para-Ordinance Mfg., Inc. v. SGS Importers Int’l, Inc.*, 73 F.3d 1085, 1090 (Fed. Cir. 1995) (explaining that “[f]rom the decision of the district court, we can, and do, accept the implicit fact-finding”).

The district court also did not clearly err in finding that “[t]he label recommends oral administration of iloperidone tablets at 12 to 24 mg/day to non-genotypic CYP2D6 poor metabolizers and 12 mg/day

or less to genotypic CYP2D6 poor metabolizers.” *Opinion*, 203 F.Supp.3d at 432 (citing J.A. 15105 §§ 2.1, 2.2). The label recommends a “[u]sual” target dose range (12 to 24 mg/day) and maximum dose (24 mg/day) and then instructs medical providers to “reduce[ ]” the dose for genetic CYP2D6 poor metabolizers (a “[s]pecial population”) “by one-half.” J.A. 15015 §§ 2.1, 2.2; *see also* J.A. 15103; J.A. 15121 § 12.3. A one-half reduction of the usual dose amounts yields a target dose range of 6 to 12 mg/day and a maximum dose of 12 mg/day for poor metabolizers. That the label also directs a medical provider to titrate the dosage does not negate its clear recommendations on ultimate dosage range and maximum amount.

Similarly, the fact that the target dose range for genotypic non-poor metabolizers (12 to 24 mg/day) includes 12 mg/day does not compel a finding of noninfringement. The independent claims require administering “greater than 12 mg/day, up to 24 mg/day” of iloperidone to non-poor metabolizers. ’610 patent col. 17 ll. 17–20 (claim 1), col. 18 ll. 16–18 (claim 9), col. 18 ll. 44–47 (claim 13). Even if not every practitioner will prescribe an infringing dose, that the target dose range “instructs users to perform the patented method” is sufficient to “provide evidence of [West-Ward’s] affirmative intent to induce infringement.” *AstraZeneca I*, 633 F.3d at 1060; *see also Eli Lilly*, 845 F.3d at 1369 (explaining that “evidence that the product labeling that Defendants seek would inevitably lead some physicians to infringe establishes the requisite intent for inducement”).

Finally, West-Ward’s reliance on *Warner-Lambert*, an off-label use case, is misplaced. In *Warner-Lambert*, we explained that “it defies common sense to expect that [ANDA applicant] will actively promote the sale of its approved [ANDA product], in contravention of FDA regulations, for a

use that (a) might infringe [NDA holder's] patent and (b) constitutes such a small fraction of total sales." *Warner-Lambert*, 316 F.3d at 1365. In the context of that off-label use case where there were "substantial noninfringing uses," we declined to "infer" intent to induce infringement. *Id.* Here, the district court found that the proposed label itself recommends infringing acts.

[17] Accordingly, even if the proposed ANDA product has "substantial noninfringing uses," West-Ward may still be held liable for induced infringement. "Section 271(b), on inducement, does not contain the 'substantial noninfringing use' restriction of section 271(c), on contributory infringement." *Sanofi*, 875 F.3d at 646. Thus, "a person can be liable for inducing an infringing use of a product even if the product has substantial noninfringing uses. . . ." *Id.* (citing *Grokster*, 545 U.S. at 934–37, 125 S.Ct. 2764).

### III. Patent Subject Matter Eligibility

[18] We next address whether the asserted claims are directed to patent-eligible subject matter. West-Ward argues that the asserted claims are ineligible under § 101 because they are directed to a natural relationship between iloperidone, CYP2D6 metabolism, and QT prolongation, and add nothing inventive to those natural laws and phenomena. West-Ward contends that the asserted claims are indistinguishable from those held invalid in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 569 U.S. 576, 133 S.Ct. 2107, 186 L.Ed.2d 124 (2013) and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66, 132 S.Ct. 1289, 182 L.Ed.2d 321 (2012).

Vanda responds that the asserted claims are patent-eligible under § 101 at both steps of *Mayo/Alice*. Vanda contends that the district court erred in holding that the

asserted claims are directed to a law of nature. According to Vanda, the court's "conclusions that the asserted claims 'depend upon,' 'touch[ ] upon,' and 'address' laws of nature and natural phenomena do not, as a matter of law, establish that the asserted claims are *directed to* a patent-ineligible concept under Step 1 of the *Alice/Mayo* analysis." Appellee Br. 45 (alteration and emphasis in original).

Section 101 of the Patent Act states that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." 35 U.S.C. § 101. However, § 101 "contains an important implicit exception": "laws of nature, natural phenomena, and abstract ideas" are not patentable." *Mayo*, 566 U.S. at 70, 132 S.Ct. 1289 (alteration omitted) (quoting *Diamond v. Diehr*, 450 U.S. 175, 185, 101 S.Ct. 1048, 67 L.Ed.2d 155 (1981) ).

The Supreme Court has established a two-step framework to determine patent subject matter eligibility under 35 U.S.C. § 101:

First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts. If so, we then ask, "[w]hat else is there in the claims before us?" To answer that question, we consider the elements of each claim both individually and "as an ordered combination" to determine whether the additional elements "transform the nature of the claim" into a patent-eligible application. We have described step two of this analysis as a search for an "inventive concept"—*i.e.*, an element or combination of elements that is "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself."



*Alice Corp. Pty. v. CLS Bank Int'l*, — U.S. —, 134 S.Ct. 2347, 2355, 189 L.Ed.2d 296 (2014) (citations omitted) (alteration in original) (quoting *Mayo*, 566 U.S. at 72–73, 75–79, 132 S.Ct. 1289).

[19, 20] Step one requires determining “whether the claims at issue are *directed* to one of those patent-ineligible concepts.” *Id.* (emphasis added); *see also Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016). The Supreme Court has cautioned that “too broad an interpretation of” ineligible subject matter “could eviscerate patent law” because “all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.” *Mayo*, 566 U.S. at 71, 132 S.Ct. 1289. Accordingly, at step one, “it is not enough to merely identify a patent-ineligible concept underlying the claim; we must determine whether that patent-ineligible concept is what the claim is ‘directed to.’” *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042, 1050 (Fed. Cir. 2016). If the claims are not directed to a patent ineligible concept at step one, we need not address step two of the inquiry. *See Enfish*, 822 F.3d at 1339. That is the case here.

Consistent with Supreme Court precedent, we agree with Vanda that the asserted claims are not directed to patent-ineligible subject matter.<sup>9</sup> Claim 1 recites “[a] method for treating a patient with iloperidone, wherein the patient is suffering from schizophrenia.” ’610 patent col. 17 ll. 2–3. Claim 1 requires specific steps: (1) determining the patient’s CYP2D6 metabolizer genotype by (a) obtaining a biological sample and (b) performing a genotyping assay; and (2) administering specific dose ranges of iloperidone depending on the patient’s CYP2D6 genotype. *Id.* col. 17 ll. 2–25.

9. For purposes of validity, the parties did not argue the claims separately, so they rise or

West-Ward contends that the Supreme Court held that similar claims were patent ineligible in *Mayo* and *Myriad*. The patent in *Mayo* claimed a method for “optimizing” the dosage of thiopurine drugs by administering thiopurine drugs to a patient and measuring the level of certain metabolites in the blood, wherein the level of metabolites indicates whether to adjust the dosage. *Mayo*, 566 U.S. at 74–75, 132 S.Ct. 1289. The Supreme Court held that the claims recited a natural law, and did not include any “additional features that provide practical assurance that the process is more than a drafting effort designed to monopolize the law of nature itself.” *Id.* at 77, 132 S.Ct. 1289.

This case, however, is not *Mayo*. First, the claims in *Mayo* were not directed to a novel method of treating a disease. Instead, the claims were directed to a diagnostic method based on the “relationships between concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm.” *Id.* This “relation is a consequence of the ways in which thiopurine compounds are metabolized by the body—entirely natural processes. And so a patent that simply describes that relation sets forth a natural law.” *Id.*

Although the representative claim in *Mayo* recited administering a thiopurine drug to a patient, the claim as a whole was not directed to the application of a drug to treat a particular disease. *See id.* at 74, 87, 132 S.Ct. 1289. Importantly, the Supreme Court explained that the administering step was akin to a limitation that tells engineers to apply a known natural relationship or to apply an abstract idea with computers. *See id.* at 78, 132 S.Ct. 1289

fall together.

(comparing the claim in *Mayo* to “Einstein telling linear accelerator operators about his basic law and then trusting them to use it where relevant”). To further underscore the distinction between method of treatment claims and those in *Mayo*, the Supreme Court noted that “[u]nlike, say, a typical patent on a new drug or a new way of using an existing drug, the patent claims do not confine their reach to particular applications of those laws.” *Id.* at 87, 132 S.Ct. 1289.

In this case, the ’610 patent claims are directed to a method of using iloperidone to treat schizophrenia. The inventors recognized the relationships between iloperidone, CYP2D6 metabolism, and QTc prolongation, but that is not what they claimed. They claimed an application of that relationship. Unlike the claim at issue in *Mayo*, the claims here require a treating doctor to administer iloperidone in the amount of either (1) 12 mg/day or less or (2) between 12 mg/day to 24 mg/day, depending on the result of a genotyping assay. The specification further highlights the significance of the specific dosages by explaining how certain ranges of administered iloperidone correlate with the risk of QTc prolongation. *See, e.g.*, ’610 patent at col. 4 ll. 1–15. Thus, the ’610 patent claims are “a new way of using an existing drug” that is safer for patients because it reduces the risk of QTc prolongation. *Mayo*, 566 U.S. at 87, 132 S.Ct. 1289.

Moreover, unlike the claim in *Mayo*, to the extent that preemption is a concern, the ’610 patent claims do not “tie up the doctor’s subsequent treatment decision.” *Id.* at 86, 132 S.Ct. 1289. The claim in *Mayo* did not go beyond recognizing (*i.e.*, “indicates”) a need to increase or decrease a dose. *Id.* at 75, 132 S.Ct. 1289. In *Mayo*, “a doctor . . . could violate the patent even if he did not actually alter his treatment decision in the light of the test.” *Id.* The

claim was not a treatment claim. It was “not limited to instances in which the doctor actually decreases (or increases) the dosage level where the test results suggest that such an adjustment is advisable.” *Id.* at 76, 132 S.Ct. 1289. Thus, the claim in *Mayo* did not involve doctors *using* the natural relationship between the metabolite level and lessening “the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm.” *Id.* at 77, 132 S.Ct. 1289. The claims in *Mayo* therefore “tie up the doctor’s subsequent treatment decision whether that treatment does, or does not, change in light of the inference he has drawn using the correlations. And they threaten to inhibit the development of more refined treatment recommendations. . . .” *Id.* at 86–87, 132 S.Ct. 1289.

Here, the ’610 patent claims recite the steps of carrying out a dosage regimen based on the results of genetic testing. The claims require doctors to “internally administer[ ] iloperidone to the patient in an amount of 12 mg/day or less” if the patient has a CYP2D6 poor metabolizer genotype; and “internally administer[ ] iloperidone to the patient in an amount that is greater than 12 mg/day, up to 24 mg/day” if the patient does not have a CYP2D6 poor metabolizer genotype. ’610 patent col. 17 ll. 13–20. These are treatment steps. In contrast, as shown above, the claim in *Mayo* stated that the metabolite level in blood simply “indicates” a need to increase or decrease dosage, without prescribing a specific dosage regimen or other added steps to take as a result of that indication. *Mayo*, 566 U.S. at 75, 132 S.Ct. 1289. Here, the claims do not broadly “tie up the doctor’s subsequent treatment decision.” *Id.* at 86, 132 S.Ct. 1289.

Our decision in *CellzDirect* supports concluding that these claims are patent eligible. In that case, we held that “a method of producing a desired preparation of

multi-cryopreserved hepatocytes cells” was patent eligible. *CellzDirect*, 827 F.3d at 1047. We explained that “[t]he end result of the . . . claims is not simply an observation or detection of the ability of hepatocytes to survive multiple freeze-thaw cycles. Rather, the claims [were] directed to a new and useful method of preserving hepatocyte cells.” *Id.* at 1048. We further emphasized that “the natural ability of the subject matter to *undergo* the process does not make the claim ‘directed to’ that natural ability.” *Id.* at 1049 (emphasis in original). Otherwise, claims directed to actually “treating cancer with chemotherapy” or “treating headaches with aspirin” would be patent ineligible. *Id.*

Nor does *Myriad* compel a different outcome. The Supreme Court in *Myriad* held “that a naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated, but that cDNA is patent eligible because it is not naturally occurring.” *Myriad*, 569 U.S. at 580, 133 S.Ct. 2107. The Court was careful to note that “method claims” and “patents on new applications of knowledge about [particular] genes” were “*not* implicated by [its] decision.” *Id.* 595–96, 133 S.Ct. 2107 (emphasis in original). The ’610 patent does not claim naturally occurring DNA segments. Rather, the asserted claims fall squarely within categories of claims that the Court stated were not implicated by its decision.

At bottom, the claims here are directed to a specific method of treatment for specific patients using a specific compound at specific doses to achieve a specific outcome. They are different from *Mayo*. They recite more than the natural relationship between CYP2D6 metabolizer genotype and the risk of QTc prolongation. Instead, they recite a method of treating patients based on this relationship that makes iloperidone safer by lowering the risk of QTc

prolongation. Accordingly, the claims are patent eligible.

#### IV. Written Description

[21, 22] We next consider West-Ward’s argument that the district court erred in finding that the claims are not invalid for lack of adequate written description. To satisfy the written description requirement the patent disclosure must “reasonably convey[ ] to those skilled in the art that the inventor had possession of the claimed subject matter as of the filing date.” *Ariad Pharm., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 1351 (Fed. Cir. 2010) (en banc). Whether a claim satisfies the written description requirement is a question of fact that we review for clear error following a bench trial. *Alcon Research*, 745 F.3d at 1190.

West-Ward argues that the asserted claims are invalid for lack of written description because nothing in the ’610 patent demonstrates possession of the claimed dosage ranges for poor and non-poor CYP2D6 metabolizer genotypes. West-Ward contends that the description does not contain experiments with doses of 12 mg/day or less given to poor metabolizers, and reports data that does not support the claimed poor-metabolizer dose range.

Vanda responds that the district court did not clearly err in finding that the ’610 patent adequately describes the claimed dosages for poor metabolizers. Vanda contends that West-Ward waived any written description challenge to the dosages for non-poor metabolizers, and that West-Ward’s argument is, in any event, meritless.

We agree with Vanda that the district court did not clearly err in finding that the ’610 patent contains adequate written description for the claimed “12 mg/day or less” dosage range for poor metabolizers. The patent reports the results of tests

comparing the concentrations of P88 and P95, iloperidone's two main metabolites, and changes in QTc interval upon administration of doses of iloperidone, both with and without the addition of a CYP2D6 inhibitor, to individuals with wildtype or a poor metabolizer genotype associated with two common CYP2D6 polymorphisms. '610 patent col. 4 l. 62–col. 10 l. 56. The patent reports that “QTc prolongation is correlated to the ratios of P88/P95 and (iloperidone + P88)/P95.” *Id.* col. 9 ll. 57–58.

The '610 patent further explains that the reported results “show that patients can be more safely treated with iloperidone if the dose of iloperidone is adjusted based on the CYP2D6 genotype of each patient,” *id.* col. 9 ll. 31–34; *accord id.* col. 2 ll. 15–24, and provides examples of such doses, *id.* col. 9 ll. 34–47, col. 11 ll. 22–28. For a poor metabolizer, those examples include reducing the dose of iloperidone administered by “75% or less, 50% or less, or 25% or less of the dose typically administered to a patient having a CYP2D6 genotype that results in a CYP2D6 protein” with wildtype activity. *Id.* col. 9 ll. 34–43. The patent then provides a specific example of a dose for non-poor metabolizers, “24 mg per day,” and the appropriate reduction for a poor metabolizer “reduced dosage of 18, 12, or 6 mg per day.” *Id.* col. 9 ll. 43–47. The disclosure of a dose outside of the claimed range does not compel a finding that the asserted claims lack adequate written description. *See Scriptpro, LLC v. Innovation Assocs., Inc.*, 762 F.3d 1355, 1359 (Fed. Cir. 2014) (“It is common, and often permissible, for particular claims to pick out a subset of the full range of described features, omitting others.”).

The district court heard testimony that the data reported in the '610 patent show a trend for higher QTc prolongation among genotypic CYP2D6 poor metabolizers given a 24 mg/day dose, and support a reduc-

tion in dose for CYP2D6 poor metabolizers by a factor of 1.5 to 3.5. West-Ward introduced some testimony challenging the sufficiency of the data and the lack of statistical analysis, but that does not render the court's reliance on testimony supporting validity impermissible. *See Anderson*, 470 U.S. at 574–75, 105 S.Ct. 1504. On this record, we cannot say that the district court clearly erred in finding that the '610 patent sufficiently discloses the claimed range for poor metabolizers.

[23] Moreover, West-Ward waived its written description challenge with respect to non-poor metabolizers by failing to properly present it to the trial court. The Supreme Court has observed that as a “general rule . . . a federal appellate court does not consider an issue not passed upon below.” *Singleton v. Wulff*, 428 U.S. 106, 120, 96 S.Ct. 2868, 49 L.Ed.2d 826 (1976). Although appellate courts have discretion to decide when to deviate from this general waiver rule, *see id.* at 121, 96 S.Ct. 2868, West-Ward has not articulated a basis for us to reach this issue for the first time on appeal and we discern none, *see HTC Corp. v. IPCom GmbH & Co., KG*, 667 F.3d 1270, 1282–83 (Fed. Cir. 2012).

West-Ward points only to a single page in each of its opening and reply post-trial briefs to support its claim that this issue is not waived. Those pages make passing reference to the dosage range for non-poor metabolizers in the context of the written description arguments West-Ward advanced for poor metabolizers. West-Ward does not point us to any argument or evidence that it advanced before the district court specifically with respect to non-poor metabolizers. Indeed, West-Ward did not identify lack of written description with respect to non-poor metabolizer dose range in its pretrial submissions identifying the issues to be tried. West-Ward has thus waived any further argument that the

non-poor metabolizer dosage range was not adequately supported by the written description.

#### V. Injunctive Relief

[24] We finally address the propriety of the injunctive relief awarded by the district court. West-Ward argues that the injunctions were not supported by the courts “general equitable power,” and the lack of jurisdiction or an infringing act under 35 U.S.C. § 271(e)(2) precludes upholding the injunctions under 35 U.S.C. § 271(e)(4). West-Ward contends that “the FDA has independently determined that litigation over the ’610 patent should not delay approval of iloperidone ANDAs filed before the patent issued and was submitted to the agency.” Appellant Br. 62 (citing [https://www.accessdata.fda.gov/drugsatfda\\_docs/applletter/2016/207231Orig1s000ltr.pdf](https://www.accessdata.fda.gov/drugsatfda_docs/applletter/2016/207231Orig1s000ltr.pdf)). West-Ward further argues that because Vanda did not cross-appeal the denial of an injunction under 35 U.S.C. § 271(e)(4) that provision cannot be an alternative ground to uphold the FDA injunction.

Vanda responds that the district court’s injunctions can be affirmed under 35 U.S.C. § 271(e)(4) and that the court erred in not granting relief pursuant to that provision. In any event, Vanda contends that the district court did not err in granting injunctive relief pursuant to its equitable powers against West-Ward.

We agree with Vanda that 35 U.S.C. § 271(e)(4) supports the injunctive relief granted by the district court. As discussed above, the district court properly held that Vanda had established infringement of the ’610 patent under § 271(e)(2). Section 271(e)(4) provides in relevant part:

For an act of infringement described in paragraph (2)—

(A) the court shall order the effective date of any approval of the drug

or veterinary biological product involved in the infringement to be a date which is not earlier than the date of the expiration of the patent which has been infringed,

(B) injunctive relief may be granted against an infringer to prevent the commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug, veterinary biological product, or biological product,

...

The remedies prescribed by subparagraphs (A), (B), (C), and (D) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fees under section 285.

35 U.S.C. § 271(e)(4). Section 271(e)(4) contains no carve-out for patents that issue after the date of submission of the original ANDA. Moreover, the statute explicitly states that “the only remedies” a court may grant following an infringement finding under § 271(e)(2) are pursuant to § 271(e)(4)(A)–(D) and attorney fees pursuant to § 285. Accordingly, upon a finding of patent infringement under § 271(e)(2), the district court must order remedies in accordance with § 271(e)(4).

West-Ward’s reliance on the FDA’s letter approving a different company’s ANDA 20-7231 for iloperidone tablets is misplaced. The letter indicates that because the ’610 patent was “submitted to the [FDA] after submission of [that] ANDA,” litigation with respect to the ’610 patent “would not create a statutory stay of approval.” [https://www.accessdata.fda.gov/drugsatfda\\_docs/applletter/2016/207231Orig1s000ltr.pdf](https://www.accessdata.fda.gov/drugsatfda_docs/applletter/2016/207231Orig1s000ltr.pdf). The FDA letter merely recognizes that the issuance of the ’610 patent after submission of that ANDA

renders the thirty-month statutory stay inapplicable. See 21 U.S.C. § 355(j)(5)(B)(iii) (providing that triggering of thirty-month stay requires, *inter alia*, that the NDA holder submit necessary “patent information before the date on which the application (excluding an amendment or supplement to the application) . . . was submitted” (emphasis added)). It says nothing about whether the FDA would or would not change the effective approval date of the ANDA pursuant to a 35 U.S.C. § 271(e)(4)(A) court order if the ‘610 patent were found valid and infringed. West-Ward’s argument thus improperly conflates the requirements to obtain a thirty-month stay under § 355(j)(5)(B)(iii) with the relief available pursuant to § 271(e)(4) following a finding of patent infringement under § 271(e)(2).

In fact, where “the FDA has already approved the ANDA, the district court’s [§ 271(e)(4)(A)] order would [only] alter the effective date of the application, thereby converting a final approval into a tentative approval.” *In re Omeprazole Patent Litig.*, 536 F.3d 1361, 1367–68 (Fed. Cir. 2008); see also *Mylan Labs., Inc. v. Thompson*, 389 F.3d 1272, 1281–84 (D.C. Cir. 2004) (affirming revocation of final FDA approval of an ANDA and resetting of the effective approval date following a judgment of patent infringement pursuant to the district court’s § 271(e)(4)(A) order where the infringement suit was filed too late to trigger the 30-month stay). And the FDA is entitled not to set an approval date prior to the expiration of a patent that has been found to be infringed under § 271(e)(4)(A) and not invalid in a Hatch-Waxman case. The district court’s authority to grant the remedies provided in 35 U.S.C. § 271(e)(4) following a judgment of patent infringement under § 271(e)(2) is not limited to those circumstances expressly listed in 21 U.S.C. § 355(j)(5)(B)(iii). See *Ortho-McNeil Pharm., Inc. v. Mylan*

*Labs., Inc.*, 520 F.3d 1358, 1366 (Fed. Cir. 2008) (“The district court was correct to reset the effective date of an ANDA directly under 35 U.S.C. § 271 without going through 21 U.S.C. § 355.”).

Because we sustain the district court’s infringement finding under § 271(e)(2), we also affirm the court’s grant of injunctive relief. Although the district court erred in concluding that the remedies pursuant to § 271(e)(4) were unavailable, the court granted Vanda injunctive relief consistent with those remedies. We may thus affirm the district court’s grant of injunctive relief pursuant to § 271(e)(4).

[25] Additionally, Vanda did not need to file a cross-appeal to allow us to affirm the district court’s grant of injunctive relief with respect to the FDA. Without filing a cross-appeal, “an appellee may ‘urge in support of a decree any matter appearing in the record, although his argument may involve an attack upon the reasoning of the lower court,’ but may not ‘attack the decree with a view either to enlarging his own rights thereunder or of lessening the rights of his adversary.’” *El Paso Nat. Gas Co. v. Neztosie*, 526 U.S. 473, 479, 119 S.Ct. 1430, 143 L.Ed.2d 635 (1999) (quoting *United States v. Am. Ry. Exp. Co.*, 265 U.S. 425, 435, 44 S.Ct. 560, 68 L.Ed. 1087 (1924)); see also *Radio Steel & Mfg. Co. v. MTD Prods., Inc.*, 731 F.2d 840, 844 (Fed. Cir. 1984) (holding that “a party will not be permitted to argue before us an issue on which it has lost and on which it has not appealed, where the result of acceptance of its argument would be a reversal or modification of the judgment rather than an affirmance”).

[26] The district court expressly ordered relief that Vanda argues may be affirmed on the basis of § 271(e)(4). See J.A. 33. Thus, our affirmance does not enlarge Vanda’s rights under the judgment

or require its amendment. Indeed, Vanda could not have filed a cross-appeal in this case because “[a] party that is not adversely affected by a judgment lacks standing to [cross-appeal].” *TypeRight Keyboard Corp. v. Microsoft Corp.*, 374 F.3d 1151, 1156 (Fed. Cir. 2004).

We have considered West-Ward’s remaining arguments but find them to be unpersuasive.

#### CONCLUSION

For the foregoing reasons, we affirm the district court’s decision.

#### AFFIRMED

PROST, Chief Judge, dissenting.

I would find the asserted patent claims to be directed to a law of nature. The majority finds the claims herein are not directed to a natural law at step one of the § 101 analysis, but its efforts to distinguish *Mayo* cannot withstand scrutiny. The majority relies on the claims’ recitation of specific applications of the discovery underpinning the patent to find no natural law is claimed. But it conflates the inquiry at step one with the search for an inventive concept at step two. Once the natural law claimed in the ’610 patent is understood in a manner consistent with *Mayo*, what remains fails to supply the requisite inventive concept to transform the natural law into patent-eligible subject matter. Although I agree with the majority’s reasoning that the district court had jurisdiction under the Hatch-Waxman Act, I would not reach the issues of written description, infringement, and injunctive relief because I would find the ’610 patent claims ineligible subject matter. Accordingly, I respectfully dissent.

In order “to transform an unpatentable law of nature into a patent-eligible application of such a law, a patent must do more than simply state the law of nature while

adding the words ‘apply it.’” *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 72, 132 S.Ct. 1289, 182 L.Ed.2d 321 (2012). While the claims here do not solely state a law of nature, they do no more than simply direct the relevant audience to apply it.

The ’610 patent itself identifies its invention as “compris[ing] the discovery that treatment of a patient, who has lower CYP2D6 activity than a normal person, with a drug that is pre-disposed to cause QT prolongation and is metabolized by the CYP2D6 enzyme, can be accomplish[ed] more safely by administering a lower dose of the drug than would be administered to a person who has normal CYP2D6 enzyme activity.” ’610 patent col. 2 ll. 15–21. Nevertheless, the majority concludes that the claims here are not directed to ineligible subject matter at step one of the *Mayo/Allice* inquiry. Majority Op. at 28. I disagree.

The representative claim in *Mayo*, i.e., Claim 1, recited:

A method of optimizing therapeutic efficacy for treatment of an immune-mediated gastrointestinal disorder, comprising:

- (a) administering a drug providing 6-thioguanine to a subject having said immune-mediated gastrointestinal disorder; and
- (b) determining the level of 6-thioguanine in said subject having said immune-mediated gastrointestinal disorder,

wherein the level of 6-thioguanine less than about 230 pmol per  $8 \times 10^8$  red blood cells indicates a need to increase the amount of said drug subsequently administered to said subject and

wherein the level of 6-thioguanine greater than about 400 pmol per  $8 \times 10^8$  red blood cells indicates a need to decrease

the amount of said drug subsequently administered to said subject.

*Mayo*, 566 U.S. at 74–75, 132 S.Ct. 1289 (quoting U.S. Patent No. 6,355,623 col. 20 ll. 10–20).

The Court stated that the patent in *Mayo* “set forth laws of nature—namely, relationships between concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm.” *Id.* at 77, 132 S.Ct. 1289. As one example of the laws of nature set forth in the patent, the Court pointed to Claim 1’s statement “that *if* the levels of 6-TG in the blood (of a patient who has taken a dose of a thiopurine drug) exceed about 400 pmol per  $8 \times 10^8$  red blood cells, *then* the administered dose is likely to produce toxic side effects.” *Id.* Thus, the law of nature identified by the Supreme Court in *Mayo* encompassed not only the bare fact of the relationship between thiopurine metabolite concentrations and efficacy or side effects of a thiopurine drug, but also the precise levels of concentration in question. *See id.* at 74, 132 S.Ct. 1289 (“But those in the field did not know the precise correlations between metabolite levels and likely harm or ineffectiveness. The patent claims at issue here set forth processes embodying researchers’ findings that identified these correlations with some precision.”).

In the present case, Claim 1 of the ’610 patent reads as follows:

A method for treating a patient with iloperidone, wherein the patient is suffering from schizophrenia, the method comprising the steps of:

determining whether the patient is a CYP2D6 poor metabolizer by:

obtaining or having obtained a biological sample from the patient;

and

performing or having performed a genotyping assay on the biological sample to determine if the patient has a CYP2D6 poor metabolizer genotype; and

if the patient has a CYP2D6 poor metabolizer genotype, then internally administering iloperidone to the patient in an amount of 12 mg/day or less, and

if the patient does not have a CYP2D6 poor metabolizer genotype, then internally administering iloperidone to the patient in an amount that is greater than 12 mg/day, up to 24 mg/day,

wherein a risk of QTc prolongation for a patient having a CYP2D6 poor metabolizer genotype is lower following the internal administration of 12 mg/day or less than it would be if the iloperidone were administered in an amount of greater than 12 mg/day, up to 24 mg/day.

’610 patent col. 17 ll. 2–25.

This claim, which is representative of the ’610 patent, also sets forth a natural relationship—namely, the relationship between the CYP2D6 genotype and the likelihood that a dosage of iloperidone will cause QTc prolongation. The majority notes that the claims in *Mayo* were directed to the relationships that comprised the natural law, and not “to a novel method of treating a disease.” Majority Op. at 29. Here, according to the majority, while the inventors *recognized* a natural law, “that is not what they claimed.” *Id.* at 30. Rather, the claims of the ’610 patent require a treating doctor to administer iloperidone in “specific dosages” based on the results of a genotyping assay. *Id.* But reciting specific metes and bounds in the claims did not prevent the Supreme Court from concluding those claims set forth a natural law in *Mayo*. We are not free to depart from the Supreme Court’s holding.



As the majority notes, the '610 patent claims a method of treating schizophrenia with iloperidone “that is safer for patients because it reduces the risk of QTc prolongation.” Majority Op. at 30. This is no more than an optimization of an existing treatment of schizophrenia, just as the claims in *Mayo* concerned “optimizing therapeutic efficacy” of thiopurine drugs. *Mayo* warned against “drafting effort[s] designed to monopolize the law of nature itself.” 566 U.S. at 77, 132 S.Ct. 1289. The majority does not heed that warning.

The Court in *Mayo* found that the claim limitation concerning “administering” a thiopurine drug to a patient “simply refer[red] to the relevant audience, namely doctors who treat patients with certain diseases with thiopurine drugs”—an audience that existed long before the patent disclosure. *Id.* at 78, 132 S.Ct. 1289. So too here. The audience of physicians treating schizophrenia with iloperidone long predated the '610 patent. The patent simply discloses the natural law that a known side effect of the existing treatment could be reduced by administering a lower dose to CYP2D6 poor-metabolizers. It claims no more than instructions directing that audience to apply the natural law in a routine and conventional manner.

The majority fails to reconcile this substantive similarity between our case and *Mayo*. Instead, it points to the specific dosages as a distinction between the administering step here and that in *Mayo*. But *Mayo* examined the significance of the “administering” step in its search for an inventive concept, *not* as part of the determination whether the claims were directed to a natural law at the threshold. And the specific dosage adds nothing inventive to the claims beyond the natural law.

Nor does the other element of specificity identified by the majority rescue the claims. The claims here specify a means of

identifying a patient’s genotype (a “genetic assay”), while the claims in *Mayo* left open the means of measuring the relevant metabolite. But the genetic assay is purely conventional pre-solution activity that cannot be used to circumvent eligibility under § 101. *See Mayo*, 566 U.S. at 79, 132 S.Ct. 1289.

The majority notes the claims here *require* treatment with iloperidone within the dosage range indicated, while the claims in *Mayo* could be infringed by treatment with thiopurine “*whether that treatment does, or does not, change in light of the inference*” indicated by the natural law. *Mayo*, 566 U.S. at 86, 132 S.Ct. 1289 (emphasis added); *see* Majority Op. at 30–31. But that inquiry in *Mayo* also came as part of the search for an inventive concept, and requiring a dosage instead of indicating a dosage is not sufficient at step two. The difference is of no moment.

The majority points to the Supreme Court’s statement in *Mayo* that “[u]nlike, say, a typical patent on a new drug or a new way of using an existing drug, the patent claims do not confine their reach to particular applications of those laws.” Majority Op. at 29–30 (quoting *Mayo*, 566 U.S. at 87, 132 S.Ct. 1289). It similarly points to our decision in *Rapid Litigation Management Ltd. v. CellzDirect, Inc.*, wherein we indicated that “the natural ability of the subject matter to *undergo* the process does not make the claim ‘directed to’ that natural ability,” lest we find ineligible methods of “treating cancer with chemotherapy (as directed to cancer cells’ inability to survive chemotherapy), or treating headaches with aspirin (as directed to the human body’s natural response to aspirin).” 827 F.3d 1042, 1049 (Fed. Cir. 2016). But that is not this case.

Whatever weight can be ascribed to the foregoing statements about methods of

treatment, we remain beholden to the holding of *Mayo*, which, in my view, requires us to find the claims directed to a natural law at step one. (And I find no inventive concept in the claims once the natural law at issue is properly understood in view of *Mayo*.)<sup>1</sup>

My conclusion is not at odds with *CellzDirect*. There, the alleged law of nature was the capability of hepatocyte cells to survive multiple freeze-thaw cycles. Because the “end result” of the claims therein was “not simply an observation or detection of the ability of hepatocytes to survive multiple freeze-thaw cycles” but rather “a new and useful method of preserving hepatocyte cells,” we held the claims were not directed to a law of nature. *Id.* at 1049.

Here, the end result of the claimed process is no more than the conclusion of a natural law. The fact that a reduction of iloperidone dosage in poor metabolizers to the may reduce QTc prolongation is both the means and the ends of this claim. The recitation of the specific dosages adds no more than a conventional application of that natural law. I see no distinction from *Mayo*, so I would hold the asserted claims directed to ineligible subject matter and lacking an inventive concept sufficient to transform it into patent-eligible subject matter. I respectfully dissent.



1. Indeed, the unpredictable results of clinical testing regarding the relationship among CYP2D6, iloperidone, and QTc prolongation formed the basis of the district court’s finding of non-obviousness. *See* J.A. 13–15. In particular, the district court pointed to West-Ward’s evidence that “it was unpredictable whether any dosage adjustment would be needed for

AGILITY LOGISTICS SERVICES  
COMPANY KSC, Appellant

v.

James N. MATTIS, Secretary of De-  
fense, Mark T. Esper, Secretary  
of the Army, Appellees

2015-1555

United States Court of Appeals,  
Federal Circuit.

Decided: April 16, 2018

**Background:** Contractor brought action against Secretaries of Defense and Army, challenging contracting officer’s (CO) final decision that contractor owed government almost 81 million dollars due to government’s overpayment of funds pursuant to task orders under contract for two distribution centers and staging areas for Iraqi security forces and civil infrastructure reconstruction, and CO’s denial of contractor’s certified claim seeking approximately 47 million dollars for unpaid fees on orders. The Armed Services Board of Contract Appeals dismissed action due to lack of jurisdiction. Contractor appealed.

**Holdings:** The Court of Appeals, Prost, Chief Judge, held that:

- (1) contract was not “made by” an executive agency, thereby depriving Board of jurisdiction, under Contract Disputes Act (CDA), to decide contractor’s appeal;
- (2) no novation rendered the government a party to contract, thereby depriving

CYP2D6 poor metabolizers, much less the amount of adjustment needed to achieve the pharmacokinetic profile seen in normal metabolizers.” J.A. 14. That is, the district court found non-obviousness based on the revelation of the natural law underpinning the claims, not in any other aspect of the claims.

**United States Court of Appeals  
for the Federal Circuit**

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**ATHENA DIAGNOSTICS, INC., OXFORD  
UNIVERSITY INNOVATION LTD., MAX-PLANCK-  
GESELLSCHAFT ZUR FORDERUNG DER  
WISSENSCHAFTEN E.V.,  
*Plaintiffs-Appellants***

**v.**

**MAYO COLLABORATIVE SERVICES, LLC, DBA  
MAYO MEDICAL LABORATORIES, MAYO CLINIC,  
*Defendants-Appellees***

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2017-2508

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Appeal from the United States District Court for the  
District of Massachusetts in No. 1:15-cv-40075-IT, Judge  
Indira Talwani.

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Decided: February 6, 2019

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Before NEWMAN, LOURIE, and STOLL, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* LOURIE.

Dissenting opinion filed by *Circuit Judge* NEWMAN.

LOURIE, *Circuit Judge*.

Athena Diagnostics, Inc., Oxford University Innovation Ltd., and the Max-Planck-Gesellschaft zur Förderung der Wissenschaften E.V. (collectively, “Athena”) appeal from the order of the United States District Court for the District of Massachusetts holding that claims 6–9 of U.S. Patent 7,267,820 (the “820 patent”) are invalid under 35 U.S.C. § 101 and dismissing Athena’s complaint under Rule 12(b)(6). *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 275 F. Supp. 3d 306 (D. Mass. 2017) (“*Decision*”). Because the district court correctly concluded that the claims at issue are directed to a natural law and lack an inventive concept, we affirm.

## I. BACKGROUND

Athena Diagnostics is the exclusive licensee of the ’820 patent, covering methods for diagnosing neurological disorders by detecting antibodies to a protein called muscle-specific tyrosine kinase (“MuSK”). ’820 patent Abstract. Athena also markets a test called FMUSK that functions by evaluating those antibodies. After Mayo Collaborative Services, LLC (“Mayo”) developed two competing tests that allegedly practice each step of one or more claims of the ’820 patent, Athena accused Mayo of infringing its patent. Mayo moved to dismiss under Rule 12(b)(6), arguing that the asserted claims of the ’820 patent were invalid under 35 U.S.C. § 101. The district court granted Mayo’s motion, concluding that the claims were invalid under § 101 for claiming ineligible subject matter. This appeal solely concerns whether claims 6–9 are patent eligible under § 101.

### A.

*Myasthenia gravis* (“MG”) is a neurological disorder where patients experience muscle weakness and symptoms including drooping eyelids, double vision, and slurred speech. ’820 patent col. 1 ll. 13–23. It was previously discovered that MG is an autoimmune disease caused by a

patient generating antibodies against her own acetylcholine receptors. *Id.* col. 1 ll. 24–26. Antibodies which recognize a person’s own proteins as foreign antigens are known as autoantibodies. *Id.* col. 1 ll. 42–45.

About 80% of patients with MG produce acetylcholine receptor autoantibodies. *Id.* col. 1 ll. 34–36. The other 20% do not, but they do experience the same MG symptoms. *Id.* col. 1 ll. 36–38. The named inventors of the ’820 patent discovered that many of the 20% of MG patients without acetylcholine receptor autoantibodies instead generate autoantibodies to a membrane protein called MuSK. *Id.* col. 1 ll. 54–61. Prior to their discovery, no disease had been associated with MuSK. *Id.* col. 2 ll. 35–37.

Having discovered the association between MuSK autoantibodies and MG, the inventors of the ’820 patent disclosed and claimed methods of diagnosing neurological disorders such as MG by detecting autoantibodies that bind to a MuSK epitope.<sup>1</sup> *Id.* col. 2 ll. 61–65. Claim 1, not at issue in this appeal, is the only independent claim and reads as follows:

1. A method for diagnosing neurotransmission or developmental disorders related to [MuSK] in a mammal comprising the step of detecting in a bodily fluid of said mammal autoantibodies to an epitope of [MuSK].

*Id.* col. 12 ll. 31–35. Claim 7 is at issue and depends from claim 1. It recites:

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<sup>1</sup> An epitope, also known as an antigenic determinant, is a segment of a protein recognized by an antibody. See Bruce Alberts, *Molecular Biology of the Cell* 449–50 (6th ed. 2015). The specification of the ’820 patent disclosed that autoantibodies in MG patients recognize a MuSK epitope located on the protein’s extracellular amino-terminal domain. ’820 patent col. 1 ll. 54–57.

7. A method according to claim 1, comprising

contacting MuSK or an epitope or antigenic determinant thereof having a suitable label thereon, with said bodily fluid,

immunoprecipitating any antibody/MuSK complex or antibody/MuSK epitope or antigenic determinant complex from said bodily fluid and

monitoring for said label on any of said antibody/MuSK complex or antibody/MuSK epitope or antigen determinant complex,

wherein the presence of said label is indicative of said mammal is suffering from said neurotransmission or developmental disorder related to [MuSK].

*Id.* col. 12 l. 62–col. 13 l. 5 (spacing added). Claim 8 depends from claim 7 and recites that the label is a radioactive label. *Id.* col. 13 ll. 6–7. Claim 9 depends from claim 8 and further recites that the radioactive label is <sup>125</sup>I, a radioactive isotope of iodine. *Id.* col. 13 ll. 8–9. We focus on claim 9, the most specific one at issue, which requires: (1) contacting MuSK or an epitope thereof having a <sup>125</sup>I label, with bodily fluid; (2) immunoprecipitating any antibody/MuSK complex; and (3) monitoring for the label on the complex, wherein the presence of the label indicates the presence of a MuSK-related disorder.

The specification of the '820 patent further explains what the steps of iodination and immunoprecipitation entail. First, MuSK is iodinated using radioactive <sup>125</sup>I. *Id.* col. 10 ll. 50–52. Then iodinated MuSK is separated from any free <sup>125</sup>I by gel filtration. *Id.* col. 10 ll. 55–56. Next, the <sup>125</sup>I-labeled MuSK is added to a small volume of the patient's bodily fluid and left overnight. *Id.* col. 10 ll. 56–58. If MuSK autoantibodies are present in the patient's bodily fluid, they will bind to the <sup>125</sup>I-labeled MuSK. Any <sup>125</sup>I-labeled MuSK in the sample is then immunoprecipitated by adding a secondary antibody that binds to any

MuSK autoantibodies present. *Id.* col. 10 ll. 58–60. The resulting precipitate is finally centrifuged, washed, and counted for radioactivity, which may be indicative of MG. *Id.* col. 10 ll. 60–61.

It is undisputed that iodination and immunoprecipitation were known techniques at the time of the invention. The '820 patent specification states that “[t]he actual steps of detecting autoantibodies in a sample of bodily fluids may be performed in accordance with immunological assay techniques known per se in the art,” such as radioimmunoassays. *Id.* col. 3 ll. 33–37. With respect to the relevant individual steps in the radioimmunoassay, the specification also discloses that “[i]odination and immunoprecipitation are standard techniques in the art.” *Id.* col. 4 ll. 10–11.

Claim 6 is additionally at issue in this appeal and depends from claim 3. While claim 6 also involves detecting MuSK autoantibodies by contacting a patient’s bodily fluid with MuSK or an epitope thereof, the labelling occurs somewhat differently than in claims 7–9. Instead of labelling MuSK with a radioisotope, claim 3 recites that the secondary antibody is “tagged or labeled with a reporter molecule.” *Id.* col. 12 ll. 47–49. Claim 6 additionally requires that “the intensity of the signal from the [secondary] antibody is indicative of the relative amount of the anti-MuSK autoantibody in the bodily fluid when compared to a positive and negative control reading.” *Id.* col. 12 ll. 57–61. This claimed technique exemplifies the ELISA method,<sup>2</sup> which, like radioimmunoassays, the '820 patent specification lists as an example of “immunological assay techniques known per se in the art.” *Id.* col. 3 ll. 33–36.

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<sup>2</sup> ELISA stands for enzyme-linked immunosorbent assay. The technical details of this assay are not relevant to this appeal.



## B.

The district court concentrated its analysis on claims 7–9. Athena did not present any arguments specific to claim 6. Applying the test for subject matter eligibility established by the Supreme Court in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012) and *Alice Corp. v. CLS Bank International*, 573 U.S. 208 (2014), the court first concluded that the claims were directed to a law of nature, *Decision*, 275 F. Supp. 3d at 312. According to the court, the claims focused on the interaction of 125I-labeled MuSK with MuSK autoantibodies in bodily fluid, an interaction which occurs naturally. *Id.* at 310. The district court also determined that the claims lacked an inventive concept, as the recited steps involved only standard techniques in the art. *Id.* at 312–13.

The district court thus dismissed Athena’s complaint for failure to state a claim. Athena appealed. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## II. DISCUSSION

We review the district court’s dismissal for failure to state a claim under regional circuit law. *BASCOM Glob. Internet Servs., Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1347 (Fed. Cir. 2016). The First Circuit reviews such dismissals *de novo*, accepts all well-pleaded facts alleged in the complaint to be true, and draws all reasonable inferences in favor of the non-movant. *In re Loestrin 24 Fe Antitrust Litig.*, 814 F.3d 538, 549 (1st Cir. 2016). Patent eligibility under § 101 is a question of law based on underlying facts, *see Aatrix Software, Inc. v. Green Shades Software, Inc.*, 882 F.3d 1121, 1125 (Fed. Cir. 2018); *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1364–65 (Fed. Cir. 2018), that may be resolved on a Rule 12(b)(6) motion when the undisputed facts require a holding of ineligibility, *SAP Am., Inc. v. Investpic, LLC*, 898 F.3d 1161, 1166 (Fed. Cir. 2018).

Section 101 provides that “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101. Given the expansive terms of § 101, “Congress plainly contemplated that the patent laws would be given wide scope”; some of the legislative history likewise indicated that “Congress intended statutory subject matter to ‘include anything under the sun that is made by man.’” *Diamond v. Chakrabarty*, 447 U.S. 303, 308–09 (1980).

Under the law as set forth by the Supreme Court, § 101, while broad, “contains an important implicit exception. ‘[L]aws of nature, natural phenomena, and abstract ideas’ are not patentable.” *Mayo*, 566 U.S. at 70 (alteration in original) (quoting *Diamond v. Diehr*, 450 U.S. 175, 185 (1981)). These exceptions exist because monopolizing the basic tools of scientific work “might tend to impede innovation more than it would tend to promote it.” *Id.* at 71. However, the Supreme Court has advised that these exceptions must be applied cautiously, as “too broad an interpretation of this exclusionary principle could eviscerate patent law.” *Id.*

Laws of nature are not patentable, but applications of such laws may be patentable. A claim to otherwise statutory subject matter does not become ineligible by its use of a law of nature. *See Diehr*, 450 U.S. at 187; *Parker v. Flook*, 437 U.S. 584, 590 (1978). But, on the other hand, adding “conventional steps, specified at a high level of generality,” to a law of nature does not make a claim to the law of nature patentable. *Mayo*, 566 U.S. at 82.

To distinguish claims to patent-eligible applications of laws of nature from claims that impermissibly tie up such laws, we apply the two-part test set forth by the Supreme Court. First, we examine whether the claims are “directed to” a law of nature. *Alice*, 573 U.S. at 217. If they are, then

we proceed to the second inquiry, where we ask whether the limitations of the claim apart from the law of nature, considered individually and as an ordered combination, “transform the nature of the claim’ into a patent-eligible application.” *Id.* (quoting *Mayo*, 566 U.S. at 78). To so transform the claim, the additional limitations must “ensure that the patent in practice amounts to significantly more than a patent upon the natural law itself.” *Mayo*, 566 U.S. at 73.

We first address claims 7–9 and then turn to claim 6.

A.

Athena argues that claims 7–9 are not directed to a natural law at step one because they recite innovative, specific, and concrete steps that do not preempt a natural law. Rather, Athena contends that the claims are directed to a new laboratory technique that makes use of man-made molecules.

Mayo responds that the claims are directed to a natural law: the correlation between naturally-occurring MuSK autoantibodies and MuSK-related neurological diseases like MG. According to Mayo, the remaining steps apart from the natural law are concededly standard immunoassay techniques that still leave the claim directed to a natural law. Indeed, Mayo argues that the specificity and concreteness of the claimed steps are irrelevant to whether a claim is directed to a natural law. And, as in *Mayo*, Mayo contends that it makes no difference to eligibility that the claimed diagnostic method uses man-made materials.

We ultimately agree with Mayo that, under *Mayo*, the claims are directed to a natural law. As an initial matter, we must identify what the relevant natural law is. Here, it is the correlation between the presence of naturally-occurring MuSK autoantibodies in bodily fluid and MuSK-

related neurological diseases like MG.<sup>3</sup> This correlation exists in nature apart from any human action. There can thus be no dispute that it is an ineligible natural law.

However, as Athena correctly observes, not every claim that involves a natural law is directed to a natural law. “[A]ll inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.” *Mayo*, 566 U.S. at 71. The Supreme Court’s two-step test thus “plainly contemplates that the first step of the inquiry is a meaningful one, i.e., that a substantial class of claims are *not* directed to a patent-ineligible concept.” *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016).

The step one “directed to” inquiry focuses on the claim as a whole. *E.g., Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1353 (Fed. Cir. 2016). To determine whether a claim is directed to an ineligible concept, we have frequently considered whether the claimed advance improves upon a technological process or merely an ineligible concept, based on both the written description and the claims. *See Cleveland Clinic Found. v. True Health Diagnostics LLC*, 859 F.3d 1352, 1361 (Fed. Cir. 2017); *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042, 1047–49 (Fed. Cir. 2016); *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1376 (Fed. Cir. 2015); *see also McRO, Inc. v.*

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<sup>3</sup> We note that the district court held that the “focus of the claims” was the binding of MuSK to MuSK antibodies in bodily fluid. *Decision*, 275 F. Supp. 3d at 310. Our cases have not described a claim to the binding of two molecules during a sequence of chemical manipulations (here, after MuSK labeling and before immunoprecipitation) as a claim to a natural law, even if such binding occurs according to natural laws. We need not resolve that issue here, as we agree with Mayo’s identification of the natural law.

*Bandai Namco Games Am. Inc.*, 837 F.3d 1299, 1314–15 (Fed. Cir. 2016); *Elec. Power Grp.*, 830 F.3d at 1354.

For example, in *CellzDirect* we considered claims that covered a method for producing a preparation of a type of liver cell (called hepatocytes) that involved multiple freeze-thaw cycles. 827 F.3d at 1046, 1048. Although the inventors discovered the cells' ability to survive multiple freeze-thaw cycles, a discovery that the district court understood to be a natural law, we concluded that the claims were not directed to that natural law. *Id.* at 1048–50. This was because the claims as a whole recited “a new and improved way of preserving hepatocyte cells for later use,” “not simply an observation or detection of the ability of hepatocytes to survive multiple freeze-thaw cycles.” *Id.* at 1048. The claimed advance harnessed a natural law to produce a technological improvement that was patent eligible. *See id.* at 1048–49; *see also, e.g., Enfish*, 822 F.3d at 1335–39 (holding improvement in computer-related technology not directed to abstract idea).

In contrast, in *Cleveland Clinic* we reiterated that claims that merely recite observing naturally occurring biological correlations “with no meaningful non-routine steps in between” are directed to a natural law. 859 F.3d at 1361; *see Ariosa*, 788 F.3d at 1376. There, the specification indicated that the claimed inventors discovered a natural correlation between a molecule called MPO and cardiovascular disease. *Cleveland Clinic*, 859 F.3d at 1360–61. The claims at issue recited detecting MPO or other MPO-related products in a patient sample and then predicting a patient's risk of having or developing cardiovascular disease. *Id.* at 1361. As the claims only covered the correlation between MPO and cardiovascular disease, an ineligible discovery, together with “well-known techniques to execute the claimed method,” we held that the claims were directed to a natural law. *Id.*

The claims at issue here involve both the discovery of a natural law and certain concrete steps to observe its operation. Claim 9, the most specific claim at issue, recites the following method to detect MuSK autoantibodies: (1) mixing MuSK or an epitope thereof having a 125I label with bodily fluid; (2) immunoprecipitating any resulting antibody/MuSK complex; and (3) monitoring for the label on the complex. '820 patent col. 12 l. 62–col. 13 l. 9. The claim then concludes in the wherein clause with a statement of the natural law, *i.e.*, the discovery that MuSK autoantibodies naturally present in a patient sample, detected with the 125I label bound to the MuSK/antibody complex, indicate that the patient is suffering from a MuSK-related neurological disorder. *Id.* col. 13 ll. 2–5.

As in *Cleveland Clinic* and *Ariosa*, we conclude that claims 7–9 are directed to a natural law because the claimed advance was only in the discovery of a natural law, and that the additional recited steps only apply conventional techniques to detect that natural law. The specification of the '820 patent highlights the discovery of the natural law, explaining that “[t]he present inventors surprisingly found that many of the 20% of MG patients [who] do not exhibit any autoantibodies to [the acetylcholine receptor], instead have . . . antibodies directed against the extracellular [amino]-terminal domains of MuSK.” *Id.* col. 1 ll. 54–57. Further, the specification describes the claimed concrete steps for observing the natural law as conventional. It teaches that “[t]he actual steps of detecting autoantibodies in a sample of bodily fluids may be performed in accordance with immunological assay techniques known per se in the art,” including radioimmunoassays and ELISA. *Id.* col. 3 ll. 33–37. Likewise, the specification identifies “[i]odination and immunoprecipitation” as “standard techniques in the art.” *Id.* col. 4 ll. 10–12. The '820 patent thus describes the claimed invention principally as a discovery of a natural law, not as an improvement in the underlying immunoassay technology.

Consistent with the specification, the claims are directed to that law.

Athena argues that the claims at issue, like the claims in *CellzDirect*, are directed to an innovative laboratory technique, not a law of nature. However, Athena does not point to any innovation other than its discovery of the natural law. *CellzDirect* did not suggest that appending standard techniques to detect a natural law rendered claims not directed to a natural law; rather, we expressly distinguished the eligible claims in that case from ineligible claims that “amounted to nothing more than observing or identifying the ineligible concept itself.” 827 F.3d at 1048. In that case, we concluded that the “end result” of the claims at issue was “not simply an observation or detection” of a natural law. *Id.* We cannot so conclude here, since the claims before us only involve detecting a natural law “with no meaningful non-routine steps.” *Cleveland Clinic*, 859 F.3d at 1361.

Athena also points to the specificity of the claimed concrete steps, contending that they preempt no natural law and therefore the claims cannot be directed to a natural law. Although we agree that claim 9 leaves open to the public other ways of interrogating the correlation between MuSK autoantibodies and MuSK-related disorders without practicing the claim’s concrete steps, that does not disturb our conclusion at step one. Preemption is sufficient to render a claim ineligible under § 101, but it is not necessary. *Flook*, 409 U.S. at 71–72 (holding claim involving mathematical formula invalid under § 101 that did not preempt a mathematical formula); *Ariosa*, 788 F.3d at 1379; *In re BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litig.*, 774 F.3d 755, 764 n.4 (Fed. Cir. 2014). The claims here are directed to a natural law because they recite only the natural law together with standard techniques for observing it. That the routine steps are set forth with some specificity is not enough to change that conclusion.

Finally, Athena argues that the claims at issue differ from prior diagnostic claims we have held ineligible under § 101 because they require labeling MuSK with a man-made substance. We disagree. As Mayo argues, the use of a man-made molecule is not decisive if it amounts to only a routine step in a conventional method for observing a natural law. For example, *Mayo* involved claims requiring administering a man-made molecule (a drug “providing” 6-thioguanine) to a patient. 566 U.S. at 74–75. Some of the claims in *Ariosa* likewise required amplification through the polymerase chain reaction, which makes use of man-made reagents, *see* U.S. Patent 6,258,540 col. 5 ll. 6–26, or using a specific probe that binds to DNA, 788 F.3d at 1374. And the claims in *BRCA1* also involved hybridizing a synthetic DNA probe to a DNA strand. *BRCA1*, 774 F.3d at 763–64. Nonetheless, in each of these cases either the Supreme Court or this court held the claims directed to a natural law and invalid under § 101. *Mayo*, 566 U.S. at 92; *Ariosa*, 788 F.3d at 1380; *BRCA1*, 774 F.3d at 765. We thus reaffirm that use of a man-made molecule in a method claim employing standard techniques to detect or observe a natural law may still leave the claim directed to a natural law.

We consider it important at this point to note the difference between the claims before us here, which recite a natural law and conventional means for detecting it, and applications of natural laws, which are patent-eligible. *See Vanda Pharm. Inc. v. West-Ward Pharm. Int’l Ltd.*, 887 F.3d 1117, 1133–36 (Fed. Cir. 2018) (holding that method of treatment by administering drug at certain dosage ranges based on a patient’s genotype was not directed to a natural law). Claiming a natural cause of an ailment and well-known means of observing it is not eligible for patent because such a claim in effect only encompasses the natural law itself. But claiming a new treatment for an ailment, albeit using a natural law, is not claiming the natural law.



As we conclude that claims 7–9 are directed to a natural law, we turn to the second step of the *Mayo/Alice* test.<sup>4</sup>

### B.

At step two, “we consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Alice*,

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<sup>4</sup> The dissent states much that one can agree with from the standpoint of policy, and history, including that “the public interest is poorly served by adding disincentive to the development of new diagnostic methods.” Dissent at 12. We would add further that, in our view, providing patent protection to novel and non-obvious diagnostic methods would promote the progress of science and useful arts. But, whether or not we as individual judges might agree or not that these claims only recite a natural law, *cf. Berkheimer v. HP Inc.*, 890 F.3d 1369, 1374 (Fed. Cir. 2018) (Lourie, J., concurring in the denial of rehearing en banc) (discussing traditional laws of nature such as “Ohm’s Law, Boyle’s Law, [and] the equivalence of matter and energy”), the Supreme Court has effectively told us in *Mayo* that correlations between the presence of a biological material and a disease are laws of nature, *see* 566 U.S. at 77, and “[p]urely ‘conventional or obvious’ [pre]-solution activity’ is normally not sufficient to transform an unpatentable law of nature into a patent-eligible application of such a law,” *id.* at 79 (second alteration in original) (quoting *Flook*, 437 U.S. at 590). We have since confirmed that applying somewhat specific yet conventional techniques (such as the polymerase chain reaction) to detect a newly discovered natural law does not confer eligibility under § 101. *Ariosa*, 788 F.3d at 1377; *see also Cleveland Clinic*, 859 F.3d at 1356, 1362 (addressing other conventional techniques such as flow cytometry). Our precedent leaves no room for a different outcome here.

573 U.S. at 217 (quoting *Mayo*, 566 U.S. at 78, 79). “Purely ‘conventional or obvious’ ‘[pre]-solution activity’ is normally not sufficient to transform an unpatentable law of nature into a patent-eligible application of such a law.” *Mayo*, 566 U.S. at 79 (second alteration in original) (quoting *Flook*, 437 U.S. at 590). The transformative “inventive concept” supplied by the claim elements not drawn to ineligible subject matter must be “sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.” *Alice*, 573 U.S. at 217–18 (quoting *Mayo*, 566 U.S. at 73).

1.

Athena argues that the claims provide an inventive concept: an innovative sequence of steps involving man-made molecules. Prior to its discovery, Athena contends that there was no disclosed method to detect MuSK autoantibodies. In addition, Athena argues that the existence of factual disputes precluded dismissal under Rule 12(b)(6).

Mayo responds that the claims lack an inventive concept because the specification describes the steps for detecting MuSK autoantibodies as standard techniques in the art. Furthermore, Mayo argues that no factual issues precluded the district court’s dismissal under Rule 12(b)(6).

We agree with Mayo that the steps of the claims not drawn to ineligible subject matter, whether viewed individually or as an ordered combination, only require standard techniques to be applied in a standard way. As previously discussed, the specification of the ’820 patent plainly states that “[t]he actual steps of detecting autoantibodies in a sample of bodily fluids may be performed in accordance with immunological assay techniques known per se in the art,” such as radioimmunoassays. ’820 patent col. 3 ll. 33–37. Iodination and immunoprecipitation are likewise described as standard techniques. *Id.* col. 4 ll. 9–12. Because the specification defines the individual immunoprecipitation and iodination steps and the overall

radioimmunoassay as conventional techniques, the claims fail to provide an inventive concept. *Cleveland Clinic*, 859 F.3d at 1362; *Ariosa*, 788 F.3d at 1378.

Our decisions in *CellzDirect* and *BASCOM* are consistent with the principle that applying standard techniques in a standard way to observe a natural law does not provide an inventive concept. In *CellzDirect*, we considered a combination of claimed steps involving two freeze/thaw cycles. 827 F.3d at 1051. We held that this combination of steps was not conventional because the prior art methods only disclosed using one freeze/thaw cycle and, in fact, taught away from using multiple freeze/thaw cycles. *Id.* Similarly, in *BASCOM* we held that the ordered combination of claim limitations was not routine and conventional because they placed a filtering tool at a specific location that improved on prior art technology. 827 F.3d at 1350. The inventive concept was “found in the non-conventional and non-generic arrangement of known, conventional pieces.” *Id.* In contrast, claims 7–9 of the ’820 patent employ a conventional technique for detecting autoantibodies, a radioimmunoassay, which the specification acknowledges was “known per se in the art.” ’820 patent col. 3 ll. 33–37. The individual constituent steps of that technique, iodination and immunoprecipitation, are similarly described as standard. *Id.* col. 4 ll. 9–12. Thus, unlike the claimed limitations at issue in *CellzDirect* and *BASCOM*, the recited steps here were conventional both as an ordered combination and individually.

Athena also argues that the claimed steps were unconventional because they had not been applied to detect MuSK autoantibodies prior to Athena’s discovery of the correlation between MuSK autoantibodies and MG. Even accepting that fact, we cannot hold that performing standard techniques in a standard way to observe a newly discovered natural law provides an inventive concept. This is because “[t]he inventive concept necessary at step two . . . cannot be furnished by the unpatentable law of nature

... itself.” *Genetic Techs. Ltd. v. Merial L.L.C.*, 818 F.3d 1369, 1376 (Fed. Cir. 2016); *see Mayo*, 566 U.S. at 73 (considering whether the “claimed processes (apart from the natural laws themselves)” were routine and conventional). Rather, to supply an inventive concept the sequence of claimed steps must do more than adapt a conventional assay to a newly discovered natural law; it must represent an inventive application beyond the discovery of the natural law itself. Because claims 7–9 fail to recite such an application, they do not provide an inventive concept.

Similar to its step one argument, Athena further argues that the claims recite an inventive concept because they use a man-made molecule, *i.e.*, labeled MuSK. Athena analogizes its methods involving labeled MuSK to the composition claims involving cDNA held eligible in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 569 U.S. 576, 594–95 (2013). However, the method claims at issue here are unlike the claims held eligible in *Myriad*, which recited a new composition of matter that was not a natural product. *Id.* For the same reasons that we have concluded that attaching a label to MuSK did not make the claims directed to an eligible concept at step one, we conclude that appending labeling techniques to a natural law does not provide an inventive concept where, as here, the specification describes <sup>125</sup>I labeling as a standard practice in a well-known assay.

## 2.

Athena also argues that the district court needed to conduct fact-finding before resolving the § 101 issue. But, unlike in *Aatrix*, 882 F.3d at 1128, Athena directs us to no factual allegations in its complaint—amended three times—that the radioimmunoassay technique recited in claims 7–9 is anything other than standard and “known per se in the art.” ’820 patent, col. 3 ll. 33–37. Instead, Athena relies on an expert declaration submitted with its opposition to Mayo’s motion to dismiss, asserting that iodination

and immunoprecipitation were not routine as applied to the claimed invention. In dismissing Athena's complaint under Rule 12(b)(6), the district court did not consider the declaration. Athena argues that was error. We disagree.

In the First Circuit, under Rule 12(b)(6) a district court may generally "consider only facts and documents that are part of or incorporated into the complaint; if matters outside the pleadings are considered, the motion must be decided under the more stringent standards applicable to a Rule 56 motion for summary judgment." *Trans-Spec Truck Serv., Inc. v. Caterpillar Inc.*, 524 F.3d 315, 321 (1st Cir. 2008). Certain documents, like the '820 patent here, are also considered to "merge[] into the pleadings" where the "complaint's factual allegations are expressly linked to" and dependent upon a document, the authenticity of which is undisputed. *Id.* (quoting *Beddall v. State St. Bank & Trust Co.*, 137 F.3d 12, 16–17 (1st Cir. 1998)).

District courts in the First Circuit have discretion whether to convert a motion to dismiss into a motion for summary judgment. *Id.* (citing Fed. R. Civ. P. 12(d)). "[I]f the district court chooses . . . to ignore supplementary materials submitted with the motion papers and determine the motion under the Rule 12(b)(6) standard, no conversion occurs and the supplementary materials do not become part of the record for purposes of the Rule 12(b)(6) motion." *Id.*

We conclude that the district court did not abuse its discretion in declining to consider Athena's expert declaration and convert the motion into one for summary judgment. The declaration does not "merge into the pleadings," as the complaint does not reference it or otherwise depend on it. Nor is the declaration an official public record, another type of document a court may consider with the pleadings. *See Watterson v. Page*, 987 F.2d 1, 3–4 (1st Cir. 1993).

Athena does not expressly argue that the district court abused its discretion, but does contend, primarily citing non-binding authority, that the plaintiff may freely allege facts without support in responding to a motion to dismiss as long as those facts are consistent with the complaint, *see Early v. Bankers Life & Casualty Co.*, 959 F.2d 75, 79 (7th Cir. 1992), and that its expert declaration alleged such consistent facts that create a dispute of material fact.

Even assuming this general principle applies in the First Circuit—an assumption that Athena meagerly supports—the district court did not need to consider the allegations in the expert declaration because they were not consistent with the complaint read in light of the '820 patent. These technical allegations include: (1) that detecting MuSK autoantibodies required the “creative step” of breaking up MuSK into smaller fragments, J.A. 623, 625; (2) that identifying a specific site on MuSK to label would not have been routine because many factors contribute to whether a binding site for a label is adequate, J.A. 626–28; and (3) that immunoprecipitation is generally uncertain and not routine, J.A. 630. None of these details are recited in the claims of the '820 patent: no claim requires breaking MuSK into fragments as opposed to using the entire MuSK protein; no claim is limited to a particular MuSK binding site; and no claim recites any detail with respect to immunoprecipitation. Those omissions are consistent with the specification's description of iodination, immunoprecipitation, and the overall radioimmunoassay as standard techniques. Because Athena's expert declaration made allegations inconsistent with the '820 patent, the district court was not obliged to accept them as true. For these reasons, the district court did not err in dismissing Athena's complaint under Rule 12(b)(6).

### C.

Claim 6 recites a method for detecting MuSK autoantibodies different from claims 7–9. While claims 7–9 recite

a radioimmunoassay, claim 6 recites an ELISA method. Like radioimmunoassays, the specification describes ELISA as an “immunological assay technique[] known per se in the art.” ’820 patent col. 3 ll. 32–36. The main technical difference pertinent to this appeal between an ELISA and a radioimmunoassay is that in an ELISA, the secondary antibody rather than the antigen is labeled.

Athena argues that since the district court did not specifically analyze claim 6, which involves a different technology, and implicitly treated claims 7–9 as representative, we should remand at least with respect to claim 6. Mayo responds that the district court properly grouped claim 6 with claims 7–9 because Athena grouped them together, and that Athena waived any separate arguments regarding claim 6 by not specifically addressing that claim in its briefing.

During the district court proceedings, Athena represented that it would not assert claims 1–5 and 10–12, and Mayo then moved to dismiss Athena’s complaint, specifically addressing claims 6–9. In its response, Athena did not make any particularized arguments regarding claim 6, and, in an earlier response, indicated that the same arguments pertaining to claims 7–9 were also applicable to claim 6. *See* J.A. 180 (“While the claim does not require radioactive MuSK or complexes, many other arguments relating to claims 7-9 apply to claim 6.”). The district court did not address claim 6 in its order beyond listing it among the other claims. *Decision*, 275 F. Supp. 3d at 309–10.

Given this history, we agree with Mayo that Athena waived its arguments specific to claim 6 by not making them before the district court. We apply regional circuit law to the issue of waiver, as it is not unique to patent law. *Riverwood Int’l Corp. v. R.A. Jones & Co.*, 324 F.3d 1346, 1352 (Fed. Cir. 2003) (citing *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999) (en banc in relevant part)). In the First Circuit, an argument

may be deemed waived that was not presented to the district court. *Butler v. Deutsche Bank Tr. Co. Ams.*, 748 F.3d 28, 36 (1st Cir. 2014). Although Athena recognized that claim 6 was at issue, it concededly did not present any specific arguments concerning the eligibility of claim 6. Appellant's Br. 15. It was not incumbent on the district court to address arguments that Athena did not make. We thus find no error in the district court considering claims 7–9 as representative of claim 6. Even if we had reached the issue, we would hold claim 6 ineligible. The specification describes ELISA as an “immunological assay technique[] known per se in the art.” ’820 patent col. 3 ll. 32–36. Claim 6 merely recites the application of this standard technique to observe a natural law. This does not provide an inventive concept under step two.

#### CONCLUSION

We have considered Athena's remaining arguments but find them unpersuasive. Because claims 6–9 of the '820 patent recite only a natural law together with conventional steps to detect that law, they are ineligible under § 101. For the foregoing reasons, we affirm the judgment of the district court.

#### AFFIRMED



**United States Court of Appeals  
for the Federal Circuit**

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**ATHENA DIAGNOSTICS, INC., OXFORD  
UNIVERSITY INNOVATION LTD., MAX-PLANCK-  
GESELLSCHAFT ZUR FORDERUNG DER  
WISSENSCHAFTEN E.V.,  
*Plaintiffs-Appellants***

**v.**

**MAYO COLLABORATIVE SERVICES, LLC, DBA  
MAYO MEDICAL LABORATORIES, MAYO CLINIC,  
*Defendants-Appellees***

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2017-2508

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Appeal from the United States District Court for the District of Massachusetts in No. 1:15-cv-40075-IT, Judge Indira Talwani.

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NEWMAN, *Circuit Judge*, dissenting.

Until discovery of the diagnostic method described in U.S. Patent No. 7,267,820 (“the ’820 patent”), some 20% of patients suffering from the neurological disorder *Myasthenia Gravis* were not capable of being diagnosed. My colleagues rule that this new diagnostic method is not patent-eligible, although new and unobvious. However, “[t]his new and improved technique, for producing a tangible and useful result, falls squarely outside those categories of inventions that are ‘directed to’ patent-ineligible concepts.” *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042,

1050 (Fed. Cir. 2016). The court again departs from the cautious restraints in the Supreme Court’s *Mayo/Alice* application of laws of nature and abstract ideas.

This court’s decisions on the patent-ineligibility of diagnostic methods are not consistent, and my colleagues today enlarge the inconsistencies and exacerbate the judge-made disincentives to development of new diagnostic methods, with no public benefit. I respectfully dissent.

***The claims are for a multi-step method of diagnosis, not a law of nature***

The ’820 inventors did not patent their scientific discovery of MuSK autoantibodies. Rather, they applied this discovery to create a new method of diagnosis, for a previously undiagnosable neurological condition. The district court summarized this new diagnostic method as follows:

For the 20% of Myasthenia Gravis patients who do not have the AChR [acetylcholine receptor] autoantibodies, the ’820 patent inventors discovered that they had IgG [immunoglobulin G] antibodies that attack the N-terminal domains of muscle specific tyrosine kinase (“MuSK”), a receptor that is located on the surface of neuromuscular junctions. . . . [A] radioactive label is attached to MuSK (or a fragment thereof) and is then introduced to a sample of bodily fluid. . . . [T]he MuSK autoantibodies, if present, attach to the labeled fragment . . . [and] is immunoprecipitated, the presence of the radioactive label on any antibody indicates that the person is suffering from Myasthenia Gravis.

Dist. Ct. Order, at 307–08<sup>1</sup> (citing '820 patent, col. 1, ll. 55–61). The claims recite the method, including preparation of the new radioactive entities and their chemical reactions to detect autoantibodies to the protein muscle-specific tyrosine kinase (MuSK). At issue are patent claims 7–9, shown with claim 1 (not in suit) from which they depend:

1. A method for diagnosing neurotransmission or developmental disorders related to muscle specific tyrosine kinase (MuSK) in a mammal comprising the step of detecting in a bodily fluid of said mammal autoantibodies to an epitope of muscle specific tyrosine kinase (MuSK).

7. A method according to claim 1, comprising

contacting MuSK or an epitope or antigenic determinant thereof having a suitable label thereon, with said bodily fluid,

immunoprecipitating any antibody/MuSK complex or antibody/MuSK epitope or antigenic determinant complex from said bodily fluid and

monitoring for said label on any of said antibody/MuSK complex or antibody/MuSK epitope or antigen determinant complex,

wherein the presence of said label is indicative of said mammal is suffering from said neurotransmission or developmental disorder related to muscle specific tyrosine kinase (MuSK).

8. A method according to claim 7 wherein said label is a radioactive label.

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<sup>1</sup> *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 275 F. Supp. 3d 306 (D. Mass. 2017) (“Dist. Ct. Order”).

9. A method according to claim 8 wherein said label is  $^{125}\text{I}$  [iodine isotope 125].

The reaction between the antibody and the MuSK protein was not previously known, nor was it known to form a labeled MuSK or its epitope, nor to form the antibody/MuSK complex, immunoprecipitate the complex, and monitor for radioactivity, thereby diagnosing these previously undiagnosable neurotransmission disorders.

Claims 7–9 require specific steps by which the diagnostic method is performed. The panel majority ignores these steps, and instead holds that “claims 7–9 are directed to a natural law because the claimed advance was only in the discovery of a natural law, and that the additional recited steps only apply conventional techniques to detect that natural law.” Maj. Op. at 12. This analysis of patent-eligibility is incorrect, for the claim is for a multi-step method of diagnosing neurotransmission disorders related to muscle specific tyrosine kinase, by detecting autoantibodies using a series of chemical and biological steps as set forth in the claims. Eligibility is determined for the claim considered as a whole, including all its elements and limitations. Claim limitations cannot be discarded when determining eligibility under Section 101, as explained in *Diamond v. Diehr*, 450 U.S. 175 (1981):

In determining the eligibility of respondents’ claimed process for patent protection under § 101, their claims must be considered as a whole. It is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis.

*Id.* at 188; see *Parker v. Flook*, 437 U.S. 584, 594 (1978) (“[A] patent claim must be considered as a whole.”); see also *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 344 (1961) (“[I]f anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately

viewed, is within the grant.”); *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944) (“[A] patent on a combination is a patent on the assembled or functioning whole, not on the separate parts.”).

The requirement that a claim is considered as a whole was not changed by the *Mayo/Alice* protocol of searching for an inventive concept within a claim that is directed to a law of nature or an abstract idea. It is incorrect to excise from the claims any steps that are performed by conventional procedures. This is misconstruction of claims, and misapplication of Section 101. As reiterated in *Bilski v. Kappos*, 561 U.S. 593 (2010):

Section 101 is a dynamic provision designed to encompass new and unforeseen inventions. A categorical rule denying patent protection for inventions in areas not contemplated by Congress . . . would frustrate the purposes of the patent law.

*Id.* at 605 (internal citations and quotation marks omitted).

Applied to the ’820 patent, the claimed method is a new method of diagnosing *Myasthenia Gravis*. After eliminating the “conventional” procedures, my colleagues rule that this new method is a “law of nature.” However, these inventors are not claiming the scientific fact of a newly described autoantibody; they are claiming a new multi-step diagnostic method. This is not a law of nature, but a man-made reaction sequence employing new components in a new combination to perform a new diagnostic procedure.

***Section 101 describes patent-eligible subject matter in broad and general terms***

Section 101 does not exclude new methods of diagnosis of human ailments.

**35 U.S.C. § 101 Inventions Patentable**

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of

matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

Section 101 recites the subject matter of patent law, as distinguished from copyright law, which is also authorized by Article I, Section 8. This framework is “cast in broad terms,” as the Court observed in *Diamond v. Chakrabarty*, 447 U.S. 303 (1980):

The subject-matter provisions of the patent law have been cast in broad terms to fulfill the constitutional and statutory goal of promoting “the Progress of Science and the useful Arts” with all that means for the social and economic benefits envisioned by Jefferson. Broad general language is not necessarily ambiguous when congressional objectives require broad terms.

*Id.* at 315.

The Court has often discussed the exceptions to patent eligibility, stating that: “Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.” *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). “Thus, a new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated law that  $E=mc^2$ ; nor could Newton have patented the law of gravity. Such discoveries are ‘manifestations of . . . nature, free to all men and reserved exclusively to none.’” *Chakrabarty*, 447 U.S. at 309 (quoting *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948)). In *Funk Brothers* the Court explained:

The qualities of these bacteria, like the heat of the sun, electricity, or the qualities of metals, are part of the storehouse of knowledge of all men. They are manifestations of laws of nature, free to all men

and reserved exclusively to none. He who discovers a hitherto unknown phenomenon of nature has no claim to a monopoly of it which the law recognizes. If there is to be invention from such a discovery, it must come from the application of the law of nature to a new and useful end.

*Id.* at 130.

The Court early drew the distinction between scientific knowledge and its technological application. An oft-cited example is the case of *O'Reilly v. Morse*, 56 U.S. 62 (15 How.) (1854), where the Court declined patent-eligibility of Morse's claim 8 to "electro-magnetism, however developed for marking or printing intelligible characters, signs, or letters, at any distances," *id.* at 112–13, but sustained Morse's claims to "us[ing] [] the motive power of magnetism . . . as means of operating or giving motion to machinery, which may be used to imprint signals . . . for the purpose of telegraphic communication at any distances." *Id.* at 85; *see id.* at 112. The Court criticized the breadth of Morse's claim 8, and stated:

In fine he claims an exclusive right to use a manner and process which he has not described and indeed had not invented, and therefore could not describe when he obtained his patent.

*Id.* at 113; *see* Adam Mossoff, *O'Reilly v. Morse*, George Mason Law & Econ. Research Paper No. 14-22 (Aug. 18, 2014), available at <http://ssrn.com/abstract=2448363>. In *Mackay Radio & Telegraph Co. v. Radio Corp. of America*, 306 U.S. 86 (1939), the Court explained that: "While a scientific truth, or the mathematical expression of it, is not patentable invention, a novel and useful structure created with the aid of knowledge of scientific truth may be." *Id.* at 94. These principles are the foundation of the truism that natural phenomena and abstract ideas are not patent-eligible.

As science and its applications advanced, particularly in the new fields of digital electronics and biotechnology, the jurisprudence kept pace. In *Chakrabarty* the Court considered a man-made bacterium, and held that eligibility under Section 101 applies to “anything under the sun that is made by man.” 447 U.S. at 309.

The most recent Court updates are *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012) (biotechnology), and *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 573 U.S. 208 (2014) (digital electronics). The Court reviewed Section 101 eligibility in these new fields, building on the vast body of jurisprudence since the first patent was analyzed by Thomas Jefferson as Secretary of State in 1790. *See generally* Ten Law Professors Br.;<sup>2</sup> Five Life Sciences Patent Practitioners Br.<sup>3</sup> These *amici curiae* explain the policy concern for preemption of scientific principles, and apply this concern to the case at bar, advising that the scientific information of the new autoantibody and its protein reactivity is available to all, and that the ’820 patent claims 7–9 “did not preempt any ‘law of nature’ upon which the claimed diagnostic method relied.” Five Life Sciences Patent Practitioners Br. at 1.

In *Alice*, the Court summarized the procedural framework for eligibility for patenting:

First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts. 132 S. Ct., at 1296–1297. If so, we then ask, “[w]hat else is there in the claims before us?” 132

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<sup>2</sup> *Amici Curiae* Ten Law Professors, ECF No. 54 (Nov. 13, 2017) (“Ten Law Professors Br.”).

<sup>3</sup> *Amici Curiae* Five Life Sciences Patent Practitioners, ECF No. 52 (Nov. 13, 2017) (“Five Life Sciences Patent Practitioners Br.”).



S. Ct., at 1297. To answer that question, we consider the elements of each claim both individually and “as an ordered combination” to determine whether the additional elements “transform the nature of the claim” into a patent-eligible application. 132 S. Ct., at 1298, 1297.

*Alice*, 573 U.S. at 217 (quoting *Mayo*).

This analysis comports with precedent, and the Court reiterated its caution that “too broad an interpretation of this exclusionary principle could eviscerate patent law. For all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.” *Mayo*, 566 U.S. at 71; *see Alice*, 573 U.S. at 217 (“At the same time, we tread carefully in construing this exclusionary principle lest it swallow all of patent law.”). We have echoed this concern, stating in *Rapid Litigation Management*, 827 F.3d at 1050, “[a]t step one, therefore, it is not enough to merely identify a patent-ineligible concept underlying the claim; we must determine whether that patent-ineligible concept is what the claim is ‘directed to,’” (quoting *Alice*, 573 U.S. at 217).

The panel majority departs from this guidance, for the claimed diagnostic method as a whole satisfies step one. The majority does not distinguish between the question of whether the claimed method as a whole is eligible, and the question of whether the separate steps use conventional procedures. Instead, my colleagues hold that since the separate procedures are conventional, it is irrelevant that the method as a whole is a new method. The majority misconstrues the claims, in holding that claims 7–9 are directed to the “concept” of “the correlation between the presence of naturally-occurring MuSK autoantibodies in bodily fluid and MuSK-related neurological diseases like MG.” Maj. Op. at 9–10. The claimed method determines whether this correlation is present, for diagnostic purposes, but the concept itself is not claimed.

It is incorrect to separate the claim steps into whether a step is performed by conventional techniques, and then to remove those steps from the claims and their “conjunction with all of the other steps” for the purpose of Section 101 analysis. *Diehr*, 450 U.S. at 187. All of the claim steps must be considered in the claimed combination. “It is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis.” *Id.* at 188. The Court explained that a new process may be a combination of known steps:

This is particularly true in a process claim because a new combination of steps in a process may be patentable even though all the constituents of the combination were well known and in common use before the combination was made.

*Id.* The Court stated that:

The “novelty” of any element or steps in a process, or even of the process itself, is of no relevance in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter.

*Id.* at 188–89. The Court again recognized this principle in *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), stating that:

[I]nventions in most, if not all, instances rely upon building blocks long since uncovered, and claimed discoveries almost of necessity will be combinations of what, in some sense, is already known.

*Id.* at 418–19. This court applied this principle in *McRO, Inc. v. Bandai Namco Games America Inc.*, 837 F.3d 1299, 1313 (Fed. Cir. 2016) (internal quotation marks omitted) and cautioned that “courts must be careful to avoid oversimplifying the claims by looking at them generally and failing to account for the specific requirements of the claims”—a caution disregarded today.

The panel majority contravenes the requirements of precedent, now holding that all of the steps of claims 7–9—that is, radioactive labelling, complexing, precipitating, and monitoring—are removed from consideration in the Section 101 analysis because they use conventional procedures; the majority holds that “[t]he ’820 patent thus describes the claimed invention principally as a discovery of a natural law, not as an improvement in the underlying immunoassay technology.” Maj. Op. at 12. However, that is not the claimed invention. In *Mayo*, 566 U.S. at 71, the Court cautioned that “too broad an interpretation of this exclusionary principle could eviscerate patent law. For all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas.”

Applying the *Mayo/Alice* protocol of two-step claim analysis, claims 7–9 of the ’820 patent are patent-eligible under Step 1, for this method of diagnosing *Myasthenia Gravis* is not a law of nature, but a man-made chemical-biomedical procedure. Claims 7–9 recite a combination of technologic steps, all of which are limitations to the claims and cannot be disregarded whether for patentability or patent-eligibility or infringement. The court today violates this rule, in holding that because “the . . . individual steps . . . [of] [i]odination and immunoprecipitation are standard techniques in the art,” Maj. Op. at 6, these steps do not count under Section 101. *Id.* at 12–13.

Section 101 does not turn on whether any claim steps are “standard techniques.” The appropriate analysis of the role of conventional process steps in claims to a new method is under Sections 102 and 103, not Section 101.

***The amici curiae raise strong concerns for the consequences for biomedical diagnostics***

This court’s decisions have not been consistent. Today’s decision is not consistent with, for example, *Rapid Litigation Management*, 827 F.3d at 1048, where the court

held that although the general type of cell was known, and the manipulation of these specific cells was conducted in a conventional manner, the overall method was eligible under Section 101.

*Amici curiae* point out that the public interest is poorly served by adding disincentive to the development of new diagnostic methods. This is a severe criticism; and when presented by the entire industry, and stressed by thoughtful scholars, it warrants judicial attention.

The Biotechnology Innovation Organization<sup>4</sup> pleads for consistency in judge-made law, citing the

unabated uncertainty about the patent-eligibility of many biotechnological inventions, with diagnostic and prognostic methods being particularly affected. The unstable state of patent-eligibility jurisprudence affects modern biotechnologies ranging from biomarker-assisted methods of drug treatment to companion diagnostic tests, fermentation products, industrial enzyme technology, and marker-assisted methods of plant breeding.

BIO Br. at 1. International concerns are presented by The Chartered Institute of Patent Attorneys,<sup>5</sup> an organization of the United Kingdom, stating that this decision conflicts with the eligibility of diagnostic methods under the Patent Cooperation Treaty and the European Patent Convention, and is inconsistent with the obligations of the United States under Article 27 and Note 5 of the Agreement on Trade-Related Aspects of Intellectual Property Rights

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<sup>4</sup> *Amicus Curiae* Biotechnology Innovation Organization, ECF No. 53 (Nov. 13, 2017) (“BIO Br.”).

<sup>5</sup> *Amicus Curiae* The Chartered Institute of Patent Attorneys, ECF No. 51 (Nov. 13, 2017) (“CIPA Br.”).

(TRIPS) administered by the World Trade Organization. CIPA Br. at 2.

*Amici curiae* Five Life Sciences Patent Practitioners point out that “The Supreme Court has recognized that patent ineligibility determinations (by courts or the Patent Office) have the potential to inhibit innovation,” Five Life Sciences Patent Practitioners Br. at 6 (citing *Bilski v. Kappos*, 561 U.S. 593, 605 (2010)). They state concerns of the inventing/investing communities with respect to the future of diagnostics, because “[medical] diagnostic methods . . . are so tightly bound to underlying natural laws and phenomenon[a], they are especially susceptible to undue expansion of the eligibility standards implemented to protect the judicial exceptions as they have been explicated by the Supreme Court.” *Id.* at 6–7.

*Amici curiae* Ten Law Professors direct us to the cost to develop and commercialize a new diagnostic, reported as \$50-100 million, *see* Ten Law Professors Br. at 18–19 (citing Diaceutics Group, *Mystery Solved! What is the Cost to Develop and Launch a Diagnostic?* (2013), available at <https://www.diaceutics.com/?expert-insight=mystery-solved-what-is-the-cost-to-develop-and-launch-a-diagnostic>).

Undoubtedly there are a variety of interests in diagnostic procedures, and we take note that *amicus curiae* ARUP Laboratories<sup>6</sup> states that diagnostic tests should not be patentable at all. *See generally* ARUP Br. However, for procedures that require extensive development and federal approval, unpredictability of patent support is a

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<sup>6</sup> *Amicus Curiae* ARUP Laboratories, ECF No. 76 (Feb. 6, 2018) (“ARUP Br.”).

disincentive to development of new diagnostic methods.<sup>7</sup> The loser is the afflicted public, for diagnostic methods that are not developed benefit no one.<sup>8</sup>

The judicial obligation is to provide stable, consistent application of statute and precedent, to implement the legislative purpose. With all respect to my colleagues on this panel, they misapply precedent and misinterpret the statute, adding discrepancies and disincentives to this important area of biomedicine. Claims 7–9 meet the Section 101 eligibility rules, for the claims are to a new and useful method.

Applying the statute correctly, diagnostic claims should be evaluated for novelty and unobviousness, specificity and enablement. A method that meets these statutory criteria is within the system of patents, whether the diagnosed event occurs in the human body or in an

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<sup>7</sup> This court has invalidated patents on new diagnostic methods in *Roche Molecular Sys., Inc. v. CEPHEID*, 905 F.3d 1363, 1374 (Fed. Cir. 2018); *Cleveland Clinic Found. v. True Health Diagnostics LLC*, 859 F.3d 1352, 1363 (Fed. Cir. 2017); *Genetic Techs. Ltd. v. Merial L.L.C.*, 818 F.3d 1369, 1380 (Fed. Cir. 2016); *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1378 (Fed. Cir. 2015); *In re BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litig.*, 774 F.3d 755, 765 (Fed. Cir. 2014).

<sup>8</sup> It is estimated that 66% of all medical treatment decisions are based on the results of *in vitro* diagnostic testing. Ulrich-Peter Rohr, et al., *The Value of In Vitro Diagnostic Testing in Medical Practice: A Status Report*, 11 PLoS One 1, 2, 11, 13 (2016), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4778800/pdf/pone.0149856.pdf>. See Ten Law Professors Br. at 18.

extraneous device. From my colleagues' contrary conclusion, I respectfully dissent.

## Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

# SUPREME COURT OF THE UNITED STATES

## Syllabus

### HELSINN HEALTHCARE S. A. *v.* TEVA PHARMACEUTICALS USA, INC., ET AL.

#### CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 17–1229. Argued December 4, 2018—Decided January 22, 2019

Petitioner Helsinn Healthcare S. A. makes a treatment for chemotherapy-induced nausea and vomiting using the chemical palonosetron. While Helsinn was developing its palonosetron product, it entered into two agreements with another company granting that company the right to distribute, promote, market, and sell a 0.25 mg dose of palonosetron in the United States. The agreements required that the company keep confidential any proprietary information received under the agreements. Nearly two years later, in January 2003, Helsinn filed a provisional patent application covering a 0.25 mg dose of palonosetron. Over the next 10 years, Helsinn filed four patent applications that claimed priority to the January 2003 date. Relevant here, Helsinn filed its fourth patent application in 2013. That patent (the '219 patent) covers a fixed dose of 0.25 mg of palonosetron in a 5 ml solution and is covered by the Leahy-Smith America Invents Act (AIA).

In 2011, respondents Teva Pharmaceutical Industries, Ltd., and Teva Pharmaceuticals USA, Inc. (collectively Teva), sought approval to market a generic 0.25 mg palonosetron product. Helsinn sued Teva for infringing its patents, including the '219 patent. Teva countered that the '219 patent was invalid under the “on sale” provision of the AIA—which precludes a person from obtaining a patent on an invention that was “in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention,” 35 U. S. C. §102(a)(1)—because the 0.25 mg dose was “on sale” more than one year before Helsinn filed the provisional patent application in 2003. The District Court held that the AIA’s “on sale” provision did not apply because the public disclosure of the agreements did not



disclose the 0.25 mg dose. The Federal Circuit reversed, holding that the sale was publicly disclosed, regardless of whether the details of the invention were publicly disclosed in the terms of the sale agreements.

*Held:* A commercial sale to a third party who is required to keep the invention confidential may place the invention “on sale” under §102(a). The patent statute in force immediately before the AIA included an on-sale bar. This Court’s precedent interpreting that provision supports the view that a sale or offer of sale need not make an invention available to the public to constitute invalidating prior art. See, e.g., *Pfaff v. Wells Electronics, Inc.*, 525 U. S. 55, 67. The Federal Circuit had made explicit what was implicit in this Court’s pre-AIA precedent, holding that “secret sales” could invalidate a patent. *Special Devices, Inc. v. OEA, Inc.*, 270 F. 3d 1353, 1357. Given this settled pre-AIA precedent, the Court applies the presumption that when Congress reenacted the same “on sale” language in the AIA, it adopted the earlier judicial construction of that phrase. The addition of the catchall phrase “or otherwise available to the public” is not enough of a change for the Court to conclude that Congress intended to alter the meaning of “on sale.” *Paroline v. United States*, 572 U. S. 434, and *Federal Maritime Comm’n v. Seatrain Lines, Inc.*, 411 U. S. 726, distinguished. Pp. 5–9.

855 F. 3d 1356, affirmed.

THOMAS, J., delivered the opinion for a unanimous Court.

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NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

**SUPREME COURT OF THE UNITED STATES**

No. 17–1229

HELSINN HEALTHCARE S. A., PETITIONER *v.* TEVA  
PHARMACEUTICALS USA, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT

[January 22, 2019]

JUSTICE THOMAS delivered the opinion of the Court.

The Leahy-Smith America Invents Act (AIA) bars a person from receiving a patent on an invention that was “in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention.” 35 U. S. C. §102(a)(1). This case requires us to decide whether the sale of an invention to a third party who is contractually obligated to keep the invention confidential places the invention “on sale” within the meaning of §102(a).

More than 20 years ago, this Court determined that an invention was “on sale” within the meaning of an earlier version of §102(a) when it was “the subject of a commercial offer for sale” and “ready for patenting.” *Pfaff v. Wells Electronics, Inc.*, 525 U. S. 55, 67 (1998). We did not further require that the sale make the details of the invention available to the public. In light of this earlier construction, we determine that the reenactment of the phrase “on sale” in the AIA did not alter this meaning. Accordingly, a commercial sale to a third party who is required to keep the invention confidential may place the

invention “on sale” under the AIA.

## I

Petitioner Helsinn Healthcare S. A. (Helsinn) is a Swiss pharmaceutical company that makes Aloxi, a drug that treats chemotherapy-induced nausea and vomiting. Helsinn acquired the right to develop palonosetron, the active ingredient in Aloxi, in 1998. In early 2000, it submitted protocols for Phase III clinical trials to the Food and Drug Administration (FDA), proposing to study a 0.25 mg and a 0.75 mg dose of palonosetron. In September 2000, Helsinn announced that it was beginning Phase III clinical trials and was seeking marketing partners for its palonosetron product.

Helsinn found its marketing partner in MGI Pharma, Inc. (MGI), a Minnesota pharmaceutical company that markets and distributes drugs in the United States. Helsinn and MGI entered into two agreements: a license agreement and a supply and purchase agreement. The license agreement granted MGI the right to distribute, promote, market, and sell the 0.25 mg and 0.75 mg doses of palonosetron in the United States. In return, MGI agreed to make upfront payments to Helsinn and to pay future royalties on distribution of those doses. Under the supply and purchase agreement, MGI agreed to purchase exclusively from Helsinn any palonosetron product approved by the FDA. Helsinn in turn agreed to supply MGI however much of the approved doses it required. Both agreements included dosage information and required MGI to keep confidential any proprietary information received under the agreements.

Helsinn and MGI announced the agreements in a joint press release, and MGI also reported the agreements in its Form 8-K filing with the Securities and Exchange Commission. Although the 8-K filing included redacted copies of the agreements, neither the 8-K filing nor the press

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releases disclosed the specific dosage formulations covered by the agreements.

On January 30, 2003, nearly two years after Helsinn and MGI entered into the agreements, Helsinn filed a provisional patent application covering the 0.25 mg and 0.75 mg doses of palonosetron. Over the next 10 years, Helsinn filed four patent applications that claimed priority to the January 30, 2003, date of the provisional application. Helsinn filed its fourth patent application—the one relevant here—in May 2013, and it issued as U. S. Patent No. 8,598,219 ('219 patent). The '219 patent covers a fixed dose of 0.25 mg of palonosetron in a 5 ml solution. By virtue of its effective date, the '219 patent is governed by the AIA. See §101(i).

Respondents Teva Pharmaceutical Industries, Ltd., and Teva Pharmaceuticals USA, Inc. (Teva), are, respectively, an Israeli company that manufactures generic drugs and its American affiliate. In 2011, Teva sought approval from the FDA to market a generic 0.25 mg palonosetron product. Helsinn then sued Teva for infringing its patents, including the '219 patent. In defense, Teva asserted that the '219 patent was invalid because the 0.25 mg dose was “on sale” more than one year before Helsinn filed the provisional patent application covering that dose in January 2003.

The AIA precludes a person from obtaining a patent on an invention that was “on sale” before the effective filing date of the patent application:

“A person shall be entitled to a patent unless . . . the claimed invention was patented, described in a printed publication, or in public use, *on sale*, or otherwise available to the public before the effective filing date of the claimed invention.” 35 U. S. C. §102(a)(1) (emphasis added).

See also §102(b)(1) (exception for certain disclosures made

within a year before the effective filing date). Disclosures described in §102(a)(1) are often referred to as “prior art.”

The patent statute in effect before the passage of the AIA included a similar proscription, known as the “on-sale bar”:

“A person shall be entitled to a patent unless—

“(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

“(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or *on sale* in this country, more than one year prior to the date of the application for patent in the United States.” 35 U. S. C. §§102(a)–(b) (2006 ed.) (emphasis added).

The District Court determined that the “on sale” provision did not apply. It concluded that, under the AIA, an invention is not “on sale” unless the sale or offer in question made the claimed invention available to the public. *Helsinn Healthcare S. A. v. Dr. Reddy’s Labs. Ltd.*, 2016 WL 832089, \*45, \*51 (D NJ, Mar. 3, 2016). Because the companies’ public disclosure of the agreements between Helsinn and MGI did not disclose the 0.25 mg dose, the court determined that the invention was not “on sale” before the critical date. *Id.*, at \*51–\*52.

The Federal Circuit reversed. 855 F. 3d 1356, 1360 (2017). It concluded that “if the existence of the sale is public, the details of the invention need not be publicly disclosed in the terms of sale” to fall within the AIA’s on-sale bar. *Id.*, at 1371. Because the sale between Helsinn and MGI was publicly disclosed, it held that the on-sale bar applied. *Id.*, at 1364, 1371.

We granted certiorari to determine whether, under the AIA, an inventor’s sale of an invention to a third party

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who is obligated to keep the invention confidential qualifies as prior art for purposes of determining the patentability of the invention. 585 U. S. \_\_\_ (2018). We conclude that such a sale can qualify as prior art.

II

A

The United States Constitution authorizes Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” Art. 1, §8, cl. 8. Under this grant of authority, Congress has crafted a federal patent system that encourages “the creation and disclosure of new, useful, and nonobvious advances in technology and design” by granting inventors “the exclusive right to practice the invention for a period of years.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U. S. 141, 151 (1989).

To further the goal of “motivating innovation and enlightenment” while also “avoiding monopolies that unnecessarily stifle competition,” *Pfaff*, 525 U. S., at 63, Congress has imposed several conditions on the “limited opportunity to obtain a property right in an idea,” *Bonito Boats, supra*, at 149. One such condition is the on-sale bar, which reflects Congress’ “reluctance to allow an inventor to remove existing knowledge from public use” by obtaining a patent covering that knowledge. *Pfaff, supra*, at 64; see also *Pennock v. Dialogue*, 2 Pet. 1, 19 (1829) (explaining that “it would materially retard the progress of science and the useful arts” to allow an inventor to “sell his invention publicly” and later “take out a patent” and “exclude the public from any farther use than what should be derived under it”).

Every patent statute since 1836 has included an on-sale bar. *Pfaff, supra*, at 65. The patent statute in force immediately before the AIA prevented a person from receiv-

ing a patent if, “more than one year prior to the date of the application for patent in the United States,” “the invention was . . . on sale” in the United States. 35 U. S. C. §102(b) (2006 ed., Supp. IV). The AIA, as relevant here, retained the on-sale bar and added the catchall phrase “or otherwise available to the public.” §102(a)(1) (2012 ed.) (“A person shall be entitled to a patent unless” the “claimed invention was . . . in public use, on sale, or otherwise available to the public . . .”). We must decide whether these changes altered the meaning of the “on sale” bar. We hold that they did not.

## B

Congress enacted the AIA in 2011 against the backdrop of a substantial body of law interpreting §102’s on-sale bar. In 1998, we determined that the pre-AIA on-sale bar applies “when two conditions are satisfied” more than a year before an inventor files a patent application. *Pfaff*, 525 U. S., at 67. “First, the product must be the subject of a commercial offer for sale.” *Ibid.* “Second, the invention must be ready for patenting,” which we explained could be shown by proof of “reduction to practice” or “drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention.” *Id.*, at 67–68.

Although this Court has never addressed the precise question presented in this case, our precedents suggest that a sale or offer of sale need not make an invention available to the public. For instance, we held in *Pfaff* that an offer for sale could cause an inventor to lose the right to patent, without regard to whether the offer discloses each detail of the invention. *E.g., id.*, at 67. Other cases focus on whether the invention had been sold, not whether the details of the invention had been made available to the public or whether the sale itself had been publicly disclosed. *E.g., Consolidated Fruit-Jar Co. v. Wright*, 94

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U. S. 92, 94 (1877) (“[A] single instance of sale or of use by the patentee may, under the circumstances, be fatal to the patent . . . .”); cf. *Smith & Griggs Mfg. Co. v. Sprague*, 123 U. S. 249, 257 (1887) (“A single sale to another . . . would certainly have defeated his right to a patent . . . .”); *Elizabeth v. Pavement Co.*, 97 U. S. 126, 136 (1878) (“It is not a public knowledge of his invention that precludes the inventor from obtaining a patent for it, but a public use or sale of it”).

The Federal Circuit—which has “exclusive jurisdiction” over patent appeals, 28 U. S. C. §1295(a)—has made explicit what was implicit in our precedents. It has long held that “secret sales” can invalidate a patent. *E.g.*, *Special Devices, Inc. v. OEA, Inc.*, 270 F. 3d 1353, 1357 (2001) (invalidating patent claims based on “sales for the purpose of the commercial stockpiling of an invention” that “took place in secret”); *Woodland Trust v. Flowertree Nursery, Inc.*, 148 F. 3d 1368, 1370 (1998) (“Thus an inventor’s own prior commercial use, albeit kept secret, may constitute a public use or sale under §102(b), barring him from obtaining a patent”).

In light of this settled pre-AIA precedent on the meaning of “on sale,” we presume that when Congress reenacted the same language in the AIA, it adopted the earlier judicial construction of that phrase. See *Shapiro v. United States*, 335 U. S. 1, 16 (1948) (“In adopting the language used in the earlier act, Congress ‘must be considered to have adopted also the construction given by this Court to such language, and made it a part of the enactment’”). The new §102 retained the exact language used in its predecessor statute (“on sale”) and, as relevant here, added only a new catchall clause (“or otherwise available to the public”). As *amicus* United States noted at oral argument, if “on sale” had a settled meaning before the AIA was adopted, then adding the phrase “or otherwise available to the public” to the statute “would be a fairly



oblique way of attempting to overturn” that “settled body of law.” Tr. of Oral Arg. 28. The addition of “or otherwise available to the public” is simply not enough of a change for us to conclude that Congress intended to alter the meaning of the reenacted term “on sale.” Cf. *Holder v. Martinez Gutierrez*, 566 U. S. 583, 593 (2012) (determining that a reenacted provision did not ratify an earlier judicial construction where the provision omitted the word on which the prior judicial constructions were based).

Helsinn disagrees, arguing that our construction reads “otherwise” out of the statute. Citing *Paroline v. United States*, 572 U. S. 434 (2014), and *Federal Maritime Comm’n v. Seatrain Lines, Inc.*, 411 U. S. 726 (1973), Helsinn contends that the associated-words canon requires us to read “otherwise available to the public” to limit the preceding terms in §102 to disclosures that make the claimed invention available to the public.

As an initial matter, neither of the cited decisions addresses the reenactment of terms that had acquired a well-settled judicial interpretation. And Helsinn’s argument places too much weight on §102’s catchall phrase. Like other such phrases, “otherwise available to the public” captures material that does not fit neatly into the statute’s enumerated categories but is nevertheless meant to be covered. Given that the phrase “on sale” had acquired a well-settled meaning when the AIA was enacted, we decline to read the addition of a broad catchall phrase to upset that body of precedent.

### III

Helsinn does not ask us to revisit our pre-AIA interpretation of the on-sale bar. Nor does it dispute the Federal Circuit’s determination that the invention claimed in the ’219 patent was “on sale” within the meaning of the pre-AIA statute. Because we determine that Congress did not alter the meaning of “on sale” when it enacted the AIA, we

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hold that an inventor's sale of an invention to a third party who is obligated to keep the invention confidential can qualify as prior art under §102(a). We therefore affirm the judgment of the Federal Circuit.

*It is so ordered.*

Today's decision appears even less commonsensical once its likely consequences are taken into account. As already noted, going forward the Government will be forced to include an arbitrary date and time on every notice to appear that it issues. See *supra*, at 2124–2125. Such a system will only serve to confuse everyone involved, and the Court offers no explanation as to why it believes otherwise. Although the Court expresses surprise at the idea that its opinion will “‘forc[e] the Government’ to guess when and where a hearing will take place,” *ante*, at 2115, n. 6, it is undisputed that the Government currently lacks the capability to do anything other than speculate about the likely date and time of future removal proceedings. See Tr. of Oral Arg. 47–49, 52–53. At most, we can hope that the Government develops a system in the coming years that allows it to determine likely dates and times before it sends out initial notices to appear. But nothing in either today's decision or the statute can guarantee such an outcome, so the Court is left crossing its fingers and hoping for the best. *Ante*, at 2115, n. 6, 2118–2119.

\* \* \*

Once the errors and false leads are stripped away, the most that remains of the Court's argument is a textually permissible interpretation consistent with the Court's view of “common sense.” That is not enough to show that the Government's contrary interpretation is unreasonable.

reason “rooted in the statutory text[t] for treating time-and-place information as any less crucial than charging information for purposes of triggering the stop-time rule.” *Ante*, at 2116, n. 7. But exactly the same criticism can be leveled against the Court's own reading, which noticeably fails to offer any reason “rooted in the statutory text” why time-and-place information should be treated as any *more* crucial than charging information for purposes of triggering the stop-time rule. Second, the Court also observes misleadingly

Choosing between these competing interpretations might have been difficult in the first instance. But under *Chevron*, that choice was not ours to make. Under *Chevron*, this Court was obliged to defer to the Government's interpretation.

In recent years, several Members of this Court have questioned *Chevron*'s foundations. See, e.g., *ante*, at 2120–2121 (KENNEDY, J., concurring); *Michigan v. EPA*, 576 U.S. —, — — —, 135 S.Ct. 2699, 2712–2714, 192 L.Ed.2d 674 (2015) (THOMAS, J., concurring); *Gutierrez-Brizuela v. Lynch*, 834 F.3d 1142, 1149 (C.A.10 2016) (Gorsuch, J., concurring). But unless the Court has overruled *Chevron* in a secret decision that has somehow escaped my attention, it remains good law.

I respectfully dissent.



WESTERNGECO LLC, Petitioner

v.

ION Geophysical Corporation.

No. 16–1011.

Argued April 16, 2018.

Decided June 22, 2018.

**Background:** Owner of patents for systems used to survey the ocean floor

that “there is no reason why a notice to appear should have only one essential function,” and that a notice to appear might thus serve the dual purpose of both presenting charges and informing an alien “when and where to appear.” *Ibid.* Of course it might, but it is also equally reasonable to interpret a notice to appear as serving only one of those functions. Under *Chevron*, it was the Government—not this Court—that was supposed to make that interpretive call.

brought infringement action against competitor that sold a competing system that was built from components manufactured in the United States, shipped to companies abroad, and assembled abroad into system indistinguishable from patentee's system. Following jury verdict finding competitor liable and awarding damages in royalties and lost profits to patentee, the United States District Court for the Southern District of Texas, Keith P. Ellison, J., 953 F.Supp.2d 731, denied competitor's motion to set aside the verdict. Competitor appealed. The United States Court of Appeals for the Federal Circuit, Dyk, Circuit Judge, 791 F.3d 1340, affirmed in part and reversed the award of lost-profits damages. Certiorari was granted and Court of Appeals' judgment was vacated, — U.S. —, 136 S.Ct. 2486, 195 L.Ed.2d 820. On remand, the Court of Appeals, Dyk, Circuit Judge, 837 F.3d 1358, reinstated portion of its decision regarding extraterritoriality of Patent Act. Certiorari was granted.

**Holdings:** The Supreme Court, Justice Thomas, held that:

- (1) it would exercise its discretion to forego first step of its framework for deciding extraterritoriality;
- (2) damages award to patentee for lost profits constituted a permissible domestic application of Patent Act's damages provision;
- (3) "the infringement" is the focus of Patent Act's damages provision; and
- (4) the focus of Patent Act's damages provision in cases involving violation of provision creating liability for patent infringement if a company ships components of a patented invention overseas to be assembled there is domestic.

Reversed.

Justice Gorsuch wrote dissenting opinion, in which Justice Breyer joined.

### 1. Patents ⇌1603, 1914

Patent owners who prove infringement under Patent Act provision creating liability for patent infringement if a company ships components of a patented invention overseas to be assembled there are entitled to relief under provision authorizing damages adequate to compensate for the infringement, including, at least, reasonable royalties. 35 U.S.C.A. §§ 271, 284.

### 2. Statutes ⇌1415

Courts presume that federal statutes apply only within the territorial jurisdiction of the United States.

### 3. Statutes ⇌1415

The first step in deciding questions of extraterritoriality of a statute asks whether the presumption against extraterritoriality has been rebutted; it can be rebutted only if the text provides a clear indication of an extraterritorial application.

### 4. Statutes ⇌1415

If the presumption against extraterritoriality of a statute has not been rebutted, the second step of the framework for deciding questions of extraterritoriality asks whether the case involves a domestic application of the statute; courts make this determination by identifying the statute's focus and asking whether the conduct relevant to that focus occurred in United States territory.

### 5. Statutes ⇌1415

Under second step of framework for deciding questions of extraterritoriality of statutes, if the conduct relevant to the focus of a statute occurred in United States territory, then the case involves a permissible domestic application of the statute.

**6. Statutes** ⇨1415

While it will usually be preferable to begin with step one of the framework for deciding questions of extraterritoriality of a statute, courts have the discretion to begin at step two in appropriate cases.

**7. Statutes** ⇨1415

One reason for a court to exercise the discretion to begin with step two of the framework for deciding questions of extraterritoriality of a statute is if addressing step one would require resolving difficult questions that do not change the outcome of the case, but could have far-reaching effects in future cases.

**8. Patents** ⇨1437, 1603, 1903

Resolving question of whether the presumption against extraterritoriality should never apply to statutes that merely provided a general damages remedy for conduct that Congress had declared unlawful, such as damages provision in Patent Act, could have implicated many other statutes besides Patent Act, and thus Court would exercise its discretion to forego the first step of its framework for deciding questions of extraterritoriality, in determining whether damages award to patentee for lost profits due to competitor's infringement of patents for systems used to survey the ocean floor, which competitor infringed by building systems indistinguishable from patentee's systems using components manufactured in the United States and shipped abroad to be assembled, was a permissible domestic application of Patent Act's damages provision. 35 U.S.C.A. §§ 271, 284.

**9. Statutes** ⇨1415

For purpose of second step of framework for deciding questions of extraterritoriality, the "focus" of a statute is the object of its solicitude, which can include the conduct it seeks to regulate, as well as

the parties and interests it seeks to protect or vindicate.

See publication Words and Phrases for other judicial constructions and definitions.

**10. Statutes** ⇨1415

For purpose of deciding questions of extraterritorial application of a statute, if conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application of the statute, even if other conduct occurred abroad.

**11. Statutes** ⇨1415

For purpose of deciding questions of extraterritorial application of a statute, if the conduct relevant to the statute's focus occurred in another country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.

**12. Statutes** ⇨1415

When determining the focus of a statute for purpose of deciding questions of extraterritorial application of the statute, courts do not analyze the provision at issue in a vacuum; if the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions.

**13. Patents** ⇨1437, 1603, 1903

Competitor's conduct that was relevant to Patent Act provision creating liability for patent infringement if a company ships components of a patented invention overseas to be assembled there was domestic conduct, and thus damages award to patentee for lost foreign profits due to competitor's infringement of patents for system for surveying ocean floors constituted a permissible domestic application of Patent Act's damages provision; competitor's conduct that was relevant to focus of Patent Act provision at issue was the domestic act of supplying infringing compo-

nents it manufactured in the United States for export overseas, which were then to be assembled into systems indistinguishable from patented systems. 35 U.S.C.A. §§ 271(f)(2), 284.

#### 14. Patents ⇌1437, 1912

For purpose of deciding questions of extraterritorial application of Patent Act's damages provision, "the infringement" is the focus of this statute. 35 U.S.C.A. § 284.

#### 15. Patents ⇌1911

The overriding purpose of Patent Act's damages provision is to afford patent owners complete compensation for infringements. 35 U.S.C.A. § 284.

#### 16. Patents ⇌1437, 1603, 1912

For purpose of deciding questions of extraterritorial application of Patent Act's damages provision in cases involving violation of provision creating liability for patent infringement if a company ships components of a patented invention overseas to be assembled there, the focus of Patent Act is domestic; the conduct that the provision regulates is the domestic act of "suppl[ying] components in or from the United States." 35 U.S.C.A. §§ 271(f)(2), 284.

#### 17. Statutes ⇌1415

For purpose of second step of framework for deciding questions of extraterritoriality of statutes, what a statute authorizes is not necessarily its focus; rather, the focus is the object of the statute's solicitude, which can turn on the conduct, parties, or interests that it regulates or protects.

\* The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of

#### 18. Patents ⇌1603, 1912

Taken together, Patent Act provision creating liability for patent infringement if a company ships components of a patented invention overseas to be assembled there and Patent Act's damages provision allow the patent owner to recover for lost foreign profits. 35 U.S.C.A. §§ 271(f)(2), 284.

#### 19. Patents ⇌1912

Under Patent Act's damages provision, damages are "adequate" to compensate for infringement when they place the patent owner in as good a position as he would have been in if the patent had not been infringed. 35 U.S.C.A. § 284.

#### 20. Patents ⇌1902, 1912

Under Patent Act's damages provision, a patent owner is entitled to recover the difference between its pecuniary condition after the infringement, and what its condition would have been if the infringement had not occurred, which can include lost profits. 35 U.S.C.A. § 284.

#### 21. Patents ⇌1603, 1903

Under Patent Act's damages provision, a patent owner's damages can include lost foreign profits when the patent owner proves infringement under provision creating liability for patent infringement if a company ships components of a patented invention overseas to be assembled there. 35 U.S.C.A. §§ 271(f)(2), 284.

#### *Syllabus* \*

Petitioner WesternGeco LLC owns patents for a system used to survey the ocean floor. Respondent ION Geophysical Corp. began selling a competing system that was built from components manufactured in the United States, shipped to companies abroad, and assembled there

the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U.S. 321, 337, 26 S.Ct. 282, 50 L.Ed. 499.

into a system indistinguishable from WesternGeco's. WesternGeco sued for patent infringement under 35 U.S.C. §§ 271(f)(1) and (f)(2). The jury found ION liable and awarded WesternGeco damages in royalties and lost profits under § 284. ION moved to set aside the verdict, arguing that WesternGeco could not recover damages for lost profits because § 271(f) does not apply extraterritorially. The District Court denied the motion, but the Federal Circuit reversed. ION was liable for infringement under § 271(f)(2), the court reasoned, but § 271(f) does not allow patent owners to recover for lost foreign profits. On remand from this Court in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. —, 136 S.Ct. 1923, 195 L.Ed.2d 278 the Federal Circuit reinstated the portion of its decision regarding § 271(f)'s extraterritoriality.

*Held*: WesternGeco's award for lost profits was a permissible domestic application of § 284 of the Patent Act. Pp. 2135 - 2139.

(a) The presumption against extraterritoriality assumes that federal statutes "apply only within the territorial jurisdiction of the United States." *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285, 69 S.Ct. 575, 93 L.Ed. 680. The two-step framework for deciding extraterritoriality questions asks, first, "whether the presumption . . . has been rebutted." *RJR Nabisco, Inc. v. European Community*, 579 U.S. —, —, 136 S.Ct. 2090, 2101, 195 L.Ed.2d 476. If not, the second step asks "whether the case involves a domestic application of the statute." *Id.*, at —, 136 S.Ct., at 2101. Courts make the second determination by identifying "the statute's 'focus'" and then asking whether the conduct relevant to that focus occurred in United States territory. *Ibid.* If so, the case involves a permissible domestic application of the statute. It is "usually . . . preferable" to begin with step one, but

courts have the discretion to begin with step two "in appropriate cases." *Id.*, at —, n. 5, 136 S.Ct., at 2101, n. 5. The Court exercises that discretion here. Pp. 2135 - 2137.

(b) When determining "the statute's 'focus'"—*i.e.*, "the objec[t] of [its] solicitude," *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 267, 130 S.Ct. 2869, 177 L.Ed.2d 535—the provision at issue is not analyzed in a vacuum. If it works in tandem with other provisions, it must be assessed in concert with those provisions. Section 284, the Patent Act's general damages provision, states that "the court shall award the claimant damages adequate to compensate for the infringement." The focus of that provision is "the infringement." The "overriding purpose" of § 284 is to "affor[d] patent owners complete compensation" for infringements. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655, 103 S.Ct. 2058, 76 L.Ed.2d 211. Section 271 identifies several ways that a patent can be infringed. Thus, to determine § 284's focus in a given case, the type of infringement that occurred must be identified. Here, § 271(f)(2) was the basis for WesternGeco's infringement claim and the lost-profits damages that it received. That provision regulates the domestic act of "suppl[ying] in or from the United States," and this Court has acknowledged that it vindicates domestic interests, see, *e.g.*, *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 457, 127 S.Ct. 1746, 167 L.Ed.2d 737. In sum, the focus of § 284 in a case involving infringement under § 271(f)(2) is on the act of exporting components from the United States. So the conduct in this case that is relevant to the statutory focus clearly occurred in the United States. Pp. 2136 - 2138.

(c) ION's contrary arguments are unpersuasive. The award of damages is not

the statutory focus here. The damages themselves are merely the means by which the statute achieves its end of remedying infringements, and the overseas events giving rise to the lost-profit damages here were merely incidental to the infringement. In asserting that damages awards for foreign injuries are always an extraterritorial application of a damages provision, ION misreads a portion of *RJR Nabisco* that interpreted a substantive element of a cause of action, not a remedial damages provision. See 579 U.S., at —, 136 S.Ct., at 2106. Pp. 2138 – 2139.

837 F.3d 1358, reversed and remanded.

THOMAS, J., delivered the opinion of the Court, in which ROBERTS, C.J., and KENNEDY, GINSBURG, ALITO, SOTOMAYOR, and KAGAN, JJ., joined. GORSUCH, J., filed a dissenting opinion, in which, BREYER, J., joined.

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For U.S. Supreme Court Briefs, See:

2018 WL 1083739 (Pet.Brief)  
 2018 WL 1517869 (Resp.Brief)  
 2018 WL 1733140 (Reply.Brief)

Justice THOMAS delivered the opinion of the Court.

Under the Patent Act, a company can be liable for patent infringement if it ships components of a patented invention overseas to be assembled there. See 35 U.S.C. § 271(f)(2). A patent owner who proves infringement under this provision is entitled to recover damages. § 284. The question in this case is whether these statutes allow the patent owner to recover for lost foreign profits. We hold that they do.

## I

[1] The Patent Act gives patent owners a “civil action for infringement.” § 281. Section 271 outlines several types of infringement. The general infringement provision, § 271(a), covers most infringements that occur “within the United States.” The subsection at issue in this case, § 271(f), “expands the definition of infringement to include supplying from the United States a patented invention’s components.” *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 444–445, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007). It contains two provisions that “work in tandem” by addressing “different scenarios.” *Life Technologies Corp. v. Promega Corp.*, 580 U.S. —, —, 137 S.Ct. 734, 742, 197 L.Ed.2d 33 (2017). Section 271(f)(1) addresses the act of exporting a substantial portion of an invention’s components:

“Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, 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, shall be liable as an infringer.”



Section 271(f)(2), the provision at issue here, addresses the act of exporting components that are specially adapted for an invention:

“Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.”

Patent owners who prove infringement under § 271 are entitled to relief under § 284, which authorizes “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.”

## II

Petitioner WesternGeco LLC owns four patents relating to a system that it developed for surveying the ocean floor. The system uses lateral-steering technology to produce higher quality data than previous survey systems. WesternGeco does not sell its technology or license it to competitors. Instead, it uses the technology itself, performing surveys for oil and gas companies. For several years, WesternGeco was the only surveyor that used such lateral-steering technology.

In late 2007, respondent ION Geophysical Corporation began selling a competing

system. It manufactured the components for its competing system in the United States and then shipped them to companies abroad. Those companies combined the components to create a surveying system indistinguishable from WesternGeco’s and used the system to compete with WesternGeco.

WesternGeco sued for patent infringement under §§ 271(f)(1) and (f)(2). At trial, WesternGeco proved that it had lost 10 specific survey contracts due to ION’s infringement. The jury found ION liable and awarded WesternGeco damages of \$12.5 million in royalties and \$93.4 million in lost profits. ION filed a post-trial motion to set aside the verdict, arguing that WesternGeco could not recover damages for lost profits because § 271(f) does not apply extraterritorially. The District Court denied the motion. 953 F.Supp.2d 731, 755–756 (S.D.Tex.2013).

On appeal, the Court of Appeals for the Federal Circuit reversed the award of lost-profits damages. *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340, 1343 (2015).<sup>1</sup> The Federal Circuit had previously held that § 271(a), the general infringement provision, does not allow patent owners to recover for lost foreign sales. See *id.*, at 1350–1351 (citing *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F.3d 1348 (C.A.Fed. 2013)). Section 271(f) should be interpreted the same way, the Federal Circuit reasoned, because it was “designed” to put patent infringers “in a similar position.” *WesternGeco*, 791 F.3d, at 1351. Judge Wallach dissented. See *id.*, at 1354–1364. WesternGeco petitioned for review in this Court. We granted the petition, vacated the Federal Circuit’s judgment, and re-

1. The Federal Circuit held that ION was liable for infringement under § 271(f)(2). *WesternGeco*, 791 F.3d, at 1347–1349. It did not

address whether ION was liable under § 271(f)(1). *Id.*, at 1348.

manded for further consideration in light of our decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. —, 136 S.Ct. 1923, 195 L.Ed.2d 278 (2016). *WesternGeco LLC v. ION Geophysical Corp.*, 579 U.S. —, 136 S.Ct. 2486, 195 L.Ed.2d 820 (2016).

On remand, the panel majority reinstated the portion of its decision regarding the extraterritoriality of § 271(f). 837 F.3d 1358, 1361, 1364 (C.A.Fed.2016). Judge Wallach dissented again, *id.*, at 1364–1369, and we granted certiorari again, 583 U.S. —, 138 S.Ct. 734, 199 L.Ed.2d 601 (2018). We now reverse.

### III

[2] Courts presume that federal statutes “apply only within the territorial jurisdiction of the United States.” *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285, 69 S.Ct. 575, 93 L.Ed. 680 (1949). This principle, commonly called the presumption against extraterritoriality, has deep roots. See A. Scalia & B. Garner, *Reading Law: The Interpretation of Legal Texts* § 43, p. 268 (2012) (tracing it to the medieval maxim *Statuta suo clauduntur territorio, nec ultra territorium disponunt*); *e.g.*, *United States v. Palmer*, 3 Wheat. 610, 631, 4 L.Ed. 471 (1818) (Marshall, C.J.) (“[G]eneral words must . . . be limited to cases within the jurisdiction of the state”). The presumption rests on “the commonsense notion that Congress generally legislates with domestic concerns in mind.” *Smith v. United States*, 507 U.S. 197, 204, n. 5, 113 S.Ct. 1178, 122 L.Ed.2d 548 (1993). And it prevents “unintended clashes between our laws and those of other nations which could result in international discord.” *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248, 111 S.Ct. 1227, 113 L.Ed.2d 274 (1991).

[3–5] This Court has established a two-step framework for deciding questions of

extraterritoriality. The first step asks “whether the presumption against extraterritoriality has been rebutted.” *RJR Nabisco, Inc. v. European Community*, 579 U.S. —, —, 136 S.Ct. 2090, 2101, 195 L.Ed.2d 476 (2016). It can be rebutted only if the text provides a “clear indication of an extraterritorial application.” *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 255, 130 S.Ct. 2869, 177 L.Ed.2d 535 (2010). If the presumption against extraterritoriality has not been rebutted, the second step of our framework asks “whether the case involves a domestic application of the statute.” *RJR Nabisco*, 579 U.S., at —, 136 S.Ct., at 2101. Courts make this determination by identifying “the statute’s ‘focus’” and asking whether the conduct relevant to that focus occurred in United States territory. *Ibid.* If it did, then the case involves a permissible domestic application of the statute. See *ibid.*

[6–8] We resolve this case at step two. While “it will usually be preferable” to begin with step one, courts have the discretion to begin at step two “in appropriate cases.” See *id.*, at —, n. 5, 136 S.Ct., at 2101, n. 5 (citing *Pearson v. Callahan*, 555 U.S. 223, 236–243, 129 S.Ct. 808, 172 L.Ed.2d 565 (2009)). One reason to exercise that discretion is if addressing step one would require resolving “difficult questions” that do not change “the outcome of the case,” but could have far-reaching effects in future cases. See *id.*, at 236–237, 129 S.Ct. 808. That is true here. *WesternGeco* argues that the presumption against extraterritoriality should never apply to statutes, such as § 284, that merely provide a general damages remedy for conduct that Congress has declared unlawful. Resolving that question could implicate many other statutes besides the Patent Act. We therefore exercise our dis-

cretion to forgo the first step of our extra-territoriality framework.

## A

[9–11] Under the second step of our framework, we must identify “the statute’s ‘focus.’” *RJR Nabisco*, *supra*, at —, 136 S.Ct., at 2101. The focus of a statute is “the objec[t] of [its] solicitude,” which can include the conduct it “seeks to ‘regulate,’” as well as the parties and interests it “seeks to ‘protec[t]’” or vindicate. *Morrison*, *supra*, at 267, 130 S.Ct. 2869 (quoting *Superintendent of Ins. of N.Y. v. Bankers Life & Casualty Co.*, 404 U.S. 6, 12, 10, 92 S.Ct. 165, 30 L.Ed.2d 128 (1971)). “If the conduct relevant to the statute’s focus occurred in the United States, then the case involves a permissible domestic application” of the statute, “even if other conduct occurred abroad.” *RJR Nabisco*, 579 U.S., at —, 136 S.Ct., at 2101. But if the relevant conduct occurred in another country, “then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.” *Ibid.*

[12] When determining the focus of a statute, we do not analyze the provision at issue in a vacuum. See *Morrison*, *supra*, at 267–269, 130 S.Ct. 2869. If the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions. Otherwise, it would be impossible to accurately determine whether the application of the statute in the case is a “domestic application.” *RJR Nabisco*, 579 U.S., at —, 136 S.Ct., at 2101. And determining how the statute has actually been applied is the whole point of the focus test. See *ibid.*

2. Because the Federal Circuit did not address § 271(f)(1), see n. 1, *supra*, we limit our anal-

[13–15] Applying these principles here, we conclude that the conduct relevant to the statutory focus in this case is domestic. We begin with § 284. It provides a general damages remedy for the various types of patent infringement identified in the Patent Act. The portion of § 284 at issue here states that “the court shall award the claimant damages adequate to compensate for the infringement.” We conclude that “the infringement” is the focus of this statute. As this Court has explained, the “overriding purpose” of § 284 is to “affor[d] patent owners complete compensation” for infringements. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983). “The question” posed by the statute is “‘how much ha[s] the Patent Holder . . . suffered by the infringement.’” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964). Accordingly, the infringement is plainly the focus of § 284.

[16] But that observation does not fully resolve this case, as the Patent Act identifies several ways that a patent can be infringed. See § 271. To determine the focus of § 284 in a given case, we must look to the type of infringement that occurred. We thus turn to § 271(f)(2), which was the basis for WesternGeco’s infringement claim and the lost-profits damages that it received.<sup>2</sup>

Section 271(f)(2) focuses on domestic conduct. It provides that a company “shall be liable as an infringer” if it “supplies” certain components of a patented invention “in or from the United States” with the intent that they “will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United

ysis to § 271(f)(2).

States.” The conduct that § 271(f)(2) regulates—*i.e.*, its focus—is the domestic act of “suppl[ying] in or from the United States.” As this Court has acknowledged, § 271(f) vindicates domestic interests: It “was a direct response to a gap in our patent law,” *Microsoft Corp.*, 550 U.S., at 457, 127 S.Ct. 1746 and “reach[es] components that are manufactured in the United States but assembled overseas,” *Life Technologies*, 580 U.S., at —, 137 S.Ct., at 743. As the Federal Circuit explained, § 271(f)(2) protects against “domestic entities who export components . . . from the United States.” 791 F.3d, at 1351.

In sum, the focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States. In other words, the domestic infringement is “the objec[t] of the statute’s solicitude” in this context. *Morrison*, 561 U.S., at 267, 130 S.Ct. 2869. The conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION’s domestic act of supplying the components that infringed WesternGeco’s patents. Thus, the lost-profits damages that were awarded to WesternGeco were a domestic application of § 284.

#### B

[17] ION’s arguments to the contrary are not persuasive. ION contends that the statutory focus here is “self-evidently on the award of damages.” Brief for Respondent 22. While § 284 does authorize damages, what a statute authorizes is not necessarily its focus. Rather, the focus is “the objec[t] of the statute’s solicitude”—which can turn on the “conduct,” “parties,” or interests that it regulates or protects. *Morrison*, *supra*, at 267, 130 S.Ct. 2869. Here, the damages themselves are merely the means by which the statute achieves its end of remedying infringements. Simi-

larly, ION is mistaken to assert that this case involves an extraterritorial application of § 284 simply because “lost-profits damages occurred extraterritorially, and foreign conduct subsequent to [ION’s] infringement was necessary to give rise to the injury.” Brief for Respondent 22. Those overseas events were merely incidental to the infringement. In other words, they do not have “primacy” for purposes of the extraterritoriality analysis. *Morrison*, *supra*, at 267, 130 S.Ct. 2869.

ION also draws on the conclusion in *RJR Nabisco* that “RICO damages claims” based “entirely on injury suffered abroad” involve an extraterritorial application of 18 U.S.C. § 1964(c). 579 U.S., at —, 136 S.Ct., at 2111. From this principle, ION extrapolates a general rule that damages awards for foreign injuries are always an extraterritorial application of a damages provision. This argument misreads *RJR Nabisco*. That portion of *RJR Nabisco* interpreted a substantive element of a cause of action, not a remedial damages provision. See *id.*, at —, 136 S.Ct., at 2105. It explained that a plaintiff could not bring a damages claim under § 1964(c) unless he could prove that he was “injured in his business or property,” which required proof of “a domestic injury.” *Ibid.* Thus, *RJR Nabisco* was applying the presumption against extraterritoriality to interpret the scope of § 1964(c)’s injury requirement; it did not make any statements about damages—a separate legal concept.

[18–21] Two of our colleagues contend that the Patent Act does not permit damages awards for lost foreign profits. *Post*, at 2139 (GORSUCH, J., joined by BREYER, J., dissenting). Their position wrongly conflates legal injury with the damages arising from that injury. See *post*, at 2139–2140. And it is not the better reading of “the plain text of the Patent Act.”

*Post*, at 2143. Taken together, § 271(f)(2) and § 284 allow the patent owner to recover for lost foreign profits. Under § 284, damages are “adequate” to compensate for infringement when they “plac[e] [the patent owner] in as good a position as he would have been in” if the patent had not been infringed. *General Motors Corp.*, *supra*, at 655, 103 S.Ct. 2058. Specifically, a patent owner is entitled to recover “the difference between [its] pecuniary condition after the infringement, and what [its] condition would have been if the infringement had not occurred.” *Aro Mfg. Co.*, *supra*, at 507, 84 S.Ct. 1526. This recovery can include lost profits. See *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552–553, 6 S.Ct. 934, 29 L.Ed. 954 (1886). And, as we hold today, it can include lost foreign profits when the patent owner proves infringement under § 271(f)(2).<sup>3</sup>

\* \* \*

We hold that WesternGeco’s damages award for lost profits was a permissible domestic application of § 284. The judgment of the Federal Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion.

*It is so ordered.*

Justice GORSUCH, with whom Justice BREYER joins, dissenting.

The Court holds that WesternGeco’s lost profits claim does not offend the judicially created presumption against the extraterritorial application of statutes. With that much, I agree. But I cannot subscribe to the Court’s further holding that the terms of the Patent Act permit awards of this kind. In my view the Act’s terms prohibit the lost profits sought in this case, whatever the general presumption against extraterritoriality applicable to all statutes

might allow. So while the Federal Circuit may have relied in part on a mistaken extraterritoriality analysis, I respectfully submit it reached the right result in concluding that the Patent Act forecloses WesternGeco’s claim for lost profits.

The reason is straightforward. A U.S. patent provides a lawful monopoly over the manufacture, use, and sale of an invention within this country only. Meanwhile, WesternGeco seeks lost profits for uses of its invention beyond our borders. Specifically, the company complains that it lost lucrative foreign surveying contracts because ION’s customers used its invention overseas to steal that business. In measuring its damages, WesternGeco assumes it could have charged monopoly rents abroad premised on a U.S. patent that has no legal force there. Permitting damages of this sort would effectively allow U.S. patent owners to use American courts to extend their monopolies to foreign markets. That, in turn, would invite other countries to use their own patent laws and courts to assert control over our economy. Nothing in the terms of the Patent Act supports that result and much militates against it.

Start with the key statutory language. Under the Patent Act, a patent owner enjoys “the right to exclude others from making, using, offering for sale, or selling the invention *throughout the United States.*” 35 U.S.C. § 154(a)(1) (emphasis added). Emphasizing the point, the Act proceeds to explain that to “infring[e] the patent” someone must “without authority mak[e], us[e], offe[r] to sell, or sel[l] [the] patented invention, *within the United States.*” § 271(a) (emphasis added). So making, using, or selling a patented invention *inside* the United States invites a claim for infringement. But those same

3. In reaching this holding, we do not address the extent to which other doctrines, such as

proximate cause, could limit or preclude damages in particular cases.

acts *outside* the United States do not infringe a U.S. patent right.

These principles work their way into the statutory measure of damages too. A patent owner who proves infringement is entitled to receive “damages adequate to compensate *for the infringement.*” § 284 (emphasis added). Because an infringement must occur within the United States, that means a plaintiff can recover damages for the making, using, or selling of its invention within the United States, but not for the making, using, or selling of its invention elsewhere.

What’s the upshot for our case? The jury was free to award WesternGeco royalties for the infringing products ION produced in this country; indeed, ION has not challenged that award either here or before the Federal Circuit. If ION’s infringement had cost WesternGeco sales in this country, it could have recovered for that harm too. At the same time, WesternGeco is not entitled to lost profits caused by the use of its invention *outside* the United States. That foreign conduct isn’t “infringement” and so under § 284’s plain terms isn’t a proper basis for awarding “compensat[ion].” No doubt WesternGeco thinks it unfair that its invention was used to compete against it overseas. But that’s simply not the kind of harm for which our patent laws provide compensation because a U.S. patent does not protect its owner from competition beyond our borders.

1. The Solicitor General disputes this reading of *Duchesne*. In his view, the Court indicated that, if a defendant “committed domestic infringement” by making the invention in the United States, the patent owner would have been entitled to recover for any subsequent use of the invention, including “‘the use of this improvement . . . on the high seas.’” Brief for United States as *Amicus Curiae* 17 (quoting *Duchesne*, 19 How., at 196). I am unpersuaded. The Court proceeded to ex-

This Court’s precedents confirm what the statutory text indicates. In *Brown v. Duchesne*, 19 How. 183, 15 L.Ed. 595 (1857), the Court considered whether the use of an American invention on the high seas could support a damages claim under the U.S. patent laws. It said no. The Court explained that “the use of [an invention] outside of the jurisdiction of the United States is not an infringement of [the patent owner’s] rights,” and so the patent owner “has no claim to any compensation for” that foreign use. *Id.*, at 195–196. A defendant must “compensate the patentee,” the Court continued, only to the extent that it has “com[e] in competition with the [patent owner] where the [patent owner] was entitled to the exclusive use” of his invention—namely, within the United States. *Id.*, at 196. What held true there must hold true here. ION must compensate WesternGeco for its intrusion on WesternGeco’s exclusive right to make, use, and sell its invention in the United States. But WesternGeco “has no claim to any compensation for” noninfringing uses of its invention “outside of the jurisdiction of the United States.” *Id.*, at 195–196.<sup>1</sup>

Other precedents offer similar teachings. In *Birdsall v. Coolidge*, 93 U.S. 64, 23 L.Ed. 802 (1876), the Court explained that damages are supposed to compensate a patent owner for “the unlawful acts of the defendant.” *Ibid.* To that end, the Court held, damages “shall be *precisely commensurate* with the injury suffered, neither more nor less.” *Ibid.* (emphasis

plain that the “only use” of the invention that might require compensation was “in navigating the vessel into and out of [Boston] harbor, . . . while she was within the jurisdiction of the United States.” *Id.*, at 196 (emphasis added). With respect to uses outside the United States, the Court made clear that “compensation” was unavailable. *Id.*, at 195–196. Tellingly, WesternGeco does not adopt the Solicitor General’s reading of *Duchesne*—or even cite the case.

added). It's undisputed that the only injury WesternGeco suffered here came from ION's infringing activity within the United States. A damages award that sweeps much more broadly to cover third parties' noninfringing foreign uses can hardly be called "precisely commensurate" with that injury.

This Court's leading case on lost profit damages points the same way. In *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 6 S.Ct. 934, 29 L.Ed. 954 (1886), the patent owner "availed himself of his exclusive right by keeping his patent a monopoly" and selling the invention himself. *Id.*, at 552, 6 S.Ct. 934. As damages for a competitor's infringement of the patent, the patent owner could recover "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." *Ibid.* And that difference, the Court held, "is to be measured" by the additional profits the patent owner "would have realized from such sales if the infringement had not interfered with such monopoly." *Id.*, at 552–553, 6 S.Ct. 934. So, again, the Court tied the measure of damages to the degree of interference with the patent owner's exclusive right to make, use, and sell its invention. And, again, that much is missing here because foreign uses of WesternGeco's invention could not have interfered with its U.S. patent monopoly.<sup>2</sup>

2. WesternGeco claims this Court permitted recovery based on foreign sales of an invention in *Manufacturing Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1882), but the Court never mentioned, much less decided, the issue. It merely observed, in passing, that the only markets for the invention at issue were "the oil-producing regions of Pennsylvania and Canada." *Id.*, at 256. The Court did not even say whether the Canada-bound products were actually sold in Canada (as opposed, say, to Canadian buyers in the United States).

You might wonder whether § 271(f)(2) calls for a special exception to these general principles. WesternGeco certainly thinks it does. It's true, too, that § 271(f)(2) expressly refers to foreign conduct. The statute says that someone who exports a specialized component, "intending that [it] will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer." From this language, you might wonder whether § 271(f)(2) seeks to protect patent owners from the foreign conduct that occurred in this case.

It does not. Section 271(f)(2) modifies the circumstances when the law will treat an invention as having been made within the United States. It permits an infringement claim—and the damages that come with it—not only when someone produces the complete invention in this country for export, but also when someone exports key components of the invention for assembly abroad. A person who ships components from the United States intending they be assembled across the border is "liable" to the patent owner for royalties and lost profits the same as if he made the entire invention here. § 271(f)(2). But none of this changes the bedrock rule that *foreign uses* of an invention (even an invention made in this country) do not infringe a U.S. patent. Nor could it. For after § 271(f)(2)'s adoption, as before, patent

Meanwhile, in *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 35 S.Ct. 221, 59 L.Ed. 398 (1915), the Court rejected "recovery of either profits or damages" for products sold in Canada. *Id.*, at 650, 35 S.Ct. 221. And while it distinguished *Cowing* on the ground that the defendants there had made the infringing articles in the United States, that hardly elevated *Cowing*'s failure to address the foreign sales issue into a reasoned decision on the question.

rights exclude others from making, using, and selling an invention only “throughout the United States.” § 154(a)(1).

The history of the statute underscores the point. In *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), the Court held that a defendant did not “make” an invention within the United States when it produced the invention’s components here but sold them to foreign buyers for final assembly abroad. *Id.*, at 527–528, 92 S.Ct. 1700. The Court recognized that, if the defendant had assembled the parts in this country and then sold them to the foreign buyers, it would have unlawfully made and sold the invention within the United States. *Id.*, at 527, 92 S.Ct. 1700. But because what it made and sold in this country “fell short” of the complete invention, the Court held, the patent laws did not prohibit its conduct. *Ibid.* The dissent, by contrast, argued that for all practical purposes the invention “was *made* in the United States” since “everything was accomplished in this country except putting the pieces together.” *Id.*, at 533, 92 S.Ct. 1700 (opinion of Blackmun, J.). Apparently Congress agreed, for it then added § 271(f)(2) and made clear that someone who *almost makes* an invention in this country may be held liable as if he made the complete invention in this country. As the Solicitor General has explained, the new statute “effectively treat[ed] the *domestic supply* of the components of a patented invention for assembly abroad as tantamount to the *domestic manufacture* of the completed invention for export.” Brief for United States as *Amicus Curiae* 22 (emphasis added). Section 271(f)(2) thus expands what qualifies as *making an invention in this country* but does nothing to suggest that U.S. patents protect against—much less guarantee compensation for—*uses abroad*.

Any suggestion that § 271(f)(2) provides protection against foreign uses would also invite anomalous results. It would allow greater recovery when a defendant exports a *component* of an invention in violation of § 271(f)(2) than when a defendant exports the *entire* invention in violation of § 271(a). And it would threaten to “‘conver[t] a single act of supply from the United States into a springboard for liability.’” *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 456, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007). Here, for example, supplying a single infringing product from the United States would make ION responsible for any foreseeable harm its customers cause by using the product to compete against WesternGeco worldwide, even though WesternGeco’s U.S. patent doesn’t protect it from such competition. It’s some springboard, too. The harm flowing from foreign uses in this case appears to outstrip wildly the harm inflicted by ION’s domestic production: the jury awarded \$93.4 million in lost profits from uses in 10 foreign surveys but only \$12.5 million in royalties for 2,500 U.S.-made products.

Even more dramatic examples are not hard to imagine. Suppose a company develops a prototype microchip in a U.S. lab with the intention of manufacturing and selling the chip in a foreign country as part of a new smartphone. Suppose too that the chip infringes a U.S. patent and that the patent owner sells its own phone with its own chip overseas. Under the terms of the Patent Act, the developer commits an act of infringement by creating the prototype here, but the additional chips it makes and sells outside the United States do not qualify as infringement. Under WesternGeco’s approach, however, the patent owner could recover any profits it lost to that foreign competition—or even three times as much, see § 284—effectively giving the patent owner a monopoly over foreign markets through its U.S. pat-



ent. That's a very odd role for U.S. patent law to play in foreign markets, as "foreign law alone, not United States law," is supposed to govern the manufacture, use, and sale "of patented inventions in foreign countries." *Microsoft, supra*, at 456, 127 S.Ct. 1746.

Worse yet, the tables easily could be turned. If our courts award compensation to U.S. patent owners for foreign uses where our patents don't run, what happens when foreign courts return the favor? Suppose our hypothetical microchip developer infringed a foreign patent in the course of developing its new chip abroad, but then mass produced and sold the chip in the United States. A foreign court might reasonably hold the U.S. company liable for infringing the foreign patent in the foreign country. But if it followed WesternGeco's theory, the court might then award monopoly rent damages reflecting a right to control the market for the chip in *this* country—even though the foreign patent lacks any legal force here. It is doubtful Congress would accept that kind of foreign "control over our markets." *Deepsouth, supra*, at 531, 92 S.Ct. 1700. And principles of comity counsel against an interpretation of our patent laws that would interfere so dramatically with the rights of other nations to regulate their own economies. While Congress may seek to extend U.S. patent rights beyond our borders if it chooses, cf. § 105 (addressing inventions made, used, and sold in outer space), nothing in the Patent Act fairly suggests that it has taken that step here.

Today's decision unfortunately forecloses further consideration of these points. Although its opinion focuses almost entirely on why the presumption against extraterritoriality applicable to all statutes does not forbid the damages sought here, the Court asserts in a few cursory sentences that the Patent Act by

its terms allows recovery for foreign uses in cases like this. See *ante*, at 2138 – 2139. In doing so, the Court does not address the textual or doctrinal analysis offered here. It does not explain why "damages adequate to compensate for the infringement" should include damages for harm from *noninfringing* uses. § 284 (emphasis added). It does not try to reconcile its holding with the teachings of *Duchesne*, *Birdsall*, and *Yale Lock*. And it ignores *Microsoft's* admonition that § 271(f)(2) should not be read to create springboards for liability based on foreign conduct. Instead, the Court relies on two cases that do not come close to supporting its broad holding. In *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983), the Court held that prejudgment interest should normally be awarded so as to place the patent owner "in as good a position as [it] would have been in had the infringer" not infringed. *Id.*, at 655, 103 S.Ct. 2058. Allowing recovery for foreign uses, however, puts the patent owner in a *better* position than it was before by allowing it to demand monopoly rents outside the United States as well as within. In *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964), meanwhile, the Court simply applied *Yale Lock's* rule that a patent owner may recover "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." *Id.*, at 507, 84 S.Ct. 1526 (quoting *Yale Lock*, 117 U.S., at 552, 6 S.Ct. 934). As we've seen, that test seeks to measure the interference with the patent owner's lawful monopoly over *U.S.* markets alone.

By failing to heed the plain text of the Patent Act and the lessons of our precedents, the Court ends up assuming that patent damages run (literally) to the ends of the earth. It allows U.S. patent owners

to extend their patent monopolies far beyond anything Congress has authorized and shields them from foreign competition U.S. patents were never meant to reach. Because I cannot agree that the Patent Act requires that result, I respectfully dissent.



**Michael Nelson CURRIER, Petitioner**

v.

**VIRGINIA.**

**No. 16–1348.**

Argued Feb. 20, 2018.

Decided June 22, 2018.

**Background:** Following his acquittal on severed charges of burglary and grand larceny, defendant was convicted in the Circuit Court, Albemarle County, Cheryl V. Higgins, J., of possession of a firearm after having been convicted of a violent felony, and he appealed. The Court of Appeals of Virginia, Stephen R. McCullough, J., 65 Va.App. 605, 779 S.E.2d 834, affirmed. Appeal was awarded. The Supreme Court of Virginia, 292 Va. 737, 798 S.E.2d 164, affirmed. Certiorari was granted.

**Holdings:** The United States Supreme Court, Justice Gorsuch, held that:

- (1) defendant’s firearm conviction did not violate the Double Jeopardy Clause, and
- (2) civil issue preclusion principles did not bar, at defendant’s trial on firearm charge, relitigation of issues jury resolved in his favor at first trial.

Affirmed.

Justice Kennedy filed an opinion concurring in part.

Justice Ginsburg filed a dissenting opinion, in which Justice Breyer, Justice Sotomayor, and Justice Kagan joined.

### 1. Double Jeopardy ⇌1

The Double Jeopardy Clause’s guarantee, that no person may be tried more than once for the same offense, recognizes the vast power of the sovereign, the ordeal of a criminal trial, and the injustice the criminal justice system would invite if prosecutors could treat trials as dress rehearsals until they secure the convictions they seek. U.S.C.A. Const.Amend. 5.

### 2. Double Jeopardy ⇌201

Defendant’s state conviction on the severed charge of unlawful possession of a firearm by a convicted felon, based on his role in the burglary of a gun safe from a residence, did not violate the Double Jeopardy Clause even though he had been acquitted at an earlier trial of burglary and grand larceny charges that arose from the same burglary, and even if his second trial qualified as the retrial of the same offense, where defendant consented to have the charges against him considered in two trials. U.S.C.A. Const.Amend. 5.

### 3. Double Jeopardy ⇌100.1

Double Jeopardy Clause forbids a second trial, on ground that the relitigation of an issue at the second trial will amount to the impermissible relitigation of an offense, only if to secure a conviction the prosecution must prevail on an issue the jury necessarily resolved in the defendant’s favor in the first trial by virtue of acquittal. U.S.C.A. Const.Amend. 5.

### 4. Double Jeopardy ⇌100.1

A second trial is not precluded by the Double Jeopardy Clause, on ground that the relitigation of an issue at the second trial will amount to the impermissible relit-

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

## SUPREME COURT OF THE UNITED STATES

Syllabus

### OIL STATES ENERGY SERVICES, LLC *v.* GREENE'S ENERGY GROUP, LLC, ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR  
THE FEDERAL CIRCUIT

No. 16–712. Argued November 27, 2017—Decided April 24, 2018

Inter partes review authorizes the United States Patent and Trademark Office (PTO) to reconsider and cancel an already-issued patent claim in limited circumstances. See 35 U. S. C. §§311–319. Any person who is not the owner of the patent may petition for review. §311(a). If review is instituted, the process entitles the petitioner and the patent owner to conduct certain discovery, §316(a)(5); to file affidavits, declarations, and written memoranda, §316(a)(8); and to receive an oral hearing before the Patent Trial and Appeal Board, §316(a)(10). A final decision by the Board is subject to Federal Circuit review. §§318, 319.

Petitioner Oil States Energy Services, LLC, obtained a patent relating to technology for protecting wellhead equipment used in hydraulic fracturing. It sued respondent Greene's Energy Group, LLC, in Federal District Court for infringement. Greene's Energy challenged the patent's validity in the District Court and also petitioned the PTO for inter partes review. Both proceedings progressed in parallel. The District Court issued a claim-construction order favoring Oil States, while the Board issued a decision concluding that Oil States' claims were unpatentable. Oil States appealed to the Federal Circuit. In addition to its patentability arguments, it challenged the constitutionality of inter partes review, arguing that actions to revoke a patent must be tried in an Article III court before a jury. While the case was pending, the Federal Circuit issued a decision in a separate case, rejecting the same constitutional arguments raised by Oil States. The court then summarily affirmed the Board's decision in this case.

*Held:*

1. Inter partes review does not violate Article III. Pp. 5–17.

(a) Under this Court’s precedents, Congress has significant latitude to assign adjudication of public rights to entities other than Article III courts. *Executive Benefits Ins. Agency v. Arkison*, 573 U. S. \_\_\_, \_\_\_. Inter partes review falls squarely within the public-rights doctrine. The decision to grant a patent is a matter involving public rights. Inter partes review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO’s authority to conduct that reconsideration. Pp. 5–10.

(i) The grant of a patent falls within the public-rights doctrine. *United States v. Duell*, 172 U. S. 576, 582–583. Granting a patent involves a matter “arising between the government and others.” *Ex parte Bakelite Corp.*, 279 U. S. 438, 451. Specifically, patents are “public franchises.” *Seymour v. Osborne*, 11 Wall. 516, 533. Additionally, granting patents is one of “the constitutional functions” that can be carried out by “the executive or legislative departments” without “judicial determination.” *Crowell v. Benson*, 285 U. S. 22, 50–51. Pp. 7–8.

(ii) Inter partes review involves the same basic matter as the grant of a patent. It is “a second look at an earlier . . . grant,” *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_, \_\_\_, and it involves the same interests as the original grant, see *Duell, supra*, at 586. That inter partes review occurs after the patent has issued does not make a difference here. Patents remain “subject to [the Board’s] authority” to cancel outside of an Article III court, *Crowell, supra*, at 50, and this Court has recognized that franchises can be qualified in this manner, see, e.g., *Louisville Bridge Co. v. United States*, 242 U. S. 409, 421. Pp. 8–10.

(b) Three decisions that recognize patent rights as the “private property of the patentee,” *United States v. American Bell Telephone Co.*, 128 U. S. 315, 370, do not contradict this conclusion. See also *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, 609; *Brown v. Duchesne*, 19 How. 183, 197. Nor do they foreclose the kind of post-issuance administrative review that Congress has authorized here. Those cases were decided under the Patent Act of 1870 and are best read as describing the statutory scheme that existed at that time. Pp. 10–11.

(c) Although patent validity was often decided in 18th-century English courts of law, that history does not establish that inter partes review violates the “general” principle that “Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law,’” *Stern v. Marshall*, 564 U. S. 462, 484. Another means of canceling a patent at that time—a petition to the Privy Council to vacate a patent—closely re-

sembles inter partes review. The parties have cited nothing to suggest that the Framers were not aware of this common practice when writing the Patent Clause, or that they excluded the practice from the scope of the Clause. Relatedly, the fact that American courts have traditionally adjudicated patent validity in this country does not mean that they must forever do so. See *post*, at 8–10. Historical practice is not decisive here because matters governed by the public-rights doctrine may be assigned to the Legislature, the Executive, or the Judiciary. *Ex parte Bakelite Corp.*, *supra*, at 451. That Congress chose the courts in the past does not foreclose its choice of the PTO today. Pp. 12–15.

(d) Finally, the similarities between the various procedures used in inter partes review and procedures typically used in courts does not lead to the conclusion that inter partes review violates Article III. This Court has never adopted a “looks like” test to determine if an adjudication has improperly occurred outside an Article III court. See, e.g., *Williams v. United States*, 289 U. S. 553, 563. Pp. 15–16.

(e) This holding is narrow. The Court addresses only the constitutionality of inter partes review and the precise constitutional challenges that Oil States raised here. The decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause. Pp. 16–17.

2. Inter partes review does not violate the Seventh Amendment. When Congress properly assigns a matter to adjudication in a non-Article III tribunal, “the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.” *Granfinanciera, S. A. v. Nordberg*, 492 U. S. 33, 52–53. Thus, the rejection of Oil States’ Article III challenge also resolves its Seventh Amendment challenge. P. 17.

639 Fed. Appx. 639, affirmed.

THOMAS, J., delivered the opinion of the Court, in which KENNEDY, GINSBURG, BREYER, ALITO, SOTOMAYOR, and KAGAN, JJ., joined. BREYER, J., filed a concurring opinion, in which GINSBURG and SOTOMAYOR, JJ., joined. GORSUCH, J., filed a dissenting opinion, in which ROBERTS, C. J., joined.

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

## SUPREME COURT OF THE UNITED STATES

No. 16–712

OIL STATES ENERGY SERVICES, LLC, PETITIONER  
*v.* GREENE’S ENERGY GROUP, LLC, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE THOMAS delivered the opinion of the Court.

The Leahy-Smith America Invents Act, 35 U. S. C. §100 *et seq.*, establishes a process called “inter partes review.” Under that process, the United States Patent and Trademark Office (PTO) is authorized to reconsider and to cancel an issued patent claim in limited circumstances. In this case, we address whether inter partes review violates Article III or the Seventh Amendment of the Constitution. We hold that it violates neither.

### I A

Under the Patent Act, the PTO is “responsible for the granting and issuing of patents.” 35 U. S. C. §2(a)(1). When an inventor applies for a patent, an examiner reviews the proposed claims and the prior art to determine if the claims meet the statutory requirements. See §§112, 131. Those requirements include utility, novelty, and nonobviousness based on the prior art. §§101, 102, 103. The Director of the PTO then approves or rejects the application. See §§131, 132(a). An applicant can seek judicial review of a final rejection. §§141(a), 145.

## B

Over the last several decades, Congress has created administrative processes that authorize the PTO to reconsider and cancel patent claims that were wrongly issued. In 1980, Congress established “*ex parte* reexamination,” which still exists today. See Act To Amend the Patent and Trademark Laws, 35 U. S. C. §301 *et seq.* *Ex parte* reexamination permits “[a]ny person at any time” to “file a request for reexamination.” §302. If the Director determines that there is “a substantial new question of patentability” for “any claim of the patent,” the PTO can reexamine the patent. §§303(a), 304. The reexamination process follows the same procedures as the initial examination. §305.

In 1999, Congress added a procedure called “inter partes reexamination.” See American Inventors Protection Act, §§4601–4608, 113 Stat. 1501A–567 to 1501A–572. Under this procedure, any person could file a request for reexamination. 35 U. S. C. §311(a) (2006 ed.). The Director would determine if the request raised “a substantial new question of patentability affecting any claim of the patent” and, if so, commence a reexamination. §§312(a), 313 (2006 ed.). The reexamination would follow the general procedures for initial examination, but would allow the third-party requester and the patent owner to participate in a limited manner by filing responses and replies. §§314(a), (b) (2006 ed.). Inter partes reexamination was phased out when the America Invents Act went into effect in 2012. See §6, 125 Stat. 299–305.

## C

The America Invents Act replaced inter partes reexamination with inter partes review, the procedure at issue here. See *id.*, at 299. Any person other than the patent owner can file a petition for inter partes review. 35 U. S. C. §311(a) (2012 ed.). The petition can request can-

cellation of “1 or more claims of a patent” on the grounds that the claim fails the novelty or nonobviousness standards for patentability. §311(b). The challenges must be made “only on the basis of prior art consisting of patents or printed publications.” *Ibid.* If a petition is filed, the patent owner has the right to file a preliminary response explaining why inter partes review should not be instituted. §313.

Before he can institute inter partes review, the Director must determine “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged.” §314(a). The decision whether to institute inter partes review is committed to the Director’s discretion. See *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_, \_\_\_ (2016) (slip op., at 9). The Director’s decision is “final and nonappealable.” §314(d).<sup>1</sup>

Once inter partes review is instituted, the Patent Trial and Appeal Board—an adjudicatory body within the PTO created to conduct inter partes review—examines the patent’s validity. See 35 U. S. C. §§6, 316(c). The Board sits in three-member panels of administrative patent judges. See §6(c). During the inter partes review, the petitioner and the patent owner are entitled to certain discovery, §316(a)(5); to file affidavits, declarations, and written memoranda, §316(a)(8); and to receive an oral hearing before the Board, §316(a)(10). The petitioner has the burden of proving unpatentability by a preponderance of the evidence. §316(e). The owner can file a motion to amend the patent by voluntarily canceling a claim or by “propos[ing] a reasonable number of substitute claims.” §316(d)(1)(B). The owner can also settle with the petitioner by filing a written agreement prior to the Board’s final decision, which terminates the proceedings with respect to

<sup>1</sup>The Director has delegated his authority to the Patent Trial and Appeal Board. See 37 CFR §42.108(c) (2017).



that petitioner. §317. If the settlement results in no petitioner remaining in the inter partes review, the Board can terminate the proceeding or issue a final written decision. §317(a).

If the proceeding does not terminate, the Board must issue a final written decision no later than a year after it notices the institution of inter partes review, but that deadline can be extended up to six months for good cause. §§316(a)(11), 318(a). If the Board's decision becomes final, the Director must "issue and publish a certificate." §318(b). The certificate cancels patent claims "finally determined to be unpatentable," confirms patent claims "determined to be patentable," and incorporates into the patent "any new or amended claim determined to be patentable." *Ibid.*

A party dissatisfied with the Board's decision can seek judicial review in the Court of Appeals for the Federal Circuit. §319. Any party to the inter partes review can be a party in the Federal Circuit. *Ibid.* The Director can intervene to defend the Board's decision, even if no party does. See §143; *Cuozzo, supra*, at \_\_\_ (slip op., at 15). When reviewing the Board's decision, the Federal Circuit assesses "the Board's compliance with governing legal standards de novo and its underlying factual determinations for substantial evidence." *Randall Mfg. v. Rea*, 733 F. 3d 1355, 1362 (CA Fed. 2013).

## II

Petitioner Oil States Energy Services, LLC, and respondent Greene's Energy Group, LLC, are both oilfield services companies. In 2001, Oil States obtained a patent relating to an apparatus and method for protecting well-head equipment used in hydraulic fracturing. In 2012, Oil States sued Greene's Energy in Federal District Court for infringing that patent. Greene's Energy responded by challenging the patent's validity. Near the close of discov-

ery, Greene’s Energy also petitioned the Board to institute inter partes review. It argued that two of the patent’s claims were unpatentable because they were anticipated by prior art not mentioned by Oil States in its original patent application. Oil States filed a response opposing review. The Board found that Greene’s Energy had established a reasonable likelihood that the two claims were unpatentable and, thus, instituted inter partes review.

The proceedings before the District Court and the Board progressed in parallel. In June 2014, the District Court issued a claim-construction order. The order construed the challenged claims in a way that foreclosed Greene’s Energy’s arguments about the prior art. But a few months later, the Board issued a final written decision concluding that the claims were unpatentable. The Board acknowledged the District Court’s contrary decision, but nonetheless concluded that the claims were anticipated by the prior art.

Oil States sought review in the Federal Circuit. In addition to its arguments about patentability, Oil States challenged the constitutionality of inter partes review. Specifically, it argued that actions to revoke a patent must be tried in an Article III court before a jury. While Oil States’ case was pending, the Federal Circuit issued an opinion in a different case, rejecting the same constitutional arguments. *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F. 3d 1284, 1288–1293 (2015). The Federal Circuit summarily affirmed the Board’s decision in this case. 639 Fed. Appx. 639 (2016).

We granted certiorari to determine whether inter partes review violates Article III or the Seventh Amendment. 582 U. S. \_\_\_ (2017). We address each issue in turn.

### III

Article III vests the judicial power of the United States “in one supreme Court, and in such inferior Courts as the

Congress may from time to time ordain and establish.” §1. Consequently, Congress cannot “confer the Government’s ‘judicial Power’ on entities outside Article III.” *Stern v. Marshall*, 564 U. S. 462, 484 (2011). When determining whether a proceeding involves an exercise of Article III judicial power, this Court’s precedents have distinguished between “public rights” and “private rights.” *Executive Benefits Ins. Agency v. Arkison*, 573 U. S. \_\_\_, \_\_\_ (2014) (slip op., at 6) (internal quotation marks omitted). Those precedents have given Congress significant latitude to assign adjudication of public rights to entities other than Article III courts. See *ibid.*; *Stern, supra*, at 488–492.

This Court has not “definitively explained” the distinction between public and private rights, *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U. S. 50, 69 (1982), and its precedents applying the public-rights doctrine have “not been entirely consistent,” *Stern*, 564 U. S., at 488. But this case does not require us to add to the “various formulations” of the public-rights doctrine. *Ibid.* Our precedents have recognized that the doctrine covers matters “which arise between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments.” *Crowell v. Benson*, 285 U. S. 22, 50 (1932). In other words, the public-rights doctrine applies to matters “arising between the government and others, which from their nature do not require judicial determination and yet are susceptible of it.” *Ibid.* (quoting *Ex parte Bakelite Corp.*, 279 U. S. 438, 451 (1929)). Inter partes review involves one such matter: reconsideration of the Government’s decision to grant a public franchise.

#### A

Inter partes review falls squarely within the public-rights doctrine. This Court has recognized, and the par-

ties do not dispute, that the decision to *grant* a patent is a matter involving public rights—specifically, the grant of a public franchise. Inter partes review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO’s authority to conduct that reconsideration. Thus, the PTO can do so without violating Article III.

1

This Court has long recognized that the grant of a patent is a “matte[r] involving public rights.” *United States v. Duell*, 172 U. S. 576, 582–583 (1899) (quoting *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 18 How. 272, 284 (1856)). It has the key features to fall within this Court’s longstanding formulation of the public-rights doctrine.

*Ab initio*, the grant of a patent involves a matter “arising between the government and others.” *Ex parte Bakelite Corp.*, *supra*, at 451. As this Court has long recognized, the grant of a patent is a matter between “the public, who are the grantors, and . . . the patentee.” *Duell, supra*, at 586 (quoting *Butterworth v. United States ex rel. Hoe*, 112 U. S. 50, 59 (1884)). By “issuing patents,” the PTO “take[s] from the public rights of immense value, and bestow[s] them upon the patentee.” *United States v. American Bell Telephone Co.*, 128 U. S. 315, 370 (1888). Specifically, patents are “public franchises” that the Government grants “to the inventors of new and useful improvements.” *Seymour v. Osborne*, 11 Wall. 516, 533 (1871); accord, *Pfaff v. Wells Electronics, Inc.*, 525 U. S. 55, 63–64 (1998). The franchise gives the patent owner “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States.” 35 U. S. C. §154(a)(1). That right “did not exist at common law.” *Gayler v. Wilder*, 10 How. 477, 494 (1851). Rather, it is a “creature of statute law.” *Crown*

*Die & Tool Co. v. Nye Tool & Machine Works*, 261 U. S. 24, 40 (1923).

Additionally, granting patents is one of “the constitutional functions” that can be carried out by “the executive or legislative departments” without “judicial determination.” *Crowell, supra*, at 50–51 (quoting *Ex parte Bakelite Corp., supra*, at 452). Article I gives Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” §8, cl. 8. Congress can grant patents itself by statute. See, e.g., *Bloomer v. McQuewan*, 14 How. 539, 548–550 (1853). And, from the founding to today, Congress has authorized the Executive Branch to grant patents that meet the statutory requirements for patentability. See 35 U. S. C. §§2(a)(1), 151; see also Act of July 8, 1870, §31, 16 Stat. 202; Act of July 4, 1836, §7, 5 Stat. 119–120; Act of Apr. 10, 1790, ch. 7, §1, 1 Stat. 109–110. When the PTO “adjudicate[s] the patentability of inventions,” it is “exercising the executive power.” *Freytag v. Commissioner*, 501 U. S. 868, 910 (1991) (Scalia, J., concurring in part and concurring in judgment) (emphasis deleted).

Accordingly, the determination to grant a patent is a “matte[r] involving public rights.” *Murray’s Lessee, supra*, at 284. It need not be adjudicated in Article III court.

2

Inter partes review involves the same basic matter as the grant of a patent. So it, too, falls on the public-rights side of the line.

Inter partes review is “a second look at an earlier administrative grant of a patent.” *Cuozzo*, 579 U. S., at \_\_\_ (slip op., at 16). The Board considers the same statutory requirements that the PTO considered when granting the patent. See 35 U. S. C. §311(b). Those statutory requirements prevent the “issuance of patents whose effects are

to remove existent knowledge from the public domain.” *Graham v. John Deere Co. of Kansas City*, 383 U. S. 1, 6 (1966). So, like the PTO’s initial review, the Board’s inter partes review protects “the public’s paramount interest in seeing that patent monopolies are kept within their legitimate scope,” *Cuozzo, supra*, at \_\_\_ (slip op., at 16) (internal quotation marks and alterations omitted). Thus, inter partes review involves the same interests as the determination to grant a patent in the first instance. See *Duell, supra*, at 586.

The primary distinction between inter partes review and the initial grant of a patent is that inter partes review occurs *after* the patent has issued. But that distinction does not make a difference here. Patent claims are granted subject to the qualification that the PTO has “the authority to reexamine—and perhaps cancel—a patent claim” in an inter partes review. See *Cuozzo, supra*, at \_\_\_ (slip op., at 3). Patents thus remain “subject to [the Board’s] authority” to cancel outside of an Article III court. *Crowell*, 285 U. S., at 50.

This Court has recognized that franchises can be qualified in this manner. For example, Congress can grant a franchise that permits a company to erect a toll bridge, but qualify the grant by reserving its authority to revoke or amend the franchise. See, e.g., *Louisville Bridge Co. v. United States*, 242 U. S. 409, 421 (1917) (collecting cases). Even after the bridge is built, the Government can exercise its reserved authority through legislation or an administrative proceeding. See, e.g., *id.*, at 420–421; *Hannibal Bridge Co. v. United States*, 221 U. S. 194, 205 (1911); *Bridge Co. v. United States*, 105 U. S. 470, 478–482 (1882). The same is true for franchises that permit companies to build railroads or telegraph lines. See, e.g., *United States v. Union Pacific R. Co.*, 160 U. S. 1, 24–25, 37–38 (1895).

Thus, the public-rights doctrine covers the matter resolved in inter partes review. The Constitution does not

prohibit the Board from resolving it outside of an Article III court.

## B

Oil States challenges this conclusion, citing three decisions that recognize patent rights as the “private property of the patentee.” *American Bell Telephone Co.*, 128 U. S., at 370; see also *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, 609 (1898) (“[A granted patent] has become the property of the patentee”); *Brown v. Duchesne*, 19 How. 183, 197 (1857) (“[T]he rights of a party under a patent are his private property”). But those cases do not contradict our conclusion.

Patents convey only a specific form of property right—a public franchise. See *Pfaff*, 525 U. S., at 63–64. And patents are “entitled to protection as any other property, consisting of a franchise.” *Seymour*, 11 Wall. at 533 (emphasis added). As a public franchise, a patent can confer only the rights that “the statute prescribes.” *Gayler*, *supra*, at 494; *Wheaton v. Peters*, 8 Pet. 591, 663–664 (1834) (noting that Congress has “the power to prescribe the conditions on which such right shall be enjoyed”). It is noteworthy that one of the precedents cited by Oil States acknowledges that the patentee’s rights are “derived altogether” from statutes, “are to be regulated and measured by these laws, and cannot go beyond them.” *Brown*, *supra*, at 195.<sup>2</sup>

One such regulation is inter partes review. See *Cuozzo*,

<sup>2</sup>This Court has also recognized this dynamic for state-issued franchises. For instance, States often reserve the right to alter or revoke a corporate charter either “in the act of incorporation or in some general law of the State which was in operation at the time the charter was granted.” *Pennsylvania College Cases*, 13 Wall. 190, 214, and n. † (1872). That reservation remains effective even after the corporation comes into existence, and such alterations do not offend the Contracts Clause of Article I, §10. See *Pennsylvania College Cases*, *supra*, at 212–214; *e.g.*, *Miller v. State*, 15 Wall. 478, 488–489 (1873).

579 U. S., at \_\_\_ (slip op., at 3). The Patent Act provides that, “[s]ubject to the provisions of this title, patents shall have the attributes of personal property.” 35 U. S. C. §261. This provision qualifies any property rights that a patent owner has in an issued patent, subjecting them to the express provisions of the Patent Act. See *eBay Inc. v. MercExchange, L. L. C.*, 547 U. S. 388, 392 (2006). Those provisions include inter partes review. See §§311–319.

Nor do the precedents that Oil States cites foreclose the kind of post-issuance administrative review that Congress has authorized here. To be sure, two of the cases make broad declarations that “[t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” *McCormick Harvesting Machine Co.*, *supra*, at 609; accord, *American Bell Telephone Co.*, 128 U. S., at 364. But those cases were decided under the Patent Act of 1870. See *id.*, at 371; *McCormick Harvesting Machine Co.*, *supra*, at 611. That version of the Patent Act did not include any provision for post-issuance administrative review. Those precedents, then, are best read as a description of the statutory scheme that existed at that time. They do not resolve Congress’ authority under the Constitution to establish a different scheme.<sup>3</sup>

<sup>3</sup>The dissent points to *McCormick*’s statement that the Patent Office Commissioner could not invalidate the patent at issue because it would “deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch.” *Post*, at 10 (quoting *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, 612 (1898)). But that statement followed naturally from the Court’s determination that, under the Patent Act of 1870, the Commissioner “was *functus officio*” and “had no power to revoke, cancel, or annul” the patent at issue. 169 U. S., at 611–612.

Nor is it significant that the *McCormick* Court “equated invention patents with land patents.” *Post*, at 10. *McCormick* itself makes clear that the analogy between the two depended on the particulars of the



## C

Oil States and the dissent contend that inter partes review violates the “general” principle that “Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.’” *Stern*, 564 U. S., at 484 (quoting *Murray’s Lessee*, 18 How., at 284). They argue that this is so because patent validity was often decided in English courts of law in the 18th century. For example, if a patent owner brought an infringement action, the defendant could challenge the validity of the patent as an affirmative defense. See Lemley, *Why Do Juries Decide If Patents Are Valid?* 99 Va. L. Rev. 1673, 1682, 1685–1686, and n. 52 (2013). Or, an individual could challenge the validity of a patent by filing a writ of *scire facias* in the Court of Chancery, which would sit as a law court when adjudicating the writ. See *id.*, at 1683–1685, and n. 44; Bottomley, *Patent Cases in the Court of Chancery, 1714–58*, 35 J. Legal Hist. 27, 36–37, 41–43 (2014).

But this history does not establish that patent validity is a matter that, “from its nature,” must be decided by a court. *Stern, supra*, at 484 (quoting *Murray’s Lessee, supra*, at 284). The aforementioned proceedings were between private parties. But there was another means of

Patent Act of 1870. See 169 U. S., at 609–610. Modern invention patents, by contrast, are meaningfully different from land patents. The land-patent cases invoked by the dissent involved a “transaction [in which] ‘all authority or control’ over the lands has passed from ‘the Executive Department.’” *Boesche v. Udall*, 373 U. S. 472, 477 (1963) (quoting *Moore v. Robbins*, 96 U. S. 530, 533 (1878)). Their holdings do not apply when “the Government continues to possess some measure of control over” the right in question. *Boesche*, 373 U. S., at 477; see *id.*, at 477–478 (affirming administrative cancellations of public-land leases). And that is true of modern invention patents under the current Patent Act, which gives the PTO continuing authority to review and potentially cancel patents after they are issued. See 35 U. S. C. §§261, 311–319.

canceling a patent in 18th-century England, which more closely resembles inter partes review: a petition to the Privy Council to vacate a patent. See Lemley, *supra*, at 1681–1682; Hulme, *Privy Council Law and Practice of Letters Patent for Invention From the Restoration to 1794*, 33 L. Q. Rev. 63 (1917). The Privy Council was composed of the Crown’s advisers. Lemley, *supra*, at 1681. From the 17th through the 20th centuries, English patents had a standard revocation clause that permitted six or more Privy Counsellors to declare a patent void if they determined the invention was contrary to law, “prejudicial” or “inconvenient,” not new, or not invented by the patent owner. See 11 W. Holdsworth, *A History of English Law* 426–427, and n. 6 (1938); Davies, *The Early History of the Patent Specification*, 50 L. Q. Rev. 86, 102–106 (1934). Individuals could petition the Council to revoke a patent, and the petition was referred to the Attorney General. The Attorney General examined the petition, considered affidavits from the petitioner and patent owner, and heard from counsel. See, e.g., *Bull v. Lydall*, PC2/81, pp. 180–181 (1706). Depending on the Attorney General’s conclusion, the Council would either void the patent or dismiss the petition. See, e.g., *Darby v. Betton*, PC2/99, pp. 358–359 (1745–1746) (voiding the patent); *Baker v. James*, PC2/103, pp. 320–321, 346–347 (1752) (dismissing the petition).

The Privy Council was a prominent feature of the English system. It had exclusive authority to revoke patents until 1753, and after that, it had concurrent jurisdiction with the courts. See Hulme, 33 L. Q. Rev., at 189–191, 193–194. The Privy Council continued to consider revocation claims and to revoke patents throughout the 18th century. Its last revocation was in 1779. See *id.*, at 192–193. It considered, but did not act on, revocation claims in 1782, 1794, and 1810. See *ibid.*; *Board of Ordinance v. Parr*, PC1/3919 (1810).

The Patent Clause in our Constitution “was written against the backdrop” of the English system. *Graham*, 383 U. S., at 5. Based on the practice of the Privy Council, it was well understood at the founding that a patent system could include a practice of granting patents subject to potential cancellation in the executive proceeding of the Privy Council. The parties have cited nothing in the text or history of the Patent Clause or Article III to suggest that the Framers were not aware of this common practice. Nor is there any reason to think they excluded this practice during their deliberations. And this Court has recognized that, “[w]ithin the scope established by the Constitution, Congress may set out conditions and tests for patentability.” *Id.*, at 6. We conclude that inter partes review is one of those conditions.<sup>4</sup>

For similar reasons, we disagree with the dissent’s assumption that, because courts have traditionally adjudicated patent validity in this country, courts must forever continue to do so. See *post*, at 8–10. Historical practice is not decisive here because matters governed by the public-rights doctrine “from their nature” can be resolved in multiple ways: Congress can “reserve to itself the power to

<sup>4</sup>Oil States also suggests that inter partes review could be an unconstitutional condition because it conditions the benefit of a patent on accepting the possibility of inter partes review. Cf. *Koontz v. St. Johns River Water Management Dist.*, 570 U. S. 595, 604 (2013) (“[T]he government may not deny a benefit to a person because he exercises a constitutional right” (internal quotation marks omitted)). Even assuming a patent is a “benefit” for purposes of the unconstitutional-conditions doctrine, that doctrine does not apply here. The doctrine prevents the Government from using conditions “to produce a result which it could not command directly.” *Perry v. Sindermann*, 408 U. S. 593, 597 (1972) (internal quotation marks and alterations omitted). But inter partes review is consistent with Article III, see Part III–A, *supra*, and falls within Congress’ Article I authority, see Part III–C, *supra*, so it is something Congress can “command directly,” *Perry*, *supra*, at 597.

decide,” “delegate that power to executive officers,” or “commit it to judicial tribunals.” *Ex parte Bakelite Corp.*, 279 U. S., at 451. That Congress chose the courts in the past does not foreclose its choice of the PTO today.

#### D

Finally, Oil States argues that inter partes review violates Article III because it shares “every salient characteristic associated with the exercise of the judicial power.” Brief for Petitioner 20. Oil States highlights various procedures used in inter partes review: motion practice before the Board; discovery, depositions, and cross-examination of witnesses; introduction of evidence and objections based on the Federal Rules of Evidence; and an adversarial hearing before the Board. See 35 U. S. C. §316(a); 77 Fed. Reg. 48758, 48761–48763 (2012). Similarly, Oil States cites PTO regulations that use terms typically associated with courts—calling the hearing a “trial,” *id.*, at 48758; the Board members “judges,” *id.*, at 48763; and the Board’s final decision a “judgment,” *id.*, at 48761, 48766–48767.

But this Court has never adopted a “looks like” test to determine if an adjudication has improperly occurred outside of an Article III court. The fact that an agency uses court-like procedures does not necessarily mean it is exercising the judicial power. See *Freytag*, 501 U. S., at 910 (opinion of Scalia, J.). This Court has rejected the notion that a tribunal exercises Article III judicial power simply because it is “called a court and its decisions called judgments.” *Williams v. United States*, 289 U. S. 553, 563 (1933). Nor does the fact that an administrative adjudication is final and binding on an individual who acquiesces in the result necessarily make it an exercise of the judicial power. See, e.g., *Murray’s Lessee*, 18 How., at 280–281 (permitting the Treasury Department to conduct “final and binding” audits outside of an Article III court). Al-

though inter partes review includes some of the features of adversarial litigation, it does not make any binding determination regarding “the liability of [Greene’s Energy] to [Oil States] under the law as defined.” *Crowell*, 285 U. S., at 51. It remains a matter involving public rights, one “between the government and others, which from [its] nature do[es] not require judicial determination.” *Ex parte Bakelite Corp.*, 279 U. S., at 451.<sup>5</sup>

## E

We emphasize the narrowness of our holding. We address the constitutionality of inter partes review only. We do not address whether other patent matters, such as infringement actions, can be heard in a non-Article III forum. And because the Patent Act provides for judicial review by the Federal Circuit, see 35 U. S. C. §319, we need not consider whether inter partes review would be constitutional “without any sort of intervention by a court at any stage of the proceedings,” *Atlas Roofing Co. v. Occupational Safety and Health Review Comm’n*, 430 U. S. 442, 455, n. 13 (1977). Moreover, we address only the precise constitutional challenges that Oil States raised

<sup>5</sup>Oil States also points out that inter partes review “is initiated by private parties and implicates no waiver of sovereign immunity.” Brief for Petitioner 30–31. But neither of those features takes inter partes review outside of the public-rights doctrine. That much is clear from *United States v. Duell*, 172 U. S. 576 (1899), which held that the doctrine covers interference proceedings—a procedure to “determin[e] which of two claimants is entitled to a patent”—even though interference proceedings were initiated by “‘private interests compet[ing] for preference’” and did not involve a waiver of sovereign immunity. *Id.*, at 582, 586 (quoting *Butterworth v. United States ex rel. Hoe*, 112 U. S. 50, 59 (1884)). Also, inter partes review is not initiated by private parties in the way that a common-law cause of action is. To be sure, a private party files the petition for review. 35 U. S. C. §311(a). But the decision to institute review is made by the Director and committed to his unreviewable discretion. See *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_, \_\_\_ (2016) (slip op., at 9).

here. Oil States does not challenge the retroactive application of inter partes review, even though that procedure was not in place when its patent issued. Nor has Oil States raised a due process challenge. Finally, our decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause. See, e.g., *Florida Prepaid Postsecondary Ed. Expense Bd. v. College Savings Bank*, 527 U. S. 627, 642 (1999); *James v. Campbell*, 104 U. S. 356, 358 (1882).

#### IV

In addition to Article III, Oil States challenges inter partes review under the Seventh Amendment. The Seventh Amendment preserves the “right of trial by jury” in “Suits at common law, where the value in controversy shall exceed twenty dollars.” This Court’s precedents establish that, when Congress properly assigns a matter to adjudication in a non-Article III tribunal, “the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.” *Granfinanciera, S. A. v. Nordberg*, 492 U. S. 33, 53–54 (1989); accord, *Atlas Roofing Co.*, *supra*, at 450–455. No party challenges or attempts to distinguish those precedents. Thus, our rejection of Oil States’ Article III challenge also resolves its Seventh Amendment challenge. Because inter partes review is a matter that Congress can properly assign to the PTO, a jury is not necessary in these proceedings.

#### V

Because inter partes review does not violate Article III or the Seventh Amendment, we affirm the judgment of the Court of Appeals.

*It is so ordered.*

**SUPREME COURT OF THE UNITED STATES**

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No. 16–712

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OIL STATES ENERGY SERVICES, LLC, PETITIONER  
v. GREENE’S ENERGY GROUP, LLC, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE BREYER, with whom JUSTICE GINSBURG and JUSTICE SOTOMAYOR join, concurring.

I join the Court’s opinion in full. The conclusion that inter partes review is a matter involving public rights is sufficient to show that it violates neither Article III nor the Seventh Amendment. But the Court’s opinion should not be read to say that matters involving private rights may never be adjudicated other than by Article III courts, say, sometimes by agencies. Our precedent is to the contrary. *Stern v. Marshall*, 564 U. S. 462, 494 (2011); *Commodity Futures Trading Comm’n v. Schor*, 478 U. S. 833, 853–856 (1986); see also *Stern, supra*, at 513 (BREYER, J., dissenting) (“The presence of ‘private rights’ does not automatically determine the outcome of the question but requires a more ‘searching’ examination of the relevant factors”).

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[April 24, 2018]

JUSTICE GORSUCH, with whom THE CHIEF JUSTICE joins, dissenting.

After much hard work and no little investment you devise something you think truly novel. Then you endure the further cost and effort of applying for a patent, devoting maybe \$30,000 and two years to that process alone. At the end of it all, the Patent Office agrees your invention is novel and issues a patent. The patent affords you exclusive rights to the fruits of your labor for two decades. But what happens if someone later emerges from the woodwork, arguing that it was all a mistake and your patent should be canceled? Can a political appointee and his administrative agents, instead of an independent judge, resolve the dispute? The Court says yes. Respectfully, I disagree.

We sometimes take it for granted today that independent judges will hear our cases and controversies. But it wasn’t always so. Before the Revolution, colonial judges depended on the crown for their tenure and salary and often enough their decisions followed their interests. The problem was so serious that the founders cited it in their Declaration of Independence (see ¶11). Once free, the framers went to great lengths to guarantee a degree of judicial independence for future generations that they themselves had not experienced. Under the Constitution,



judges “hold their Offices during good Behaviour” and their “Compensation . . . shall not be diminished during the[ir] Continuance in Office.” Art. III, §1. The framers knew that “a fixed provision” for judges’ financial support would help secure “the independence of the judges,” because “a power over a man’s subsistence amounts to a power over his will.” The Federalist No. 79, p. 472 (C. Rossiter ed. 1961) (A. Hamilton) (emphasis deleted). They were convinced, too, that “[p]eriodical appointments, however regulated, or by whomsoever made, would, in some way or other, be fatal to [the courts’] necessary independence.” The Federalist No. 78, at 471 (A. Hamilton).

Today, the government invites us to retreat from the promise of judicial independence. Until recently, most everyone considered an issued patent a personal right—no less than a home or farm—that the federal government could revoke only with the concurrence of independent judges. But in the statute before us Congress has tapped an executive agency, the Patent Trial and Appeal Board, for the job. Supporters say this is a good thing because the Patent Office issues too many low quality patents; allowing a subdivision of that office to clean up problems after the fact, they assure us, promises an efficient solution. And, no doubt, dispensing with constitutionally prescribed procedures is often expedient. Whether it is the guarantee of a warrant before a search, a jury trial before a conviction—or, yes, a judicial hearing before a property interest is stripped away—the Constitution’s constraints can slow things down. But economy supplies no license for ignoring these—often vitally inefficient—protections. The Constitution “reflects a judgment by the American people that the benefits of its restrictions on the Government outweigh the costs,” and it is not our place to replace that judgment with our own. *United States v. Stevens*, 559 U. S. 460, 470 (2010).

Consider just how efficient the statute before us is. The

Director of the Patent Office is a political appointee who serves at the pleasure of the President. 35 U. S. C. §§3(a)(1), (a)(4). He supervises and pays the Board members responsible for deciding patent disputes. §§1(a), 3(b)(6), 6(a). The Director is allowed to select which of these members, and how many of them, will hear any particular patent challenge. See §6(c). If they (somehow) reach a result he does not like, the Director can add more members to the panel—including himself—and order the case reheard. See §§6(a), (c); *In re Alappat*, 33 F. 3d 1526, 1535 (CA Fed. 1994) (en banc); *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co. Ltd.*, 868 F. 3d 1013, 1020 (CA Fed. 2013) (Dyk, J., concurring), cert. pending, No. 17–751. Nor has the Director proven bashful about asserting these statutory powers to secure the “policy judgments” he seeks. Brief for Petitioner 46 (quoting Patent Office Solicitor); see also Brief for Shire Pharmaceuticals LLC as *Amicus Curiae* 22–30.

No doubt this efficient scheme is well intended. But can there be any doubt that it also represents a retreat from the promise of judicial independence? Or that when an independent Judiciary gives ground to bureaucrats in the adjudication of cases, the losers will often prove the unpopular and vulnerable? Powerful interests are capable of amassing armies of lobbyists and lawyers to influence (and even capture) politically accountable bureaucracies. But what about everyone else?

Of course, all this invites the question: how do we know which cases independent judges must hear? The Constitution’s original public meaning supplies the key, for the Constitution cannot secure the people’s liberty any less today than it did the day it was ratified. The relevant constitutional provision, Article III, explains that the federal “judicial Power” is vested in independent judges. As originally understood, the judicial power extended to “suit[s] at the common law, or in equity, or admiralty.”

*Murray's Lessee v. Hoboken Land & Improvement Co.*, 18 How. 272, 284 (1856). From this and as we've recently explained, it follows that, "[w]hen a suit is made of the stuff of the traditional actions at common law tried by the courts at Westminster in 1789 . . . and is brought within the bounds of federal jurisdiction, the responsibility for deciding that suit rests with" Article III judges endowed with the protections for their independence the framers thought so important. *Stern v. Marshall*, 564 U. S. 462, 484 (2011) (internal quotation marks omitted). The Court does not quarrel with this test. See *ante*, at 12–14. We part ways only on its application.<sup>1</sup>

As I read the historical record presented to us, only courts could hear patent challenges in England at the time of the founding. If facts were in dispute, the matter first had to proceed in the law courts. See, e.g., *Newsham v. Gray*, 2 Atk. 286, 26 Eng. Rep. 575 (Ch. 1742). If successful there, a challenger then had to obtain a writ of *scire facias* in the law side of the Court of Chancery. See, e.g., Pfander, Jurisdiction-Stripping and the Supreme Court's Power To Supervise Inferior Tribunals, 78 Texas L. Rev. 1433, 1446, n. 53 (2000); Lemley, Why Do Juries Decide If Patents Are Valid? 99 Va. L. Rev. 1673, 1686–1687 (2013) (Lemley, Juries). The last time an executive body (the King's Privy Council) invalidated an invention patent on an ordinary application was in 1746, in *Darby v. Betton*, PC2/99, pp. 358–359; and the last time the Privy Council

<sup>1</sup>Some of our concurring colleagues see it differently. See *ante*, at 1 (BREYER, J., concurring). They point to language in *Commodity Futures Trading Comm'n v. Schor*, 478 U. S. 833 (1986), promoting the notion that the political branches may "depart from the requirements of Article III" when the benefits outweigh the costs. *Id.*, at 851. Color me skeptical. The very point of our written Constitution was to prevent the government from "depart[ing]" from its protections for the people and their liberty just because someone later happens to think the costs outweigh the benefits. See *United States v. Stevens*, 559 U. S. 460, 470 (2010).

even *considered* doing so was in 1753, in *Baker v. James*, PC2/103, pp. 320–321. After *Baker v. James*, the Privy Council “divest[ed] itself of its functions” in ordinary patent disputes, Hulme, *Privy Council Law and Practice of Letters Patent for Invention from the Restoration to 1794* (Pt. II), 33 L. Q. Rev. 180, 194 (1917), which “thereafter [were] adjudicated solely by the law courts, as opposed to the [crown’s] prerogative courts,” Mossoff, *Rethinking the Development of Patents: An Intellectual History, 1550–1800*, 52 *Hastings L. J.* 1255, 1286–1287 (2001) (Mossoff, *Rethinking Patents*).<sup>2</sup>

This shift to courts paralleled a shift in thinking. Patents began as little more than feudal favors. *Id.*, at 1261. The crown both issued and revoked them. Lemley, *Juries 1680–1681*. And they often permitted the lucky recipient the exclusive right to do very ordinary things, like operate a toll bridge or run a tavern. *Ibid.* But by the 18th century, inventors were busy in Britain and invention patents came to be seen in a different light. They came to be viewed not as endowing accidental and anticompetitive monopolies on the fortunate few but as a procompetitive means to secure to individuals the fruits of their labor and ingenuity; encourage others to emulate them; and promote

<sup>2</sup>See also Brief for H. Tomás Gómez-Arostegui et al. as *Amici Curiae* 6–37; Brief for Alliacense Limited LLC as *Amicus Curiae* 10–11; Gómez-Arostegui & Bottomley, *Privy Council and Scire Facias 1700–1883*, p. 2 (Nov. 6, 2017) (Addendum), <https://ssrn.com/abstract=3054989> (all Internet materials as last visited Apr. 20, 2018); *Observations on the Utility of Patents, and on the Sentiments of Lord Kenyon Respecting That Subject* 23 (2d ed. 1791) (“If persons of the same trade find themselves aggrieved by Patents taken for any thing already in use, their remedy is at hand. It is by a writ of *Scire Facias*”); *Mancius v. Lawton*, 10 Johns. 23, 24 (NY Sup. Ct. 1813) (Kent, C. J.) (noting the “settled English course” that “[l]etters-patent . . . can only be avoided in chancery, by a writ of *scire facias* sued out on the part of the government, or by some individual prosecuting in its name” (emphasis deleted)).

public access to new technologies that would not otherwise exist. Mossoff, Rethinking Patents 1288–1289. The Constitution itself reflects this new thinking, authorizing the issuance of patents precisely because of their contribution to the “Progress of Science and useful Arts.” Art. I, §8, cl. 8. “In essence, there was a change in perception—from viewing a patent as a contract between the crown and the patentee to viewing it as a ‘social contract’ between the patentee and society.” Waltersheid, *The Early Evolution of the United States Patent Law: Antecedents (Part 3)*, 77 *J. Pat. & T. Off. Soc.* 771, 793 (1995). And as invention patents came to be seen so differently, it is no surprise courts came to treat them more solicitously.<sup>3</sup>

Unable to dispute that judges alone resolved virtually all patent challenges by the time of the founding, the Court points to three English cases that represent the Privy Council’s dying gasp in this area: *Board of Ordnance v. Wilkinson*, PC2/123 (1779); *Grill [Grice] v. Waters*, PC2/127 (1782); and *Board of Ordnance v. Parr*, PC1/3919 (1810).<sup>4</sup> Filed in 1779, 1782, and 1810, each involved an

<sup>3</sup>See also, *e.g.*, Mossoff, Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent “Privilege” in Historical Context, 92 *Cornell L. Rev.* 953, 967–968 (2007) (Mossoff, Reevaluating the Patent Privilege) (“[A]n American patent in the late eighteenth century was radically different from the royal monopoly privilege dispensed by Queen Elizabeth or King James in the early seventeenth century. Patents no longer created, and sheltered from competition, manufacturing monopolies—they secured the exclusive control of an inventor over his novel and useful scientific or mechanical invention” (footnote omitted)); Mossoff, Rethinking Patents 1286–1287; H. Fox, *Monopolies and Patents: A Study of the History and Future of the Patent Monopoly* 4 (1947).

<sup>4</sup>The 1794 petition the Court invokes, *ante*, at 13, involved a Scottish patent. *Simpson v. Cunningham*, PC2/141, p. 88 (1794). The English and Scottish patents systems, however, were distinct and enforced by different regimes. Gómez-Arostegui, Patent and Copyright Exhaustion in England Circa 1800, pp.10–16, 37, 49–50 (Feb. 9, 2017), <https://ssrn.com/abstract=2905847>. Besides, even in that case the

effort to override a patent on munitions during wartime, no doubt in an effort to increase their supply. But even then appealing to the Privy Council was seen as a last resort. The 1779 petition (the last Privy Council revocation ever) came only after the patentee twice refused instructions to litigate the patent's validity in a court of law. Gómez-Arostegui & Bottomley, Privy Council and *Scire Facias* 1700–1883, p. 6 (Nov. 6, 2017) <https://ssrn.com/abstract=3054989> (citing *Board of Ordnance v. Wilkinson*, PC2/123 (1779), and PC1/11/150 (1779)). The Council did not act on the 1782 petition but instead referred it to the Attorney General where it appears to have been abandoned. Gómez-Arostegui & Bottomley, Privy Council and *Scire Facias*, *supra*, at 17–18. Meanwhile, in response to the 1810 petition the Attorney General admitted that *scire facias* was the “usual manner” of revoking a patent and so directed the petitioner to proceed at law even as he suggested the Privy Council might be available in the event of a “very pressing and imminent” danger to the public. *Id.*, at 20 (citing PC1/3919 (1810)).

In the end, these cases do very little to support the Court's holding. At most, they suggest that the Privy Council might have possessed some residual power to revoke patents to address wartime necessities. Equally, they might serve only as more unfortunate evidence of the maxim that in time of war, the laws fall silent.<sup>5</sup> But

Scottish Lord Advocate “was of opinion, that the question should be tried in a court of law.” Gómez-Arostegui & Bottomley, Addendum, *supra*, at 23 (citing Petition of William Cunningham, p. 5, *Cunningham v. Simpson*, Signet Library Edinburgh, Session Papers 207:3 (Ct. Sess. Feb. 23, 1796)).

<sup>5</sup>After all, the English statute of monopolies appeared to require the “force and validitie” of all patents to be determined only by “the Comon Lawes of this Realme & not otherwise.” 21 Jac. 1, c. 3, §2 (1624). So the Privy Council cases on which the Court relies may not reflect the best understanding of the British constitution.

whatever they do, these cases do not come close to proving that patent disputes were routinely permitted to proceed outside a court of law.

Any lingering doubt about English law is resolved for me by looking to our own. While the Court is correct that the Constitution's Patent Clause "was written against the backdrop" of English practice, *ante*, at 14 (quoting *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 5 (1966)), it's also true that the Clause sought to *reject* some of early English practice. Reflecting the growing sentiment that patents shouldn't be used for anticompetitive monopolies over "goods or businesses which had long before been enjoyed by the public," the framers wrote the Clause to protect only procompetitive invention patents that are the product of hard work and insight and "add to the sum of useful knowledge." *Id.*, at 5–6. In light of the Patent Clause's restrictions on this score, courts took the view that when the federal government "grants a patent the grantee is entitled to it *as a matter of right*, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor." *James v. Campbell*, 104 U.S. 356, 358 (1882) (emphasis added). As Chief Justice Marshall explained, courts treated American invention patents as recognizing an "inchoate property" that exists "from the moment of invention." *Evans v. Jordan*, 8 F. Cas. 872, 873 (No. 4,564) (CC Va. 1813). American patent holders thus were thought to "hol[d] a property in [their] invention[s] by as good a title as the farmer holds his farm and flock." *Hovey v. Henry*, 12 F. Cas. 603, 604 (No. 6,742) (CC Mass. 1846) (Woodbury, J.). And just as with farm and flock, it was widely accepted that the government could divest patent owners of their rights only through proceedings before independent judges.

This view held firm for most of our history. In fact, from the time it established the American patent system in 1790 until about 1980, Congress left the job of invalidating

patents at the federal level to courts alone. The only apparent exception to this rule cited to us was a 4 year period when *foreign* patentees had to “work” or commercialize their patents or risk having them revoked. Hovenkamp, *The Emergence of Classical American Patent Law*, 58 *Ariz. L. Rev.* 263, 283–284 (2016). And the fact that for almost 200 years “earlier Congresses avoided use of [a] highly attractive”—and surely more efficient—means for extinguishing patents should serve as good “reason to believe that the power was thought not to exist” at the time of the founding. *Printz v. United States*, 521 U. S. 898, 905 (1997).

One more episode still underscores the point. When the Executive sought to claim the right to cancel a patent in the 1800s, this Court firmly rebuffed the effort. The Court explained:

“It has been settled by repeated decisions of this court that when a patent has [been issued by] the Patent Office, it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or cancelled by the President, or any other officer of the Government. It has become the property of the patentee, and as such is entitled to the same legal protection as other property.” *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, 608–609 (1898) (citations omitted).

As a result, the Court held, “[t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” *Id.*, at 609.

The Court today replies that *McCormick* sought only to interpret certain statutes then in force, not the Constitution. *Ante*, at 11, and n. 3. But this much is hard to see. Allowing the Executive to withdraw a patent, *McCormick*



said, “would be to deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch of the government by the executive.” 169 U. S., at 612. *McCormick* also pointed to “repeated decisions” in similar cases that themselves do not seem to rest merely on statutory grounds. See *id.*, at 608–609 (citing *United States v. Schurz*, 102 U. S. 378 (1880), and *United States v. American Bell Telephone Co.*, 128 U. S. 315 (1888)). And *McCormick* equated invention patents with land patents. 169 U. S., at 609. That is significant because, while the Executive has always dispensed public lands to homesteaders and other private persons, it has never been constitutionally empowered to withdraw land patents from their recipients (or their successors-in-interest) except through a “judgment of a court.” *United States v. Stone*, 2 Wall. 525, 535 (1865); *Wellness Int’l Network, Ltd. v. Sharif*, 575 U. S. \_\_\_, \_\_\_ (2015) (THOMAS, J., dissenting) (slip op., at 11) (“Although Congress could authorize executive agencies to dispose of public rights in lands—often by means of adjudicating a claimant’s qualifications for a land grant under a statute—the United States had to go to the courts if it wished to revoke a patent” (emphasis deleted)).

With so much in the relevant history and precedent against it, the Court invites us to look elsewhere. Instead of focusing on the revocation of patents, it asks us to abstract the level of our inquiry and focus on their issuance. Because the job of issuing invention patents traditionally belonged to the Executive, the Court proceeds to argue, the job of revoking them can be left there too. *Ante*, at 6–10. But that doesn’t follow. Just because you give a gift doesn’t mean you forever enjoy the right to reclaim it. And, as we’ve seen, just because the Executive could *issue* an invention (or land) patent did not mean the Executive could *revoke* it. To reward those who had proven the social utility of their work (and to induce others to follow suit),

the law long afforded patent holders more protection than that against the threat of governmental intrusion and dispossession. The law requires us to honor those historical rights, not diminish them.

Still, the Court asks us to look away in yet another direction. At the founding, the Court notes, the Executive could sometimes both dispense and revoke public franchises. And because, it says, invention patents are a species of public franchises, the Court argues the Executive should be allowed to dispense and revoke them too. *Ante*, at 9–10. But labels aside, by the time of the founding the law treated patents protected by the Patent Clause quite differently from ordinary public franchises. Many public franchises amounted to little more than favors resembling the original royal patents the framers expressly refused to protect in the Patent Clause. The Court points to a good example: the state-granted exclusive right to operate a toll bridge. *Ante*, at 9. By the founding, courts in this country (as in England) had come to view anticompetitive monopolies like that with disfavor, narrowly construing the rights they conferred. See *Proprietors of Charles River Bridge v. Proprietors of Warren Bridge*, 11 Pet. 420, 544 (1837). By contrast, courts routinely applied to invention patents protected by the Patent Clause the “liberal common sense construction” that applies to other instruments creating private property rights, like land deeds. *Davis v. Palmer*, 7 F. Cas. 154, 158 (No. 3,645) (CC Va. 1827) (Marshall, C. J.); see also Mossoff, *Reevaluating the Patent Privilege* 990 (listing more differences in treatment). As Justice Story explained, invention patents protected by the Patent Clause were “not to be treated as mere monopolies odious in the eyes of the law, and therefore not to be favored.” *Ames v. Howard*, 1 F. Cas. 755, 756 (No. 326) (CC Mass. 1833). For precisely these reasons and as we’ve seen, the law traditionally treated patents issued under the Patent Clause very differently than

monopoly franchises when it came to governmental invasions. Patents alone required independent judges. Nor can simply invoking a mismatched label obscure that fact. The people's historic rights to have independent judges decide their disputes with the government should not be a "constitutional Maginot Line, easily circumvented" by such "simpl[e] maneuver[s]." *Bank Markazi v. Peterson*, 578 U. S. \_\_\_, \_\_\_ (2016) (ROBERTS, C. J., dissenting) (slip op., at 12).

Today's decision may not represent a rout but it at least signals a retreat from Article III's guarantees. Ceding to the political branches ground they wish to take in the name of efficient government may seem like an act of judicial restraint. But enforcing Article III isn't about protecting judicial authority for its own sake. It's about ensuring the people today and tomorrow enjoy no fewer rights against governmental intrusion than those who came before. And the loss of the right to an independent judge is never a small thing. It's for that reason Hamilton warned the judiciary to take "all possible care . . . to defend itself against" intrusions by the other branches. The Federalist No. 78, at 466. It's for that reason I respectfully dissent.

## Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

**SUPREME COURT OF THE UNITED STATES**

## Syllabus

SAS INSTITUTE INC. *v.* IANCU, DIRECTOR, UNITED STATES PATENT AND TRADEMARK OFFICE, ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 16–969. Argued November 27, 2017—Decided April 24, 2018

Inter partes review allows private parties to challenge previously issued patent claims in an adversarial process before the Patent Office. At the outset, a party must file a petition to institute review, 35 U. S. C. §311(a), that identifies the challenged claims and the grounds for challenge with particularity, §312(a)(3). The patent owner, in turn, may file a response. §313. If the Director of the Patent Office determines “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition,” §314(a), he decides “whether to institute . . . review . . . pursuant to [the] petition,” §314(b). “If . . . review is instituted and not dismissed,” at the end of the litigation the Patent Trial and Appeal Board “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” §318(a).

Petitioner SAS sought review of respondent ComplementSoft’s software patent, alleging that all 16 of the patent’s claims were unpatentable. Relying on a Patent Office regulation recognizing a power of “partial institution,” 37 CFR §42.108(a), the Director instituted review on some of the claims and denied review on the rest. The Board’s final decision addressed only the claims on which the Director had instituted review. On appeal, the Federal Circuit rejected SAS’s argument that §318(a) required the Board to decide the patentability of every claim challenged in the petition.

*Held:* When the Patent Office institutes an inter partes review, it must decide the patentability of all of the claims the petitioner has challenged. The plain text of §318(a) resolves this case. Its directive is both mandatory and comprehensive. The word “shall” generally imposes a nondiscretionary duty, and the word “any” ordinarily implies

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every member of a group. Thus, §318(a) means that the Board *must* address *every* claim the petitioner has challenged. The Director’s “partial institution” power appears nowhere in the statutory text. And both text and context strongly counsel against inferring such a power.

The statute envisions an inter partes review guided by the initial petition. See §312(a)(3). Congress structured the process such that the petitioner, not the Director, defines the proceeding’s contours. The ex parte reexamination statute shows that Congress knew exactly how to authorize the Director to investigate patentability questions “[o]n his own initiative, and at any time,” §303(a). The inter partes review statute indicates that the Director’s decision “whether” to institute review “pursuant to [the] petition” is a yes-or-no choice. §314(b).

Section 314(a)’s requirement that the Director find “a reasonable likelihood” that the petitioner will prevail on “at least 1 of the claims challenged in the petition” suggests, if anything, a regime where a reasonable prospect of success on a single claim justifies review of them all. Again, if Congress had wanted to adopt the Director’s claim-by-claim approach, it knew how to do so. See §304. Nor does it follow that, because §314(a) invests the Director with discretion on the question *whether* to institute review, it also invests him with discretion regarding *what* claims that review will encompass. The rest of the statute confirms, too, that the petitioner’s petition, not the Director’s discretion, should guide the life of the litigation. See, e.g., §316(a)(8).

The Director suggests that a textual discrepancy between §314(a)—which addresses whether to institute review based on claims found “in the petition”—and §318(a)—which addresses the Board’s final resolution of the claims challenged “by the petitioner”—means that the Director enjoys the power to institute a review covering fewer than all of the claims challenged in the petition. However, the statute’s winnowing mechanism—which allows a patent owner to concede one part of a petitioner’s challenge and “[c]ancel any challenged patent claim,” §316(d)(1)(A)—fully explains why Congress adopted the slightly different language.

The Director’s policy argument—that partial institution is efficient because it permits the Board to focus on the most promising challenges and avoid spending time and resources on others—is properly addressed to Congress, not this Court. And the Director’s asserted “partial institution” power, which is wholly unmentioned in the statute, is not entitled to deference under *Chevron U. S. A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U. S. 837. Finally, notwithstanding §314(d)—which makes the Director’s determination

## Syllabus

whether to institute an inter partes review “final and nonappealable”—judicial review remains available consistent with the Administrative Procedure Act to ensure that the Patent Office does not exceed its statutory bounds. *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_\_, distinguished. Pp. 4–14.

825 F. 3d 1341, reversed and remanded.

GORSUCH, J., delivered the opinion of the Court, in which ROBERTS, C. J., and KENNEDY, THOMAS, and ALITO, JJ., joined. GINSBURG, J., filed a dissenting opinion, in which BREYER, SOTOMAYOR, and KAGAN, JJ., joined. BREYER, J., filed a dissenting opinion, in which GINSBURG and SOTOMAYOR, JJ., joined, and in which KAGAN, J., joined except as to Part III–A.

Opinion of the Court

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

**SUPREME COURT OF THE UNITED STATES**

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No. 16–969

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SAS INSTITUTE INC., PETITIONER *v.* ANDREI IANCU,  
AS DIRECTOR, UNITED STATES PATENT  
AND TRADEMARK OFFICE, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE GORSUCH delivered the opinion of the Court.

A few years ago Congress created “inter partes review.” The new procedure allows private parties to challenge previously issued patent claims in an adversarial process before the Patent Office that mimics civil litigation. Recently, the Court upheld the inter partes review statute against a constitutional challenge. *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, *ante*, p. \_\_\_\_ . Now we take up a question concerning the statute’s operation. When the Patent Office initiates an inter partes review, must it resolve *all* of the claims in the case, or may it choose to limit its review to only *some* of them? The statute, we find, supplies a clear answer: the Patent Office must “issue a final written decision with respect to the patentability of *any* patent claim challenged by the petitioner.” 35 U. S. C. §318(a) (emphasis added). In this context, as in so many others, “any” means “every.” The agency cannot curate the claims at issue but must decide them all.

“To promote the Progress of Science and useful Arts,”

## Opinion of the Court

Congress long ago created a patent system granting inventors rights over the manufacture, sale, and use of their inventions. U. S. Const., Art. I, §8, cl. 8; see 35 U. S. C. §154(a)(1). To win a patent, an applicant must (among other things) file “claims” that describe the invention and establish to the satisfaction of the Patent Office the invention’s novelty and nonobviousness. See §§102, 103, 112(b), 131; *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_, \_\_\_–\_\_\_ (2016) (slip op., at 2–3).

Sometimes, though, bad patents slip through. Maybe the invention wasn’t novel, or maybe it was obvious all along, and the patent owner shouldn’t enjoy the special privileges it has received. To remedy these sorts of problems, Congress has long permitted parties to challenge the validity of patent claims in federal court. See §§282(b)(2)–(3). More recently, Congress has supplemented litigation with various administrative remedies. The first of these was *ex parte* reexamination. Anyone, including the Director of the Patent Office, can seek *ex parte* reexamination of a patent claim. §§302, 303(a). Once instituted, though, an *ex parte* reexamination follows essentially the same inquisitorial process between patent owner and examiner as the initial Patent Office examination. §305. Later, Congress supplemented *ex parte* reexamination with *inter partes* reexamination. *Inter partes* reexamination (since repealed) provided a slightly more adversarial process, allowing a third party challenger to submit comments throughout the proceeding. §314(b)(2) (2006 ed.) (repealed). But otherwise it too followed a more or less inquisitorial course led by the Patent Office. §314(a). Apparently unsatisfied with this approach, in 2011 Congress repealed *inter partes* reexamination and replaced it with *inter partes* review. See 35 U. S. C. §§311–319 (2012 ed.).

The new *inter partes* review regime looks a good deal more like civil litigation. At its outset, a party must file “a petition to institute an *inter partes* review of [a] patent.”



## Opinion of the Court

§311(a). The petition “may request to cancel as unpatentable 1 or more claims of [the] patent” on the ground that the claims are obvious or not novel. §311(b); see §§102 and 103. In doing so, the petition must identify “each claim challenged,” the grounds for the challenge, and the evidence supporting the challenge. §312(a)(3). The patent owner, in turn, may respond with “a preliminary response to the petition” explaining “why no inter partes review should be instituted.” §313. With the parties’ submissions before him, the Director then decides “whether to institute an inter partes review . . . pursuant to [the] petition.” §314(b). (In practice, the agency’s Patent Trial and Appeal Board exercises this authority on behalf of the Director, see 37 CFR §42.4(a) (2017).) Before instituting review, the Director must determine, based on the parties’ papers, “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” 35 U. S. C. §314(a).

Once the Director institutes an inter partes review, the matter proceeds before the Board with many of the usual trappings of litigation. The parties conduct discovery and join issue in briefing and at an oral hearing. §§316(a)(5), (6), (8), (10), (13). During the course of the case, the patent owner may seek to amend its patent or to cancel one or more of its claims. §316(d). The parties may also settle their differences and seek to end the review. §317. But “[i]f an inter partes review is instituted and not dismissed,” at the end of the litigation the Board “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” §318(a).

Our case arose when SAS sought an inter partes review of ComplementSoft’s software patent. In its petition, SAS alleged that all 16 of the patent’s claims were unpatentable for various reasons. The Director (in truth the Board acting on the Director’s behalf) concluded that SAS was likely to succeed with respect to at least one of the claims

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and that an *inter partes* review was therefore warranted. But instead of instituting review on all of the claims challenged in the petition, the Director instituted review on only some (claims 1 and 3–10) and denied review on the rest. The Director did all this on the strength of a Patent Office regulation that purported to recognize a power of “partial institution,” claiming that “[w]hen instituting *inter partes* review, the [Director] may authorize the review to proceed on all or some of the challenged claims and on all or some or the grounds of unpatentability asserted for each claim.” 37 CFR §42.108(a). At the end of litigation, the Board issued a final written decision finding claims 1, 3, and 5–10 to be unpatentable while upholding claim 4. But the Board’s decision did not address the remaining claims on which the Director had refused review.

That last fact led SAS to seek review in the Federal Circuit. There SAS argued that 35 U. S. C. §318(a) required the Board to decide the patentability of *every* claim SAS challenged in its petition, not just some. For its part, the Federal Circuit rejected SAS’s argument over a vigorous dissent by Judge Newman. *SAS Institute, Inc. v. ComplementSoft, LLC*, 825 F. 3d 1341 (2016). We granted certiorari to decide the question ourselves. 581 U. S. \_\_\_\_ (2017).

We find that the plain text of §318(a) supplies a ready answer. It directs that “[i]f an *inter partes* review is instituted and not dismissed under this chapter, the [Board] shall issue a final written decision with respect to the patentability of *any patent claim challenged by the petitioner . . .*” §318(a) (emphasis added). This directive is both mandatory and comprehensive. The word “shall” generally imposes a nondiscretionary duty. See *Lexecon Inc. v. Milberg Weiss Bershad Hynes & Lerach*, 523 U. S. 26, 35 (1998). And the word “any” naturally carries “an expansive meaning.” *United States v. Gonzales*, 520 U. S.

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1, 5 (1997). When used (as here) with a “singular noun in affirmative contexts,” the word “any” ordinarily “refer[s] to a member of a particular group or class without distinction or limitation” and in this way “impl[ies] *every* member of the class or group.” Oxford English Dictionary (3d ed., Mar. 2016), [www.oed.com/view/Entry/8973](http://www.oed.com/view/Entry/8973) (OED) (emphasis added) (all Internet materials as last visited Apr. 20, 2018). So when §318(a) says the Board’s final written decision “shall” resolve the patentability of “any patent claim challenged by the petitioner,” it means the Board *must* address *every* claim the petitioner has challenged.

That would seem to make this an easy case. Where a statute’s language carries a plain meaning, the duty of an administrative agency is to follow its commands as written, not to supplant those commands with others it may prefer. *Social Security Bd. v. Nierotko*, 327 U. S. 358, 369 (1946). Because SAS challenged all 16 claims of ComplementSoft’s patent, the Board in its final written decision had to address the patentability of all 16 claims. Much as in the civil litigation system it mimics, in an inter partes review the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decisionmaker might wish to address.

The Director replies that things are not quite as simple as they seem. Maybe the Board has to decide every claim challenged by the petitioner in an inter partes review. But, he says, that doesn’t mean every challenged claim gains admission to the review process. In the Director’s view, he retains discretion to decide which claims make it into an inter partes review and which don’t. The trouble is, nothing in the statute says anything like that. The Director’s claimed “partial institution” power appears nowhere in the text of §318, or anywhere else in the statute for that matter. And what can be found in the statutory text and context strongly counsels against the Director’s view.

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Start where the statute does. In its very first provision, the statute says that a party may seek inter partes review by filing “a petition to institute an inter partes review.” §311(a). This language doesn’t authorize the Director to start proceedings on his own initiative. Nor does it contemplate a petition that asks the Director to initiate whatever kind of inter partes review he might choose. Instead, the statute envisions that a petitioner will seek an inter partes review of a particular kind—one guided by a petition describing “each claim challenged” and “the grounds on which the challenge to each claim is based.” §312(a)(3). From the outset, we see that Congress chose to structure a process in which it’s the petitioner, not the Director, who gets to define the contours of the proceeding. And “[j]ust as Congress’ choice of words is presumed to be deliberate” and deserving of judicial respect, “so too are its structural choices.” *University of Tex. Southwestern Medical Center v. Nassar*, 570 U. S. 338, 353 (2013).

It’s telling, too, to compare this structure with what came before. In the ex parte reexamination statute, Congress embraced an inquisitorial approach, authorizing the Director to investigate a question of patentability “[o]n his own initiative, and at any time.” §303(a). If Congress had wanted to give the Director similar authority over the institution of inter partes review, it knew exactly how to do so—it could have simply borrowed from the statute next door. But rather than create (another) agency-led, inquisitorial process for reconsidering patents, Congress opted for a party-directed, adversarial process. Congress’s choice to depart from the model of a closely related statute is a choice neither we nor the agency may disregard. See *Nassar, supra*, at 353–354.

More confirmation comes as we move to the point of institution. Here the statute says the Director must decide “whether to institute an inter partes review . . . pursuant to a petition.” §314(b). The Director, we see, is

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given only the choice “whether” to institute an inter partes review. That language indicates a binary choice—either institute review or don’t. And by using the term “pursuant to,” Congress told the Director what he must say yes or no to: an inter partes review that proceeds “[i]n accordance with” or “in conformance to” the petition. OED, [www.oed.com/view/Entry/155073](http://www.oed.com/view/Entry/155073). Nothing suggests the Director enjoys a license to depart from the petition and institute a *different* inter partes review of his own design.

To this the Director replies by pointing to another part of §314. Section 314(a) provides that the Director may not authorize an inter partes review unless he determines “there is a reasonable likelihood” the petitioner will prevail on “at least 1 of the claims challenged in the petition.” The Director argues that this language requires him to “evaluate claims individually” and so must allow him to institute review on a claim-by-claim basis as well. Brief for Federal Respondent 28. But this language, if anything, suggests just the opposite. Section 314(a) does not require the Director to evaluate every claim individually. Instead, it simply requires him to decide whether the petitioner is likely to succeed on “at least 1” claim. Once that single claim threshold is satisfied, it doesn’t matter whether the petitioner is likely to prevail on any *additional* claims; the Director need not even consider any other claim before instituting review. Rather than contemplate claim-by-claim institution, then, the language anticipates a regime where a reasonable prospect of success on a single claim justifies review of all.

Here again we know that if Congress wanted to adopt the Director’s approach it knew exactly how to do so. The ex parte reexamination statute allows the Director to assess whether a request raises “a substantial new question of patentability affecting any claim” and (if so) to institute reexamination limited to “resolution of *the question*.” §304 (emphasis added). In other words, that stat-

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ute allows the Director to institute proceedings on a claim-by-claim and ground-by-ground basis. But Congress didn't choose to pursue that known and readily available approach here. And its choice to try something new must be given effect rather than disregarded in favor of the comfort of what came before. See *Nassar, supra*, at 353–354.

Faced with this difficulty, the Director tries another tack. He points to the fact that §314(a) doesn't *require* him to institute an inter partes review even after he finds the “reasonable likelihood” threshold met with respect to one claim. Whether to institute proceedings upon such a finding, he says, remains a matter left to his discretion. See *Cuozzo*, 579 U. S., at \_\_\_ (slip op., at 9). But while §314(a) invests the Director with discretion on the question *whether* to institute review, it doesn't follow that the statute affords him discretion regarding *what* claims that review will encompass. The text says only that the Director can decide “whether” to institute the requested review—not “whether *and to what extent*” review should proceed. §314(b).

The rest of the statute confirms, too, that the petitioner's petition, not the Director's discretion, is supposed to guide the life of the litigation. For example, §316(a)(8) tells the Director to adopt regulations ensuring that, “after an inter partes review has been instituted,” the patent owner will file “a response to the petition.” Surely it would have made little sense for Congress to insist on a response *to the petition* if, in truth, the Director enjoyed the discretion to limit the claims under review. What's the point, after all, of answering claims that aren't in the proceeding? If Congress had meant to afford the Director the power he asserts, we would have expected it to instruct him to adopt regulations requiring the patent owner to file a response *to the Director's institution notice* or *to the claims on which the Director instituted review*. Yet we have nothing like that here. And then and again there is

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§318(a). At the end of the proceeding, §318(a) categorically commands the Board to address in its final written decision “any patent claim challenged by the petitioner.” In all these ways, the statute tells us that the petitioner’s contentions, not the Director’s discretion, define the scope of the litigation all the way from institution through to conclusion.

The Director says we can find at least some hint of the discretion he seeks by comparing §314(a) and §318(a). He notes that, when addressing whether to institute review at the beginning of the litigation, §314(a) says he must focus on the claims found “in the petition”; but when addressing what claims the Board must address at the end of the litigation, §318(a) says it must resolve the claims challenged “by the petitioner.” According to the Director, this (slight) linguistic discrepancy means the claims the Board must address in its final decision are not necessarily the same as those identified in the petition. And the only possible explanation for this arrangement, the Director submits, is that he must enjoy the (admittedly implicit) power to institute an inter partes review that covers fewer than all of the claims challenged in the petition.

We just don’t see it. Whatever differences they might display, §314(a) and §318(a) both focus on the *petitioner’s* contentions and, given that, it’s difficult to see how they might be read to give the *Director* power to decide what claims are at issue. Particularly when there’s a much simpler and sounder explanation for the statute’s wording. As we’ve seen, a patent owner may move to “[c]ancel any challenged patent claim” during the course of an inter partes review, effectively conceding one part of a petitioner’s challenge. §316(d)(1)(A). Naturally, then, the claims challenged “in the petition” will not always survive to the end of the case; some may drop out thanks to the patent owner’s actions. And in that light it is plain enough why Congress provided that only claims still challenged “by the

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petitioner” at the litigation’s end must be addressed in the Board’s final written decision. The statute’s own winnowing mechanism fully explains why Congress adopted slightly different language in §314(a) and §318(a). We need not and will not invent an atextual explanation for Congress’s drafting choices when the statute’s own terms supply an answer. See *United States v. Ron Pair Enterprises, Inc.*, 489 U. S. 235, 240–241 (1989) (“[A]s long as the statutory scheme is coherent and consistent, there generally is no need for a court to inquire beyond the plain language of the statute”).

Moving past the statute’s text and context, the Director attempts a policy argument. He tells us that partial institution is efficient because it permits the Board to focus on the most promising challenges and avoid spending time and resources on others. Brief for Federal Respondent 35–36; see also *post*, at 1 (GINSBURG, J., dissenting); *post*, at 7–8 (BREYER, J., dissenting). SAS responds that all patent challenges usually end up being litigated *somewhere*, and that partial institution creates inefficiency by requiring the parties to litigate in two places instead of one—the Board for claims the Director chooses to entertain and a federal court for claims he refuses. Indeed, SAS notes, the government itself once took the same view, arguing that partial institution “undermine[s] the Congressional efficiency goal” for this very reason. Brief for Petitioner 30. Each side offers plausible reasons why its approach might make for the more efficient policy. But who should win that debate isn’t our call to make. Policy arguments are properly addressed to Congress, not this Court. It is Congress’s job to enact policy and it is this Court’s job to follow the policy Congress has prescribed. And whatever its virtues or vices, Congress’s prescribed policy here is clear: the petitioner in an inter partes review is entitled to



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a decision on all the claims it has challenged.\*

That leaves the Director to suggest that, however this Court might read the statute, he should win anyway because of *Chevron U. S. A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U. S. 837 (1984). Even though the statute says nothing about his asserted “partial institution” power, the Director says the statute is at least ambiguous on the propriety of the practice and so we should leave the matter to his judgment. For its part, SAS replies that we might use this case as an opportunity to abandon *Chevron* and embrace the “‘impressive body’” of pre-*Chevron* law recognizing that “‘the meaning of a statutory term’” is properly a matter for “‘judicial [rather than] administrative judgment.’” Brief for Petitioner 41 (quoting *Pittston Stevedoring Corp. v. Dellaventura*, 544 F. 2d 35, 49 (CA2 1976) (Friendly, J.)).

But whether *Chevron* should remain is a question we may leave for another day. Even under *Chevron*, we owe an agency’s interpretation of the law no deference unless, after “employing traditional tools of statutory construction,” we find ourselves unable to discern Congress’s

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\*JUSTICE GINSBURG suggests the Director might yet avoid this command by refusing to review a petition he thinks too broad while signaling his willingness to entertain one more tailored to his sympathies. *Post*, at 1 (dissenting opinion). We have no occasion today to consider whether this stratagem is consistent with the statute’s demands. See *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_\_, \_\_ (2016) (slip op., at 11) (noting that courts may invalidate “shenanigans” by the Director that are “outside [his] statutory limits”); *CAB v. Delta Air Lines, Inc.*, 367 U. S. 316, 328 (1961) (questioning an agency’s “power to do indirectly what it cannot do directly”). But even assuming (without granting) the law would tolerate this tactic, it would show only that a lawful means exists for the Director to achieve his policy aims—not that he “should be allowed to improvise on the powers granted by Congress” by devising an extralegal path to the same goal. *Id.*, at 330. That an agency’s improvisation might be thought by some more expedient than what the law allows, *post*, at 1, does nothing to commend it either, for lawful ends do not justify unlawful means.

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meaning. 467 U. S., at 843, n. 9. And after applying traditional tools of interpretation here, we are left with no uncertainty that could warrant deference. The statutory provisions before us deliver unmistakable commands. The statute hinges inter partes review on the filing of a petition challenging specific patent claims; it makes the petition the centerpiece of the proceeding both before and after institution; and it requires the Board’s final written decision to address every claim the petitioner presents for review. There is no room in this scheme for a wholly unmentioned “partial institution” power that lets the Director select only some challenged claims for decision. The Director may (today) think his approach makes for better policy, but policy considerations cannot create an ambiguity when the words on the page are clear. See *SEC v. Sloan*, 436 U. S. 103, 116–117 (1978). Neither may we defer to an agency official’s preferences because we imagine some “hypothetical reasonable legislator” would have favored that approach. *Post*, at 9 (BREYER, J., dissenting). Our duty is to give effect to the text that 535 *actual* legislators (plus one President) enacted into law.

At this point, only one final question remains to resolve. Even if the statute forbids his partial institution practice, the Director suggests we lack the power to say so. By way of support, he points to §314(d) and our decision in *Cuozzo*, 579 U. S. \_\_\_. Section 314(d) says that the “determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.” In *Cuozzo*, we held that this provision prevented courts from entertaining an argument that the Director erred in instituting an inter partes review of certain patent claims. *Id.*, at \_\_\_–\_\_\_ (slip op., at 7–12). The Director reads these authorities as foreclosing judicial review of any legal question bearing on the institution of inter partes review—including whether the statute permits his “partial institution” practice.

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But this reading overreads both the statute and our precedent. As *Cuozzo* recognized, we begin with “the ‘strong presumption’ in favor of judicial review.” *Id.*, at \_\_\_\_ (slip op., at 9). To overcome that presumption, *Cuozzo* explained, this Court’s precedents require “clear and convincing indications” that Congress meant to foreclose review. *Id.*, at \_\_\_\_ (slip op., at 10) (internal quotation marks omitted). Given the strength of this presumption and the statute’s text, *Cuozzo* concluded that §314(d) precludes judicial review only of the Director’s “initial determination” under §314(a) that “there is a ‘reasonable likelihood’ that the claims are unpatentable on the grounds asserted” and review is therefore justified. *Id.*, at \_\_\_\_ (slip op., at 9); see *id.*, at \_\_\_\_ (slip op., at 12) (review unavailable “where a patent holder merely challenges the Patent Office’s ‘determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood’ of success ‘with respect to at least 1 of the claims challenged’”); *ibid.* (claim that a “petition was not pleaded ‘with particularity’ under §312 is little more than a challenge to the Patent Office’s conclusion, under §314(a), that the ‘information presented in the petition’ warranted review”). In fact, *Cuozzo* proceeded to emphasize that §314(d) does not “enable the agency to act outside its statutory limits.” *Id.*, at \_\_\_\_ (slip op., at 11). If a party believes the Patent Office has engaged in “‘shenanigans’” by exceeding its statutory bounds, judicial review remains available consistent with the Administrative Procedure Act, which directs courts to set aside agency action “not in accordance with law” or “in excess of statutory jurisdiction, authority, or limitations.” *Ibid.*; 5 U. S. C. §§706(2)(A), (C).

And that, of course, is exactly the sort of question we are called upon to decide today. SAS does not seek to challenge the Director’s conclusion that it showed a “reasonable likelihood” of success sufficient to warrant “insti-

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tut[ing] an inter partes review.” 35 U. S. C. §§314(a), (d). No doubt SAS remains very pleased with the Director’s judgment on that score. Instead, SAS contends that the Director exceeded his statutory authority by limiting the review to fewer than all of the claims SAS challenged. And nothing in §314(d) or *Cuozzo* withdraws our power to ensure that an inter partes review proceeds in accordance with the law’s demands.

Because everything in the statute before us confirms that SAS is entitled to a final written decision addressing all of the claims it has challenged and nothing suggests we lack the power to say so, the judgment of the Federal Circuit is reversed and the case is remanded for further proceedings consistent with this opinion.

*So ordered.*

GINSBURG, J., dissenting

**SUPREME COURT OF THE UNITED STATES**

No. 16–969

SAS INSTITUTE INC., PETITIONER *v.* ANDREI IANCU,  
AS DIRECTOR, UNITED STATES PATENT  
AND TRADEMARK OFFICE, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE GINSBURG, with whom JUSTICE BREYER,  
JUSTICE SOTOMAYOR, and JUSTICE KAGAN join, dissenting.

Given the Court’s wooden reading of 35 U. S. C. §318(a), and with “no mandate to institute [inter partes] review” at all, *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_\_, \_\_\_\_ (2016) (slip op., at 9), the Patent Trial and Appeal Board could simply deny a petition containing challenges having no “reasonable likelihood” of success, §314(a). Simultaneously, the Board might note that one or more specified claims warrant reexamination, while others challenged in the petition do not. Petitioners would then be free to file new or amended petitions shorn of challenges the Board finds unworthy of inter partes review. Why should the statute be read to preclude the Board’s more rational way to weed out insubstantial challenges? For the reasons stated by JUSTICE BREYER, the Court’s opinion offers no persuasive answer to that question, and no cause to believe Congress wanted the Board to spend its time so uselessly.

BREYER, J., dissenting

**SUPREME COURT OF THE UNITED STATES**

No. 16–969

SAS INSTITUTE INC., PETITIONER *v.* ANDREI IANCU,  
AS DIRECTOR, UNITED STATES PATENT  
AND TRADEMARK OFFICE, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT

[April 24, 2018]

JUSTICE BREYER, with whom JUSTICE GINSBURG and JUSTICE SOTOMAYOR join, and with whom JUSTICE KAGAN joins except as to Part III–A, dissenting.

This case requires us to engage in a typical judicial exercise, construing a statute that is technical, unclear, and constitutes a minor procedural part of a larger administrative scheme. I would follow an interpretive technique that judges often use in such cases. Initially, using “traditional tools of statutory construction,” *INS v. Cardoza-Fonseca*, 480 U. S. 421, 446 (1987), I would look to see whether the relevant statutory phrase is ambiguous or leaves a gap that Congress implicitly delegated authority to the agency to fill. *Chevron U. S. A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U. S. 837, 842–843 (1984). If so, I would look to see whether the agency’s interpretation is reasonable. *Id.*, at 843. Because I believe there is such a gap and because the Patent Office’s interpretation of the ambiguous phrase is reasonable, I would conclude that the Patent Office’s interpretation is lawful.

I

The majority sets out the statutory framework that establishes “inter partes review.” See *ante*, at 2–3; 35

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U. S. C. §§311–319. An example will help the reader keep that framework in mind. Suppose the Patent Office issues a patent containing, say, 16 different claims. A challenger, believing the patent is invalid, seeks to invoke the inter partes review procedure.

The statutory chapter entitled “Inter partes review” explains just how this is to be done. See §§311–319. First, the challenger files a petition requesting “cancel[lation]” of one or more of the patent claims as “unpatentable” because “prior art” shows, for example, that they are not “novel.” §311(b); see §§102, 103. That petition must detail the grounds for the challenge and the supporting evidence, along with providing certain technical information. §312. Second, the patent owner may file a “preliminary response” to the petition. §313.

Third, the Director of the Patent Office will decide whether to “institute” inter partes review. §314. The statute specifies that the Director “may not authorize an inter partes review to be instituted unless the Director determines . . . that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” §314(a). Thus, in my example, if the Director determines that none of the 16 challenges in the petition has likely merit, he cannot institute an inter partes review. Even if there is one potentially meritorious challenge, we have said that the statute contains “no mandate to institute review,” so the Director still has discretion to deny a petition. *Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. \_\_\_, \_\_\_ (2016) (slip op., at 9). We have also held that the Director’s decision whether to institute review is normally not reviewable. *Id.*, at \_\_\_–\_\_\_ (slip op., at 11–12).

The Director, by regulation, has delegated the power to institute review to the Patent Trial and Appeal Board. 37 CFR §42.4(a) (2017). And the Director has further provided by regulation that where a petition challenges several

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patent claims (say, all 16 claims in my example), “the Board may authorize the review to proceed on all *or some* of the challenged claims.” §42.108(a) (emphasis added). Thus, where some, but not all, of the challenges have likely merit (say, 1 of the 16 has likely merit and the others are close to frivolous), the Board is free to conduct inter partes review only as to the challenge with likely merit.

Fourth, the statute next describes the relation of a petition for review and an instituted review to other proceedings involving the challenged patent. §315. Fifth, the statute describes what happens once the Board begins its inter partes review, including how the Board is to take evidence and make its decisions, §316, and the nature and effect of settlements, §317.

Sixth, the statute sets forth the section primarily at issue here, which describes what happens at the end of the process. It says:

“Final Written Decision. If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of *any patent claim challenged by the petitioner* and any new claim added under section 316(d).” §318(a) (emphasis added).

Finally, the chapter says that a “party dissatisfied with the final written decision . . . may appeal the decision” to the U. S. Court of Appeals for the Federal Circuit. §319; see §141(c).

Thus, going through this process, if a petitioner files a petition challenging 16 claims and the Board finds that the challenges to 15 of the claims are frivolous, the Board may then, as it interprets the statute, begin and proceed through the inter partes review process as to the remaining claim, number 16, but not in respect to the other 15



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claims. Eventually the Board will produce a “final written decision” as to the patentability of claim number 16, which decision the challenger (or the patentee) can appeal to the Federal Circuit.

## II

Now let us return to the question at hand, the meaning of the phrase “any patent claim challenged by the petitioner” in §318(a). Do those words unambiguously refer, as the majority believes, to “any patent claim challenged by the petitioner” *in the petitioner’s original petition*? The words “in the petitioner’s original petition” do not appear in the statute. And the words that do appear, “any patent claim challenged by the petitioner,” could be modified by using different words that similarly do not appear, for example, the words “in the inter partes review proceeding.” But without added words, the phrase “challenged by the petitioner” does not tell us whether the relevant challenge is one made in the initial petition or only one made in the inter partes review proceeding itself. And, linguistically speaking, there is as much reason to fill that gap with reference to the claims still being challenged in the proceeding itself as there is to fill it with reference to claims that were initially challenged in the petition but which the Board weeded out before the inter partes review proceeding began.

Which reading we give the statute makes a difference. The first reading, the majority’s reading, means that in my example, the Board must consider and write a final, and *appealable*, see §319, decision in respect to the challenges to all 16 claims, including the 15 frivolous challenges. The second reading requires the Board to write a final, appealable decision only in respect to the challenge to the claim (number 16 in my example) that survived the Board’s initial screening, namely, in my example, the one challenge in respect to which the Board found a “reason-

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able likelihood that the petitioner would prevail.” §314(a).

I cannot find much in the statutory context to support the majority’s claim that the statutory words “claim challenged by the petitioner” refer unambiguously to claims challenged initially in the petition. After all, the majority agrees that they do not refer to claims that initially were challenged in the petition but were later settled or withdrawn. *Ante*, at 9–10; see §316(d)(1)(A) (allowing the patent owner to cancel a challenged patent claim during inter partes review); §317 (addressing settlement). The majority says that weeded-out challenges, unlike settled matters or canceled claims, involve claims that are still being “challenged ‘by the petitioner’ at the litigation’s end.” *Ante*, at 9–10. But weeded-out challenges are the same as settled matters and canceled claims in this respect. The petitioner cannot continue to challenge a claim once that challenge is weeded out by the Board at the institution phase. He cannot pursue it before the Board in the inter partes review, and normally he cannot pursue it in a court of appeals. See *Cuozzo*, 579 U. S., at \_\_\_\_–\_\_\_\_ (slip op., at 11–12). The petitioner might bring a totally separate case in court in which he challenges the claim, but that is a different matter that is not the subject of this statutory chapter.

Nor does the chapter’s structure help fill the statutory gap. I concede that if we examine the “final written decision” section, §318(a), just after reading the three initial sections of the statute, §§311, 312, and 313, we may be tempted to believe that the words “any patent claim challenged” in §318(a) must refer to the claims challenged in the petition, just as the words “each claim challenged” in §312(a)(3) unmistakably do. But once we look at the whole statute, this temptation disappears. The first section, §311, describing the inter partes review process, does not use the word “challenge.” The next section, §312, describes the requirements for the initial petition, which is

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filed *before* any inter partes proceeding has been instituted. It is about the petition, so it is not surprising that it refers to the claims challenged in the petition. The next section, §313, concerns the preliminary response, which is similarly filed before the inter partes review proceeding has been instituted and is thus similarly focused on the petition, although it does not use the word “challenged.”

The very next section, however, §314, along with part of §315, describes preliminary screening and the *institution* of the inter partes review proceeding. The remainder of §315, and the following sections, §§316 and 317, then describe how that proceeding, once instituted, will be conducted (and provide for settlements). Only then does §318 appear. That statutory provision tells the Board that, at the conclusion of the inter partes review proceeding, it must “issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” §318(a). And in this context, a context about the inter partes review proceeding itself, it is more than reasonable to think that the phrase “patent claim challenged by the petitioner” refers to challenges made in the proceeding, not challenges made in the petition but never made a part of the proceeding.

I am not helped by examining, as the majority examines, what Congress might have done had it used other language. *Ante*, at 6–8. The majority points out that had Congress meant anything other than “challenged in the petition,” it might have said so more clearly. *Ibid*. But similarly, if Congress had meant “challenged in the petition,” it might have used the words “in the petition.” After all, it used those very words only four sections earlier. See §314(a) (referring to “claims challenged in the petition”). This argument, like many such arguments, is a wash.

Neither am I helped by analogizing the inter partes review proceeding to civil litigation. Cf. *ante*, at 2–3, 5. That is because, as this Court said in *Cuozzo*, inter partes

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review is a “hybrid proceeding.” 579 U. S., at \_\_\_\_ (slip op., at 16). It has some adversarial characteristics, but “in other significant respects, inter partes review is less like a judicial proceeding and more like a specialized agency proceeding.” *Id.*, at \_\_\_\_ (slip op., at 15). Its purposes are not limited to “helping resolve concrete patent-related disputes among parties,” but extend to “reexamin[ing] . . . an earlier administrative grant of a patent” and “protect[ing] the public’s ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.’” *Ibid.* (quoting *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U. S. 806, 816 (1945); ellipsis in original); see also *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, \_\_\_\_ U. S. \_\_\_\_, \_\_\_\_–\_\_\_\_ (2018) (slip op., at 8–9).

Finally, I would turn to the likely purposes of the statutory provision. As the majority points out, §314(a) makes clear that the “Director” (now his delegate, the Board) is to determine whether there is a “reasonable likelihood” of success as to at least one of the claims the petition challenges. If not, he cannot initiate an inter partes review proceeding. If so, §314(a) “invests the Director with discretion on the question whether to institute review.” *Ante*, at 8 (emphasis deleted); *Cuozzo, supra*, at \_\_\_\_ (slip op., at 9). As I have said, Patent Office regulations allow the Board to proceed with inter partes review of some of the claims a petitioner challenges (say, only those where there is a reasonable likelihood of success), but not of others. 37 CFR §42.108(a).

The majority points out that it does not follow from §314(a) that the statute affords the Director discretion regarding *what claims that review will encompass*. The text says only that the Director can decide “whether” to institute the requested review, not “whether and to what extent” review should proceed. *Ante*, at 8 (emphasis deleted). That is certainly so. But I think that when we, as

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judges, face a difficult text, it is often helpful to ask not just “whether” or “what” but also “why.” Why, asks the Patent Office, would Congress have intended to require the Board to proceed with an inter partes review, take evidence, and hear argument in respect to challenges to claims that the Board had previously determined had no “reasonable likelihood” of success? The statute would seem to give the Director discretion to achieve the opposite, namely, to avoid wasting the Board’s time and effort reviewing challenges that it has already decided have no “reasonable likelihood of success.” In my example, why make the Board do further work on the challenges to claims 1 through 15, which the Board has already decided are near frivolous?

More than that, to read §318(a) as requiring a “final written decision” in respect to those 15 perhaps frivolous challenges would seem to lead to judicial review of the Board’s decision about those frivolous challenges. After all, §319 of the statute says that a “party dissatisfied with the final written decision of the [Board] under section 318(a),” the provision before us, “may appeal the decision” to the Federal Circuit. And the majority’s interpretation is anomalous in that it is difficult to imagine why Congress, with one hand, would make the agency’s weeding-out decision nonreviewable, see *Cuozzo, supra*, at \_\_\_–\_\_\_ (slip op., at 11–12), yet at the same time would make the decision reviewable via the requirement that the Board issue a “final written” appealable “decision” with respect to that weeded-out challenge.

### III

I end up where I began. Section 318(a) contains a gap just after the words “challenged by the petitioner.” Considerations of context, structure, and purpose do not close the gap. And under *Chevron*, “where a statute leaves a ‘gap’ or is ‘ambigu[ous],’ we typically interpret it as grant-

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ing the agency leeway to enact rules that are reasonable in light of the text, nature, and purpose of the statute.” *Cuozzo, supra*, at \_\_\_\_ (slip op., at 13) (quoting *United States v. Mead Corp.*, 533 U. S. 218, 229 (2001); alteration in original).

A

In referring to *Chevron*, I do not mean that courts are to treat that case like a rigid, black-letter rule of law, instructing them always to allow agencies leeway to fill every gap in every statutory provision. See *Mead Corp.*, *supra*, at 229–231. Rather, I understand *Chevron* as a rule of thumb, guiding courts in an effort to respect that leeway which Congress intended the agencies to have. I recognize that Congress does not always consider such matters, but if not, courts can often implement a more general, virtually omnipresent congressional purpose—namely, the creation of a well-functioning statutory scheme—by using a canon-like, judicially created construct, the hypothetical reasonable legislator, and asking what such legislators would likely have intended had Congress considered the question of delegating gap-filling authority to the agency.

B

To answer this question, we have previously held that a “statute’s complexity, the vast number of claims that it engenders, and the consequent need for agency expertise and administrative experience” normally “lead us to read [a] statute as delegating to the Agency considerable authority to fill in, through interpretation, matters of detail related to its administration.” *Barnhart v. Walton*, 535 U. S. 212, 225 (2002). These considerations all favor such a reading here. Indeed, the question before us is one of agency administration in respect to detailed matters that an agency working with the statute is particularly likely

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to understand. In addition, the agency filled the gap here through the exercise of rulemaking authority explicitly given it by Congress to issue regulations “setting forth the standards for the showing of sufficient grounds to institute a review” and “establishing and governing inter partes review.” §§316(a)(2), (4); *Cuozzo*, 579 U. S., at \_\_\_–\_\_\_ (slip op., at 12–13); cf. *Mead Corp.*, *supra*, at 227. Thus, there is a gap, the agency possesses gap-filling authority, and it filled the gap with a regulation that, for reasons I have stated, is a reasonable exercise of that authority.

\* \* \*

I consequently would affirm the judgment of the Federal Circuit. And, with respect, I dissent from the Court’s contrary conclusion.

**United States Court of Appeals  
for the Federal Circuit**

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**WI-FI ONE, LLC,**  
*Appellant*

**v.**

**BROADCOM CORPORATION,**  
*Appellee*

**JOSEPH MATAL, PERFORMING THE FUNCTIONS  
AND DUTIES OF THE UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY  
AND DIRECTOR, U.S. PATENT AND TRADEMARK  
OFFICE,**  
*Intervenor*

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2015-1944

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Appeal from the United States Patent and Trademark  
Office, Patent Trial and Appeal Board in No. IPR2013-  
00601.

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**WI-FI ONE, LLC,**  
*Appellant*

**v.**

**BROADCOM CORPORATION,**  
*Appellee*



**JOSEPH MATAL, PERFORMING THE FUNCTIONS  
AND DUTIES OF THE UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY  
AND DIRECTOR, U.S. PATENT AND TRADEMARK  
OFFICE,**  
*Intervenor*

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2015-1945

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Appeal from the United States Patent and Trademark  
Office, Patent Trial and Appeal Board in No. IPR2013-  
00602.

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**WI-FI ONE, LLC,**  
*Appellant*

v.

**BROADCOM CORPORATION,**  
*Appellee*

**JOSEPH MATAL, PERFORMING THE FUNCTIONS  
AND DUTIES OF THE UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY  
AND DIRECTOR, U.S. PATENT AND TRADEMARK  
OFFICE,**  
*Intervenor*

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2015-1946

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Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2013-00636.

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Decided: January 8, 2018

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Before PROST, *Chief Judge*, NEWMAN, LOURIE, BRYSON,<sup>1</sup> DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, HUGHES, and STOLL, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* REYNA, in which *Chief Judge* PROST and *Circuit Judges* NEWMAN, MOORE, O'MALLEY, WALLACH, TARANTO, CHEN, and STOLL join.

Concurring opinion filed by *Circuit Judge* O'MALLEY.

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<sup>1</sup> Circuit Judge Bryson assumed senior status on January 7, 2013.

Dissenting opinion filed by *Circuit Judge* HUGHES, in which *Circuit Judges* LOURIE, BRYSON, and DYK join.

REYNA, *Circuit Judge*.

Congress has prohibited the Director of the United States Patent and Trademark Office from instituting inter partes review if the petition requesting that review is filed more than one year after the petitioner, real party in interest, or privy of the petitioner is served with a complaint for patent infringement. 35 U.S.C. § 315(b). Congress also provided that the Director’s determination “whether to institute an inter partes review under this section shall be final and nonappealable.” *Id.* § 314(d). The question before us is whether the bar on judicial review of institution decisions in § 314(d) applies to time-bar determinations made under § 315(b). In *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652, 658 (Fed. Cir. 2015), a panel of this court held in the affirmative that a § 315(b) time-bar determination is final and nonappealable under § 314(d). Today, the court revisits this question en banc.

We recognize the strong presumption in favor of judicial review of agency actions. To overcome this presumption, Congress must clearly and convincingly indicate its intent to prohibit judicial review. We find no clear and convincing indication of such congressional intent. We therefore hold that the time-bar determinations under § 315(b) are appealable, overrule *Achates*’s contrary conclusion, and remand these cases to the panel for further proceedings consistent with this opinion.

## I. BACKGROUND

### A. America Invents Act

In 2011, Congress passed the Leahy-Smith America Invents Act (“AIA”), which created inter partes review (“IPR”) proceedings. *See* Pub. L. No. 112-29, § 6(a)–(c), 125 Stat. 284, 299–305 (2011); 35 U.S.C. §§ 311–319. IPR

and other post-grant proceedings are intended to be quick and cost effective alternatives to litigation for third parties to challenge the patentability of issued claims. H.R. Rep. No. 112-98, pt. 1, at 48 (2011); 157 Cong. Rec. 2,710 (2011) (statement of Sen. Grassley). Sections 311 and 312 of Title 35 establish who may petition for IPR, the grounds for review in an IPR, the earliest permitted time for a petition for an IPR, and the requirements of the petition for an IPR. Under § 311, a person who is not the owner of a patent may petition the Director to institute IPR of one or more patent claims on permitted grounds, alleging unpatentability on certain prior art bases. Section 312 provides that the petition must, among other things, “identif[y], in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.” 35 U.S.C. § 312(a)(3). Section 313 provides that the patent owner may file a preliminary response to the petition.

In § 314, subsection (a) prescribes the threshold “determin[ation]” required for the Director to institute: a “reasonable likelihood” that the petitioner will succeed in its patentability challenge to at least one of the challenged patent claims. Subsections (b) and (c) prescribe the timing of and notice requirements for the institution decision. And § 314(d) addresses judicial review of the Director’s IPR institution determination under § 314. Specifically, § 314(d) provides that “[t]he determination by the Director whether to institute an inter partes review *under this section* shall be final and nonappealable.”<sup>2</sup> (emphasis added).

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<sup>2</sup> The Director has delegated the authority to institute IPR to the Patent Trial and Appeal Board (“the Board”). 37 C.F.R. §§ 42.4(a), 42.108. We have held this

The remainder of the IPR-related provisions of the AIA go beyond the preliminary procedural requirements and the preliminary determination regarding likely unpatentability. Section 315, for example, governs the relationship between IPRs and other proceedings conducted outside of the IPR process. The provision at issue in this appeal, § 315(b), provides that “[a]n inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.” This one-year time bar does not apply to a request for joinder under § 315(c).

Section 316 addresses the “conduct of” IPRs, including amendments of the patent and evidentiary standards. Section 317 addresses settlement.

If the Director determines to institute IPR, in most cases, the Board must “issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner,” as well as any new claims added during IPR. 35 U.S.C. § 318(a). Any party to IPR “dissatisfied” with the final written decision may appeal that decision to this court. *Id.* §§ 141(c), 319.

### B. *Achates*

In 2015, a panel of this court decided the same issue before us today: whether § 314(d) precludes judicial review of § 315(b) time-bar determinations. In *Achates*, the Board canceled certain patent claims through IPR. 803 F.3d at 653. On appeal, the patent owner argued that the Board acted outside of its statutory authority by

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delegation to be constitutionally and statutorily permissible. *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023, 1033 (Fed. Cir. 2016).

instituting IPR on a petition that was time-barred under § 315(b). *Id.* The panel rejected this argument, holding that “35 U.S.C. § 314(d) prohibits this court from reviewing the Board’s determination to initiate IPR proceedings based on her assessment of the time bar of § 315(b), even if such assessment is reconsidered during the merits phase of proceedings and restated as part of the final written decision.” *Id.* at 658. According to the panel, the Board’s misinterpretation of § 315(b) does not constitute *ultra vires* agency action that might otherwise support judicial review. *Id.* at 658–59. Concluding that this court is barred from reviewing § 315(b) decisions, the panel dismissed for lack of jurisdiction. *Id.* at 659.

### C. *Cuozzo*

Subsequent to our decision in *Achates*, the Supreme Court decided *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016). In *Cuozzo*, the Court addressed whether § 314(d) bars judicial review of determinations regarding compliance with § 312(a)(3), *i.e.*, whether the petition identified with sufficient particularity “each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.” *Id.* at 2139–42.

The Supreme Court’s analysis of § 314(d) began with a recognition of the “‘strong presumption’ in favor of judicial review.” *Id.* at 2140 (quoting *Mach Mining, LLC v. EEOC*, 135 S. Ct. 1645, 1651 (2015)). The Court explained that the presumption of judicial review “may be overcome by “‘clear and convincing’” indications, drawn from ‘specific language,’ ‘specific legislative history,’ and ‘inferences of intent drawn from the statutory scheme as a whole,’ that Congress intended to bar review.” *Id.* (quoting *Block v. Cmty. Nutrition Inst.*, 467 U.S. 340, 349–50 (1984)).

The Supreme Court held that the presumption in favor of judicial review was overcome regarding whether a



petition met the requirements of § 312(a)(3). *Id.* at 2142. The Court considered the dispute about § 312(a)(3)'s particularity requirement to be “an ordinary dispute” over the Director’s institution decision. *Id.* at 2139. The Court concluded that § 314(d) “must, at the least, forbid an appeal that attacks a ‘determination . . . whether to institute’ review by raising this kind of legal question and little more.” *Id.* (alteration in original). The Court spoke of “the kind of initial determination at issue here—that there is a ‘reasonable likelihood’ that the claims are unpatentable on the grounds asserted.” *Id.* at 2140 (quoting § 314(a)). The Court held:

where a patent holder merely challenges the Patent Office’s “determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood” of success “with respect to at least 1 of the claims challenged,” § 314(a), or where a patent holder grounds its claim in a statute closely related to that decision to institute inter partes review, § 314(d) bars judicial review.

*Id.* at 2142 (alterations in original). The Supreme Court noted that the question of whether a petition was pleaded with particularity amounted to “little more than a challenge to the Patent Office’s conclusion, under § 314(a), that the ‘information presented in the petition’ warranted review.” *Id.* In the Court’s words, a challenge to the sufficiency of the “information presented in the petition” was a nonappealable “mine-run” claim. *Id.* at 2136, 2142.

The dissent contends that the statutory language of § 314(d) “is absolute and provides no exceptions.” Dissenting Op. at 8. The Supreme Court in *Cuozzo* rejected this contention. The Court made clear that its holding was limited; it expressly left open the potential for review, under certain circumstances, of decisions to institute IPR. First, the Court emphasized that its “interpretation applies where the grounds for attacking the decision to

institute inter partes review consist of questions that are closely tied to the application and interpretation of statutes related to” the institution decision, emphasizing the “under this section” language of § 314(d) in the citation that follows. 136 S. Ct. at 2141. In stating its holding (quoted above), the Court further tied the “closely related” language to the specific “reasonable likelihood” determination made under § 314(a). *Id.* at 2142. The Court expressly declined to “decide the precise effect of § 314(d) on appeals that implicate constitutional questions, *that depend on other less closely related statutes*, or that present other questions of interpretation that reach, in terms of scope and impact, *well beyond ‘this section.’*”<sup>3</sup> *Id.* at 2141 (emphases added). Second, the Court noted that its holding does not “categorically preclude review of a final decision where a petition fails to give ‘sufficient notice’ such that there is a due process problem with the entire proceeding.” *Id.* Finally, the Court wrote that its holding does not “enable the agency to act outside its statutory limits by, for example, canceling a patent claim for ‘indefiniteness under § 112’ in inter partes review.” *Id.* at 2141–42. “Such ‘shenanigans,’” according to the Court, “may be properly reviewable in the context of § 319 and under the Administrative Procedure Act.” *Id.* at 2142.

#### D. The Present Appeal

In 2010, Telefonaktiebolaget LM Ericsson (“Ericsson”) filed its complaint for infringement of U.S. Patent Nos.

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<sup>3</sup> The dissent’s reliance on *Briscoe v. Bell*, 432 U.S. 404 (1977), is misplaced. Unlike *Cuozzo*, *Briscoe* does not address whether a statutory section precluding judicial review of determinations “under this section” would apply to determinations made under any other section of that statute or a different statute.

6,772,215 (“215 patent”), 6,466,568 (“568 patent”), and 6,424,625 (“625 patent”) in the United States District Court for the Eastern District of Texas against multiple defendants.<sup>4</sup> The case progressed to a jury trial, where the jury found that the defendants infringed the asserted claims. This court reviewed that determination. *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014). Broadcom Corporation (“Broadcom”), the appellee here, was never a defendant in that litigation.

In 2013, Broadcom filed three separate petitions for IPR of the ’215, ’568, and ’625 patents.<sup>5</sup> When Broadcom filed the IPR petitions, Ericsson owned these patents. During the pendency of the IPRs, Ericsson transferred ownership of the three patents to Wi-Fi One, LLC (“Wi-Fi”).

In response to Broadcom’s petitions, Wi-Fi argued that the Director was prohibited from instituting review on any of the three petitions. Specifically, Wi-Fi argued that the Director lacked authority to institute IPR under § 315(b) because Broadcom was in privity with defendants that were served with a complaint in the Eastern District of Texas litigation. Wi-Fi alleged that the IPR petitions were therefore time-barred under § 315(b) because Eric-

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<sup>4</sup> Ericsson brought suit against D-Link Systems, Inc., Netgear, Inc., Acer, Inc., Acer America Corp., Gateway, Inc., Dell, Inc., Belkin International, Inc., Toshiba America Information Systems, Inc., and Toshiba Corp. Intel Corp. intervened and Ericsson amended its complaint to add Intel as a defendant. *See Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10-CV-473, 2013 WL 4046225, at \*24 n.1 (E.D. Tex. Aug. 6, 2013), *aff’d in part, vacated in part, rev’d in part*, 773 F.3d 1201 (Fed. Cir. 2014).

<sup>5</sup> The technical aspects of the patents are not relevant to this opinion.

son, the patents' previous owner, had already asserted infringement in district court against defendants that were in privity with petitioner Broadcom more than a year prior to the filing of the petitions.

Wi-Fi filed a motion seeking discovery regarding indemnity agreements, defense agreements, payments, and email or other communications between Broadcom and the defendants in the Eastern District of Texas litigation. The Board denied both the motion and Wi-Fi's subsequent motion for rehearing. Wi-Fi petitioned this court for a writ of mandamus, which we denied. *In re Telefonaktiebolaget LM Ericsson*, 564 F. App'x 585 (Fed. Cir. 2014).

The Board instituted IPR on the challenged claims, and issued Final Written Decisions finding the challenged claims unpatentable. In the Final Written Decisions, the Board determined that Wi-Fi had not shown that Broadcom was in privity with the defendants in the Eastern District of Texas litigation, and therefore, the IPR petitions were not time-barred under § 315(b). *Broadcom Corp. v. Wi-Fi One, LLC*, No. IPR2013-00601, 2015 WL 1263008, at \*4–5 (P.T.A.B. Mar. 6, 2015); *Broadcom Corp. v. Wi-Fi One, LLC*, No. IPR2013-00602, 2015 WL 1263009, at \*4 (P.T.A.B. Mar. 6, 2015); *Broadcom Corp. v. Wi-Fi One, LLC*, No. IPR2013-00636, 2015 WL 1263010, at \*4 (P.T.A.B. Mar. 6, 2015).

Wi-Fi appealed the Final Written Decisions, arguing, among other things, that this court should reverse or vacate the Board's time-bar determinations. A panel of this court rejected Wi-Fi's arguments, reasoning that *Achates* renders the § 315(b) time-bar rulings nonappealable. *See Wi-Fi One, LLC v. Broadcom Corp.*, 837 F.3d 1329, 1333 (Fed. Cir. 2016) ("Wi-Fi does not dispute that *Achates* renders its challenge to the Board's timeliness ruling nonappealable if *Achates* is still good law."). Because the panel concluded that *Cuozzo* did not implicitly overrule *Achates*, it held Wi-Fi's time-bar challenges to be

unreviewable, and affirmed. *Id.* at 1334–35, 1340; *see also Wi-Fi One, LLC v. Broadcom Corp.*, 668 F. App'x 893 (Fed. Cir. 2016) (summarily affirming the time-bar decisions on the '568 and '625 patents).

Wi-Fi petitioned for rehearing en banc. We granted Wi-Fi's petition to consider whether we should overrule *Achates* and hold that the Director's § 315(b) time-bar determinations are subject to judicial review. The question presented for en banc rehearing is:

Should this court overrule *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652 (Fed. Cir. 2015) and hold that judicial review is available for a patent owner to challenge the PTO's determination that the petitioner satisfied the timeliness requirement of 35 U.S.C. § 315(b) governing the filing of petitions for inter partes review?

*Wi-Fi One, LLC v. Broadcom Corp.*, 851 F.3d 1241, 1241 (Fed. Cir. 2017).

## II. DISCUSSION

As with any agency action, we apply the “strong presumption” favoring judicial review of administrative actions, including the Director's IPR institution decisions.<sup>6</sup> *Cuozzo*, 136 S. Ct. at 2140; *see also Gutierrez de*

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<sup>6</sup> Final decisions of the PTO are reviewed according to the standards provided in the Administrative Procedure Act (“APA”). *Cuozzo*, 136 S. Ct. at 2142; *Unwired Planet, LLC v. Google Inc.*, 841 F.3d 1376, 1379 (Fed. Cir. 2016). And 28 U.S.C. § 1295(a)(4)(A) provides this court with exclusive jurisdiction over an appeal from a decision of “the Patent Trial and Appeal Board of the United States Patent and Trademark Office with respect to . . . inter partes review under title 35.”

*Martinez v. Lamagno*, 515 U.S. 417, 424 (1995) (“[F]ederal judges traditionally proceed from the ‘strong presumption that Congress intends judicial review.’”); *Bowen v. Mich. Acad. of Family Physicians*, 476 U.S. 667, 670 (1986); *United States v. Nourse*, 34 U.S. (9 Pet.) 8, 28–29 (1835). Accordingly, if a statute is “reasonably susceptible” to an interpretation allowing judicial review, we must adopt such an interpretation. *Kucana v. Holder*, 558 U.S. 233, 251 (2010); *Gutierrez de Martinez*, 515 U.S. at 434.

In view of this strong presumption, we will abdicate judicial review only when Congress provides a “clear and convincing” indication that it intends to prohibit review. *Cuozzo*, 136 S. Ct. at 2140; see *Lindahl v. Office of Pers. Mgmt.*, 470 U.S. 768, 778 (1985); *Block*, 467 U.S. at 349–50; *Return Mail, Inc. v. U.S. Postal Serv.*, 868 F.3d 1350, 1357 (Fed. Cir. 2017).

We find no clear and convincing indication in the specific statutory language in the AIA, the specific legislative history of the AIA, or the statutory scheme as a whole that demonstrates Congress’s intent to bar judicial review of § 315(b) time-bar determinations. See *Cuozzo*, 136 S. Ct. at 2140. The parties have not cited, nor are we aware of, any specific legislative history that clearly and convincingly indicates congressional intent to bar judicial review of § 315(b) time-bar determinations. We review the statutory language and the statutory scheme in turn.

Starting with the statutory language, § 314(d) provides that “[t]he determination by the Director whether to institute an inter partes review *under this section* shall be final and nonappealable.” (emphasis added). The natural reading of the statute limits the reach of § 314(d) to the determination by the Director whether to institute IPR as set forth in § 314. Subsection (a) of § 314—the only subsection addressing substantive issues that are part of the Director’s determination “under this section”—reads:

**(a) Threshold.**--The Director may not authorize an inter partes review to be instituted unless the Director determines that the information present in the petition filed under section 311 and any response filed under section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.

Subsection (a) does only two things: it identifies a threshold requirement for institution, and as *Cuozzo* recognized, it grants the Director discretion not to institute even when the threshold is met. 136 S. Ct. at 2140 (“[T]he agency’s decision to deny a petition is a matter committed to the Patent Office’s discretion.”). It does not address any other issue relevant to an institution determination. The language of § 314(a) defines the threshold in terms of determinations that are focused on the patentability merits of particular claims. This determination is only preliminary, aimed just at what is reasonably likely to be decided when patentability is fully addressed, should an IPR be instituted. *See Cuozzo*, 136 S. Ct. at 2140. In referring to the preliminary patentability determination, the Court characterized the Director’s discretion regarding institution as being “akin to decisions which, in other contexts, we have held to be unreviewable.” *Id.*<sup>7</sup>

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<sup>7</sup> Examples include an agency’s discretionary decision *not* to initiate a proceeding, *Cuozzo*, 136 S. Ct. at 2140, a grand jury’s determination of probable cause, *id.*, and a court’s denial of summary judgment, *see Ortiz v. Jordan*, 562 U.S. 180, 183–84 (2011); *Switz. Cheese Ass’n, Inc. v. E. Horne’s Market, Inc.*, 385 U.S. 23, 25 (1966); *Function Media, LLC v. Google Inc.*, 708 F.3d 1310, 1322 (Fed. Cir. 2013).

In contrast, § 315(b) controls the Director's authority to institute IPR that is unrelated to the Director's preliminary patentability assessment or the Director's discretion not to initiate an IPR even if the threshold "reasonable likelihood" is present. Section 315(b) reads:

**(b) Patent Owner's Action.** An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent. The time limitation set forth in the preceding sentence shall not apply to a request for joinder under subsection (c).

The dissent states that § 315(b) "does not go to the merits of the petition." Dissenting Op. at 5. This is correct. The time-bar decision is nowhere referred to in § 314(a). Additionally, the time bar is not focused on particular claims, whereas § 314(a)'s threshold determination is; the time bar involves only the time of service of a complaint alleging infringement "of the patent." Nothing in § 315(b) sets up a two-stage process for addressing the time bar: the time-bar determination may be decided fully and finally at the institution stage.

The time-bar determination, therefore, is not akin to either the non-initiation or preliminary-only merits determinations for which unreviewability is common in the law, in the latter case because the closely related final merits determination is reviewable. *See supra* note 7. Because § 314(a) does not mention this distinct issue, the PTO's position that the time-bar determination is unreviewable runs counter to the principle, as reflected in *Cuozzo*, that favors reading the statute to comport with,



not depart from, familiar approaches to comparable issues.<sup>8</sup>

This reading is consistent with the overall statutory scheme as understood through the lens of *Cuozzo*'s directive to examine the statutory scheme in terms of what is "closely related" to the § 314(a) determination. The Supreme Court in *Cuozzo* stated that "§ 314(d) bars judicial review" both when "a patent holder merely challenged the Patent Office's 'determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood' of success 'with respect to at least 1 of the claims challenged,' § 314(a)" and, in addition, when "a patent holder grounds its claim in a statute closely related to *that* decision to institute inter partes review." 136 S. Ct. at 2142 (alterations in original) (emphasis added). The statutory scheme demonstrates that several sections of the AIA, such as the preliminary procedural requirements stated in §§ 311–13, relate more closely to the determination by the Director. The "reasonable likelihood" determination under § 314(a) is clearly about whether "the claims are unpatentable on the grounds asserted." *Id.* at 2140. The Court's statement of its holding thus strongly points toward unreviewability being limited to the Director's determinations closely related to the preliminary patentability determination or the exercise of discretion not to institute.

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<sup>8</sup> Although § 314(d) uses language somewhat different from the language of precursor provisions, there is no reason to infer a deliberate broadening of the scope of nonreviewability—certainly not a clear and convincing reason. Indeed, the Court in *Cuozzo* stressed the similarity of § 314(d) to its precursors, without mentioning differences. 136 S. Ct. at 2140.

Whether a petitioner has complied with § 315(b) is not such a determination, as it has nothing to do with the patentability merits or discretion not to institute. The time-bar provision contrasts with many of the preliminary procedural requirements stated in §§ 311–13, which relate to the Director’s ability to make an informed preliminary patentability determination pursuant to § 314(a). Specifically, § 315(b) time-bar determinations are fundamentally different from those evaluating the satisfaction of § 312(a)(3)’s requirements, at issue in *Cuozzo*. Section 312(a)(3) demands particularity as to “each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.” That requirement is closely tied to the Director’s determination of a “reasonable likelihood” of unpatentability of at least one claim. The time bar is not.

The issue that Wi-Fi appeals also is not “some minor statutory technicality.” *Cuozzo*, 136 S. Ct. at 2140. The time bar is not merely about preliminary procedural requirements that may be corrected if they fail to reflect real-world facts, but about real-world facts that limit the agency’s authority to act under the IPR scheme.<sup>9</sup> The

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<sup>9</sup> For instance, the dissent conflates “real party in interest” as used in § 312(a)(2) and § 315(b), and claims that “§ 312(a)(2) is part and parcel of the timeliness inquiry under § 315.” Dissenting Op. at 10. This is incorrect. For example, if a petition fails to identify all real parties in interest under § 312(a)(2), the Director can, and does, allow the petitioner to add a real party in interest. See, e.g., *Intel Corp. v. Alacritech, Inc.*, No. IPR2017-01392, Paper No. 11, at 23 (P.T.A.B. Nov. 30, 2017); *Elekta, Inc. v. Varian Medical Sys., Inc.*, No. IPR2015–01401, 2015 WL 9898990, at \*4, \*6 (P.T.A.B.

timely filing of a petition under § 315(b) is a condition precedent to the Director's authority to act. It sets limits on the Director's statutory authority to institute, balancing various public interests. And like § 315 as a whole, it governs the relation of IPRs to other proceedings or actions, including actions taken in district court.

Thus, the statutory scheme as a whole demonstrates that § 315 is not "closely related" to the institution decision addressed in § 314(a), and it therefore is not subject to § 314(d)'s bar on judicial review. *Cuozzo*, 136 S. Ct. at 2142; *cf. Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1049–51 (Fed. Cir. 2017) (holding that a similar nonappealability provision with respect to post-grant review, 35 U.S.C. § 324(e), does not preclude our review of an estoppel determination under 35 U.S.C. § 325(e)(1)). Accordingly, our review of the statutory language and the statutory scheme reveals no clear and convincing indication of Congress's intent to bar judicial review of § 315(b) time-bar determinations.

Enforcing statutory limits on an agency's authority to act is precisely the type of issue that courts have historically reviewed. *See, e.g., City of Arlington v. F.C.C.*, 569 U.S. 290, 307 (2013); *Bowen*, 476 U.S. at 671; *Leedom v. Kyne*, 358 U.S. 184, 190 (1958). As a statutory limit on the Director's ability to institute IPR, the § 315(b) time

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Dec. 31, 2015). For this reason, the PTO has established procedures to rectify noncompliance of § 312(a)(2). *Lumentum Holdings, Inc. v. Capella Photonics, Inc.*, No. IPR2015-00739, 2016 WL 2736005, at \*3 (P.T.A.B. Mar. 4, 2016) (precedential); 37 C.F.R. §§ 42.8(a)(3), 42.8(b)(1). In contrast, if a petition is not filed within a year after a real party in interest, or privy of the petitioner is served with a complaint, it is time-barred by § 315(b), and the petition cannot be rectified and in no event can IPR be instituted.

bar is such an issue. We hold that time-bar determinations under § 315(b) are reviewable by this court.

### III. CONCLUSION

The Supreme Court in *Cuozzo* instructed that the “strong presumption” favoring judicial review “may be overcome by “clear and convincing” indications, drawn from ‘specific language,’ ‘specific legislative history,’ and ‘inferences of intent drawn from the statutory scheme as a whole,’ that Congress intended to bar review.” 136 S. Ct. at 2140. Finding no such clear and convincing indications, we hold that the Director’s time-bar determinations under § 315(b) are not exempt from judicial review, and overrule *Achates*’s contrary conclusion. We do not decide today whether all disputes arising from §§ 311–14 are final and nonappealable. Our holding applies only to the appealability of § 315(b) time-bar determinations. We remand for the panel to consider in the first instance the merits of Wi-Fi’s time-bar appeal.

**REMANDED TO THE MERITS PANEL**

**United States Court of Appeals  
for the Federal Circuit**

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**WI-FI ONE, LLC,**  
*Appellant*

v.

**BROADCOM CORPORATION,**  
*Appellee*

**JOSEPH MATAL, PERFORMING THE FUNCTIONS  
AND DUTIES OF THE UNDER SECRETARY OF  
COMMERCE FOR INTELLECTUAL PROPERTY  
AND DIRECTOR, U.S. PATENT AND TRADEMARK  
OFFICE,**  
*Intervenor*

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2015-1944

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Appeal from the United States Patent and Trademark  
Office, Patent Trial and Appeal Board in No. IPR2013-  
00601.

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**WI-FI ONE, LLC,**  
*Appellant*

v.

**BROADCOM CORPORATION,**  
*Appellee*

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2015-1945

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Appeal from the United States Patent and Trademark  
Office, Patent Trial and Appeal Board in No. IPR2013-  
00602.

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**WI-FI ONE, LLC,**  
*Appellant*

v.

**BROADCOM CORPORATION,**  
*Appellee*

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2015-1946

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Appeal from the United States Patent and Trademark  
Office, Patent Trial and Appeal Board in No. IPR2013-  
00636.

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O'MALLEY, *Circuit Judge*, concurring.

I agree with much of the majority's thoughtful reasoning, and I certainly agree with its conclusion that time-bar determinations under 35 U.S.C. § 315(b) are not exempt from judicial review. I write separately because, in my view, the question presented for en banc rehearing in this case is much simpler than the majority's analysis implies; it turns on the distinction between the Director's authority to exercise discretion when reviewing the adequacy of a petition to institute an inter partes review ("IPR") and authority to undertake such a review in the first instance. If the United States Patent and Trademark Office ("PTO") exceeds its statutory authority by instituting an IPR proceeding under circumstances contrary to the language of § 315(b), our court, sitting in its proper role as an appellate court, should review those determinations. Indeed, we should address those decisions in order to give effect to the congressionally imposed statutory limitations on the PTO's authority to institute IPRs.

As we explained in *Intellectual Ventures II LLC v. JPMorgan Chase & Co.*, 781 F.3d 1372 (Fed. Cir. 2015), when assessing whether we may exercise jurisdiction over an appeal from institution decisions regarding covered business method patents ("CBMs"), Congress consistently differentiated between petitions to institute and the act of institution in the AIA. *Id.* at 1376. The former is what a party seeking to challenge a patent in a CBM proceeding, a derivation proceeding, a post-grant proceeding, or an IPR files—and of which the PTO reviews the sufficiency—and the latter is what the Director is authorized to do. *Id.* Because only the Director or her delegates may "institute" a proceeding, § 315(b)'s bar on institution is necessarily

directed to the PTO, not those filing a petition to institute. *See id.*

The PTO's own regulations support this reading of § 315(b); they clearly consider the possibility that the Board might mistakenly take actions in excess of its statutory jurisdiction. For example, Part 42 of Title 37 in the Code of Federal Regulations "governs proceedings before the Patent Trial and Appeal Board." 37 C.F.R. § 42.1(a) (2016). In addressing "Jurisdiction" for these proceedings, Part 42 expressly requires that "[a] petition to institute a trial must be filed with the Board consistent with any time period required by statute." *Id.* § 42.3(b); *see also id.* § 42.2 (identifying IPR proceedings as falling within the definition of "trial"). A straightforward reading of these regulations indicates that the PTO believed, at least at the time it issued those regulations, that it would not have statutory jurisdiction or authority to institute proceedings—including IPRs—in response to petitions to institute filed *outside* the time limit set by statute for such filings, regardless of the adequacy of those petitions.

Section 314(d)'s bar on appellate review is directed to the Director's assessment of the substantive adequacy of a timely filed petition. Because § 315(b)'s time bar has nothing to do with the substantive adequacy of the petition and is directed, instead, to the Director's authority to act, § 314(d) does not apply to decisions under that provision.

This conclusion not only is consistent with, but, in my view, is dictated by the Supreme Court's reasoning in *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016). There, the Court considered whether § 314(d) bars review of determinations by the PTO that a petition for IPR complies, at least implicitly, with the "particularity" requirement set forth in § 312(a)(3). 136 S. Ct. at 2138–39. The majority here correctly notes that the



Court in *Cuozzo* “recognize[d] the ‘strong presumption’ in favor of judicial review that we apply when we interpret statutes, including statutes that may limit or preclude review.” *Id.* at 2140 (quoting *Mach Mining, LLC v. E.E.O.C.*, 135 S. Ct. 1645, 1650–51 (2015) (internal quotation marks omitted)). The Court observed, however, that this presumption could be overcome by “clear and convincing” indications, drawn from “specific language,” “specific legislative history,” and “inferences of intent drawn from the statutory scheme as a whole,” that Congress intended to bar review. *Id.* (quoting *Block v. Cmty. Nutrition Inst.*, 467 U.S. 340, 349–50 (1984)).

In deciding that the presumption in favor of judicial review was overcome in that case, the Court analyzed and distinguished *Lindahl v. Office of Personnel Management*, 470 U.S. 768 (1985). *Lindahl* involved the question of whether courts can review disability determinations for federal employees made by a federal agency. 470 U.S. at 771. According to the majority in *Cuozzo*, *Lindahl* involved the construction of a statute that (1) directed an agency to “determine questions of liability;” (2) made those determinations “final,” “conclusive,” and “not subject to review;” and (3) barred courts from revisiting the “factual underpinnings of . . . disability determinations.” 136 S. Ct. at 2141 (quoting *Lindahl*, 470 U.S. at 771, 791). The Court observed, however, that the same statute permitted courts to consider claims alleging, for example, that the agency “substantial[ly] depart[ed] from important procedural rights.” *Id.* (quoting *Lindahl*, 470 U.S. at 791).

The *Cuozzo* majority characterized *Lindahl*’s interpretation of its particular statute as “preserv[ing] the agency’s primacy over its core statutory function in accord with Congress’ intent,” and declared that its “interpretation of the ‘No Appeal’ provision [in the AIA] has the same effect.” *Id.* This is because Congress, in enacting the AIA, recognized that the “core statutory function” of the

PTO is to make patentability determinations, and chose to insulate from judicial review preliminary determinations by the PTO as to whether IPR petitions “show[] that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” 35 U.S.C. § 314(a); *see Cuozzo*, 136 S. Ct. at 2141 (“The text of the ‘No Appeal’ provision, along with its place in the overall statutory scheme, its role alongside the Administrative Procedure Act, the prior interpretation of similar patent statutes, and Congress’ purpose in crafting IPR, all point in favor of precluding review of the [PTO]’s *institution decisions*.” (emphasis added)). For this reason, the Court found that Cuozzo’s claim that an IPR petition “was not pleaded ‘with particularity’ under § 312 [wa]s little more than a challenge to the [PTO]’s conclusion, under § 314(a), that the ‘information presented in the petition’ warranted review.” *Id.* at 2142 (citation omitted).

Section 315(b)’s time bar falls squarely on the other side of *Cuozzo*’s appealability ledger, for it is not “closely tied to the application and interpretation of statutes related to the [PTO]’s decision to initiate [IPR].” *Id.* at 2141. Section 315(b) does not contemplate that the PTO render a decision related to patentability—it simply places a limit on the PTO’s authority to institute IPRs that is based on a comparison of two or more dates. And it does so with the unambiguous phrase “[a]n [IPR] *may not be instituted* if . . . .” 35 U.S.C. § 315(b) (emphasis added). In contrast with the Director’s § 314(a) determination, which involves the preliminary application of patentability principles, no such decision is contemplated in § 315(b). *See N.L.R.B. v. SW Gen., Inc.*, 137 S. Ct. 929, 940 (2017) (describing a clause that “speaks to who ‘may not’ be an acting officer” as an imperative).

Put another way, § 315(b) codifies one of the “important procedural rights” that Congress chose to afford patent owners in the IPR context. *Lindahl*, 470 U.S. at

791. Allowing judicial review of erroneous determinations by the PTO as to whether the § 315(b) time bar applies would prevent the agency from “act[ing] outside its statutory limits,” one of the categories of “shenanigans” envisioned by the majority in *Cuozzo*. 136 S. Ct. at 2141–42.

A determination by the PTO whether an IPR petition is time-barred under § 315(b) is entirely unrelated to the agency’s “core statutory function” of determining whether claims are or are not patentable. *Id.* at 2141 (quoting *Lindhahl*, 470 U.S. at 791). Unlike the threshold merits inquiry subsumed within § 314(a), no technical expertise is required to calculate whether a petition is “filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.” 35 U.S.C. § 315(b).

Congress is well versed in establishing statutory time bars. Congressional discretion should control the application of such time bars, not that of the Director of the PTO. I do not see the need to say more.

**United States Court of Appeals  
for the Federal Circuit**

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**WI-FI ONE, LLC,**  
*Appellant*

v.

**BROADCOM CORPORATION,**  
*Appellee*

**JOSEPH MATAL, PERFORMING THE FUNCTIONS  
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2015-1944

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Appeal from the United States Patent and Trademark  
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00601.

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2015-1945

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Appeal from the United States Patent and Trademark  
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00602.

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2015-1946

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Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2013-00636.

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HUGHES, *Circuit Judge*, joined by LOURIE, BRYSON, and DYK, *Circuit Judges*, dissenting.

Congress barred judicial review of the Patent and Trademark Office (PTO) Director's decision to institute inter partes review (IPR) in 35 U.S.C. § 314(d). The majority opinion, however, limits this prohibition to the Director's assessment of the criteria for instituting review set forth in § 314. Accordingly, this court finds that § 314(d) does not apply to other preliminary determinations, such as whether the petition was timely filed. I do not agree with such a narrow reading of the statute, which not only contradicts the statutory language, but is also contrary to the Supreme Court's construction of that language in *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016).

In *Cuozzo*, the Supreme Court held that § 314(d) prohibited judicial review of "questions that are closely tied to the application and interpretation of statutes related to the Patent Office's decision to initiate inter partes review," including questions of compliance with 35 U.S.C. § 312(a)(3)'s petition requirements. 136 S. Ct. at 2141. 35 U.S.C. § 315(b), which describes when an IPR may be "instituted," is even more closely related to institution decisions than § 312(a)(3)—which does not use the word "institute." In my view, *Cuozzo* confirms that § 314(d) is not limited to the merits of the petition, but also bars judicial review of closely related issues such as the petition's timeliness. Because the majority opinion is inconsistent with *Cuozzo* and the plain meaning of § 314(d), I respectfully dissent.

## I

Our inquiry should start and end with the words of the statute. The APA exempts agency actions from judicial review “to the extent that statutes preclude judicial review.” 5 U.S.C. § 701. There is a “strong presumption that Congress intends judicial review of administrative action” and any contrary intent must be clear and convincing. *Bowen v. Mich. Acad. of Family Physicians*, 476 U.S. 667, 670–71 (1986). This presumption, of course, is not insurmountable. Congress can enact specific statutes to bar review, or the legislative history might manifest Congress’s intent to do so. *Id.* at 673. Even in the absence of an express prohibition, the overall statutory structure might indicate that Congress sought to prohibit judicial review. See *United States v. Fausto*, 484 U.S. 439, 447–48 (1988); *Block v. Cmty. Nutrition Inst.*, 467 U.S. 340, 352 (1984).

Congress’s intent to prohibit judicial review of the Board’s IPR institution decision is clear and unmistakable. Section 314(d) states “[t]he determination by the Director whether to institute an inter partes review under this section shall be final and *nonappealable*.” (emphasis added.) The statute *calls out* a specific agency determination, and expressly *prohibits* courts from reviewing that decision. “Absent persuasive indications to the contrary, we presume Congress says what it means and means what it says.” *Simmons v. Himmelreich*, 136 S. Ct. 1843, 1848 (2016).

*Cuozzo* confirms this interpretation of § 314(d). There, the Supreme Court found that clear and convincing indications overcame the presumption in favor of judicial reviewability with respect to IPR institution decisions. *Cuozzo*, 136 S. Ct. at 2140. To reach this conclusion, the Court looked to the plain language of the statute, and stressed that whether the “Patent Office unlawfully initiated its agency review is not appealable”

because “*that is what § 314(d) says.*” *Id.* at 2139 (emphasis added). *Cuozzo* also foreclosed any notion that § 314(d) only applies to the question of whether the petition raises a reasonable likelihood of invalidity. *See id.* at 2141. Instead, the statute prohibits judicial review of “questions that are closely tied to the application and interpretation of statutes related to the Patent Office’s decision to initiate inter partes review.” *Id.*

The petition’s timeliness under § 315(b) is part of the Board’s institution decision, and is therefore barred from judicial review. Section 315(b) states that “[a]n inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.” The question of timeliness does not go to the merits of the petition, nor does it become part of the PTO’s final determination. Instead, the PTO evaluates timeliness within the context of the PTO’s preliminary determination of whether to institute IPR at all. Accordingly, timeliness under § 315(b) is plainly a question “closely tied” to the Director’s decision to institute. Indeed, it is a specific requirement for “institution.” Moreover, although Justice Alito disagreed with the ultimate result in *Cuozzo*, even he recognized that “the petition’s timeliness, no less than the particularity of its allegations, is ‘closely tied to the application and interpretation of statutes related to the Patent Office’s decision to initiate . . . review,’ and the Court says that such questions are unreviewable.” *Id.* at 2155 (Alito, J., concurring in part and dissenting in part) (alteration in original).

This court, however, confines the scope of the judicial review bar in § 314(d) to “the determination by the Director whether to institute IPR as set forth in § 314,” which establishes the reasonable likelihood standard for instituting review. *Maj. Op.* at 15. But again, *Cuozzo* already held that § 314(d) is not limited to the Director’s reasona-



ble likelihood determination. 136 S. Ct. at 2141. The Supreme Court rejected the notion that the presumption of judicial review permits courts to review “any issue bearing on the Patent Office’s preliminary decision to institute inter partes review.” *Id.* Rather, the Supreme Court explained that “Congress has told the *Patent Office* to determine whether inter partes review should proceed, and it has made the agency’s decision ‘final’ and ‘nonappealable.’ § 314(d). Our conclusion that courts may not revisit this initial determination gives effect to this statutory command.” *Id.*

To sidestep this binding precedent, the majority states that § 315(b) is appealable because “the time-bar determination may be decided fully and finally at the institution stage.” Maj. Op. at 17. And the majority suggests that § 314(d) is limited to “non-initiation or preliminary-only merits determinations for which unreviewability is common in the law.” *Id.* But if § 314(d) only applies to issues that are incorporated into the final written decision, then the appeal bar essentially becomes a prohibition on interlocutory appeal. The Supreme Court expressly rejected this interpretation in *Cuozzo*. 136 S. Ct. at 2140. As the Court explained:

The dissent, like the panel dissent in the Court of Appeals, would limit the scope of the “No Appeal” provision to *interlocutory* appeals, leaving a court free to review the initial decision to institute review in the context of the agency’s final decision. We cannot accept this interpretation. It reads into the provision a limitation (to interlocutory decisions) that the language nowhere mentions and that is unnecessary. The Administrative Procedure Act already limits review to final agency decisions. The Patent Office’s decision to initiate inter partes review is “preliminary,” not “final.” And the agency’s decision to deny a petition is a matter committed to the Patent Office’s

discretion. So, read as limited to such preliminary and discretionary decisions, the “No Appeal” provision would seem superfluous.

*Id.* (citations omitted).

The majority concludes that the appeal bar does not apply to “limits on the Director’s statutory authority to institute,” *Maj Op.* at 20. But this position was clearly rejected in *Cuozzo*. 136 S. Ct. at 2139–40. Even setting aside *Cuozzo*, the Supreme Court also rejected this type of statutory interpretation in *Briscoe v. Bell*, 432 U.S. 404 (1977).

*Briscoe* involved the Voting Rights Act, which allowed the Attorney General to determine whether “the preconditions for application of the Act to particular jurisdictions are met.” *Id.* at 407. The statute provided that “[a] determination or certification of the Attorney General or of the Director of the Census under this section . . . shall not be reviewable in any court . . .” *Id.* at 408. The D.C. Circuit explained that “[i]t is . . . apparent that even where the intent of Congress was to preclude judicial review, a limited jurisdiction exists in the court to review actions which on their face are plainly in excess of statutory authority.” *Id.* (quoting *Briscoe v. Levi*, 535 F.2d 1259, 1265 (D.C. Cir. 1976)). The D.C. Circuit further concluded that this statute barred judicial review of substantive issues like “the actual computations made by the Director of the Census,” but not “whether the Director acted ‘consistent with the apparent meaning of the statute.’” *Id.* at 408–09 (quoting *Briscoe*, 535 F.2d at 1265). The Supreme Court reversed, and found that “[s]ection 4(b) of the Voting Rights Act could hardly prohibit judicial review in more explicit terms.” *Id.* at 409. The Court stressed that “[t]he language is absolute on its face and would appear to admit of no exceptions.” *Id.*

Section 314(d) similarly prohibits review of “the determination by the Director whether to institute an inter

partes review.” Like the statute in *Briscoe*, the language is absolute and provides no exceptions. Nevertheless, the majority concludes that “[t]he timely filing of a petition under § 315(b) is a *condition precedent* to the Director’s authority to act.” Maj. Op. at 20 (emphasis added). Like the D.C. Circuit in *Briscoe*, the majority attempts to distinguish between “a decision of the Board made within its jurisdiction” and “an order of the Board made in excess of its delegated powers.” *Briscoe*, 535 F.2d at 1264. The Supreme Court rejected this reasoning, and we should too.

Nor does the phrase “under this section” in § 314(d) limit the bar on judicial review to only a subset of requirements for institution. This court’s majority opinion finds that § 314(d) does not bar review of timeliness because the phrase “under this section” “*limits* the reach of § 314(d) to the determination by the Director whether to institute IPR *as set forth* in § 314.” Maj. Op. at 15 (emphasis added). But to be clear, the phrase “under this section” simply refers to the fact that inter partes review is instituted under § 314. The phrase does not limit the bar on judicial review to the Director’s assessment of the criteria under § 314. Indeed, *Cuozzo* foreclosed this reading by holding that the bar on judicial review extends to the Director’s assessment of the requirements under § 312, which is plainly a different statutory section than § 314. 136 S. Ct. at 2141.

## II

The plain language of § 314(d) should lead us to conclude that Congress intended to preclude judicial review of whether IPR petitions are timely filed. To the extent the statute is unclear, the history of the AIA dispels any doubt that § 314(d) bars judicial review of issues like timeliness and the identity of real parties in interest.

The difference between § 314(d) and the bar on judicial review for reexaminations confirms that Congress

intended to broadly prohibit review of IPR institution decisions. “[A] change in phraseology” in the statute “creates a presumption of a change in intent.” *Crawford v. Burke*, 195 U.S. 176, 190 (1904). And it is unlikely that Congress would enact a statutory provision using different language “without thereby intending a change of meaning.” *Id.*; see also *Merrill Lynch, Pierce, Fenner & Smith Inc. v. Manning*, 136 S. Ct. 1562, 1578 (2016) (Thomas, J., concurring) (“[W]hen Congress enacts a statute that uses different language from a prior statute, we normally presume that Congress did so to convey a different meaning.”).

Even before the AIA, third-parties could seek administrative patent cancellation through reexamination. When the PTO receives a request for reexamination, the Director must determine whether the request raises a substantial new question of patentability. And 35 U.S.C. § 303(c) provides that, “[a] determination by the Director . . . that no substantial new question of patentability has been raised will be final and nonappealable.”<sup>1</sup> Accordingly, the statute specifically bars review of the narrow issue of whether the request raises a “substantial new question of patentability.” *Id.* The statute *does not* bar review of the entire decision to initiate reexamination.

In stark contrast, Congress used markedly different language for inter partes review and post-grant review proceedings. Instead of barring review of the Director’s

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<sup>1</sup> This was similarly true under the old 35 U.S.C. § 312(c) (2006), governing inter partes reexamination, which barred appeal of “[a] determination by the Director pursuant to subsection (a),” *i.e.*, the determination that “a substantial new question of patentability affecting any claim of the patent concerned is raised by the request.” 35 U.S.C. § 312(a) (2006).

determination of a specific issue, § 314(d) and 35 U.S.C. § 324(e) broadly prohibit review of the Director’s “determination . . . *whether to institute*” review. Accordingly, these statutes identify a *specific action* by the Director, not tied to the resolution of a specific issue such as substantial new question of patentability. Such linguistic differences are particularly significant because the AIA retained § 303(c), with its different language, with respect to reexaminations.

### III

Even if we followed the majority’s approach and tried to parse out which requirements for institution are barred from judicial review under § 314, it still makes no sense to distinguish § 315 from §§ 311–314. The assumption that § 315 is less closely related to § 314 than the institution criteria of §§ 311–313, *see* Maj. Op. at 18–19, is simply incorrect. For example, § 312(a)(1) and § 312(a)(2) relate to the payment of fees and identification of real parties in interest, which the majority agrees cannot be appealed. These issues, however, bear the same relation to the institution decision as the inquiry under § 315.

Under § 315(b), the Director cannot institute review if the petition was filed more than one year after the petitioner or its *real party in interest* was served with a complaint alleging infringement. And petitioners have the onus to identify all real parties in interest under § 312(a)(2), which states that a petition “may be considered only if . . . the petition identifies all real parties in interest.” Based on the petitioner’s disclosure, the Director can assess whether any of the petitioner’s real parties in interest was served with a complaint more than one year before the petition. Thus, § 312(a)(2) is part and parcel of the timeliness inquiry under § 315.

The majority tries to distinguish between the real party in interest inquiry under § 312(a)(2) and § 315(b). Specifically, the majority notes that “if a petition fails to

identify all real parties in interest under § 312(a)(2), the Director can, and does, allow the petitioner to add a real party in interest.” Maj. Op. at 22 n.11. By contrast, a petition that is time-barred under § 315 cannot be rectified. *Id.*

To illustrate why this distinction is flawed, suppose that a patent owner argues that an unidentified third-party, who has not been sued for infringement, is a real party in interest to the petition. The Director disagrees with the patent owner and institutes review. No one disputes that the Director’s decision on real party in interest is unreviewable in this scenario. Now suppose the Director makes the *exact same determination*, but with respect to a third-party who was sued more than one year before the petition was filed. Even though the Director is making the same factual inquiry, his determination now becomes reviewable because it implicates the time-bar. This result is illogical. The same inquiry does not become more or less “closely related” to the institution determination simply because the results of that inquiry have different consequences.

The facts of this appeal underscore why timeliness under § 315 is as closely related to the institution decision as the requirements under § 312. Wi-Fi One does not contend that Broadcom itself was served with a complaint more than one year before its petition. Rather, Wi-Fi One asserts that various defendants in a 2010 Texas lawsuit were unidentified real parties in interest to Broadcom’s petition. On remand, the panel must determine whether the Board properly resolved which parties constitute a real party in interest under § 312(a)(2). Even Wi-Fi One recognizes that this inquiry is highly fact dependent, as it sought broad-ranging discovery into agreements, payments, and e-mail communications in the proceedings below. But giving the Board wide discretion on such preliminary determinations is what enables IPRs to function as an efficient method of resolving validity

issues. Congress would not have “giv[en] the Patent Office significant power to revisit and revise earlier patent grants . . . if it had thought that the agency’s final decision could be unwound under some minor statutory technicality related to its preliminary decision to institute inter partes review.” *Cuozzo*, 136 S. Ct. at 2139–40.

Vacating the Board’s invalidity decision on the basis of threshold questions like timeliness or real parties in interest will squander the time and resources spent adjudicating the actual merits of the petition. This is counter to the AIA’s purpose of “providing quick and cost effective alternatives to litigation.” H.R. Rep. No. 112-98, pt. 1, at 48 (2011). Congress recognized this issue, so it prohibited this court from reviewing the Board’s institution decision. It is not our prerogative to second-guess that policy decision, nor should we rely on tenuous statutory interpretations to undermine it.

#### IV

Because we do not have jurisdiction to review the Board’s determination that Broadcom’s petition was timely filed, I respectfully dissent.

# Trademark Materials



ESTTA Tracking number: **ESTTA952179**

Filing date: **02/05/2019**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

**Notice of Opposition**

Notice is hereby given that the following party opposes registration of the indicated application.

**Opposer Information**

Name	Disney Enterprises, Inc.
Granted to Date of previous extension	03/27/2019
Address	500 South Buena Vista Street Burbank, CA 91521 UNITED STATES
Attorney information	LINDA K MCLEOD KELLY IP LLP 1300 19TH ST NW, Suite 300 WASHINGTON, DC 20036 UNITED STATES linda.mcleod@kelly-ip.com, danielle.johnson@kelly-ip.com, lit-docketing@kelly-ip.com no phone number provided

**Applicant Information**

Application No	87691836	Publication date	11/27/2018
Opposition Filing Date	02/05/2019	Opposition Period Ends	03/27/2019
International Registration No.	NONE	International Registration Date	NONE
Applicant	Leigh Burton 8 Gretna Green Kingston, Ontario, K7M3J2 CANADA		

**Goods/Services Affected by Opposition**

Class 025. First Use: 0 First Use In Commerce: 0

All goods and services in the class are opposed, namely: Sweatshirts, tshirts, tank tops, socks,hats, sunglasses, scarves, yoga pants, shorts, sports bras, head bands, flip flops

**Grounds for Opposition**

Priority and likelihood of confusion	Trademark Act Section 2(d)
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Attachments	Notice of Opposition - LET IT GO.pdf(1561240 bytes )
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Signature	/Linda K. McLeod/
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Name	LINDA K MCLEOD
Date	02/05/2019

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

<p>DISNEY ENTERPRISES, INC.,</p> <p style="text-align: center;">Opposer</p> <p style="text-align: center;">v.</p> <p>LEIGH BURTON,</p> <p style="text-align: center;">Applicant.</p>	<p>Opposition No.:</p> <p>Mark: LET IT GO Serial No.: 87691836 Filed: November 20, 2017</p>
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**NOTICE OF OPPOSITION**

Opposer, Disney Enterprises, Inc. (“Opposer”), a corporation of the State of Delaware, having a principal place of business at 500 South Buena Vista Street, Burbank, California 91521, believes that it is being damaged, and will be damaged, by the registration of the mark LET IT GO shown in Application Serial No. 87691836, and hereby opposes the same. As grounds for opposition, Opposer alleges that, upon actual knowledge with respect to Opposer’s own acts, and upon information and belief as to other matters:

**Opposer and Its Business**

1. Opposer is a corporation of the State of Delaware, having a principal place of business at 500 South Buena Vista Street, Burbank, California 91521.
2. Opposer, through its related companies and licensees, is one of the world’s leading producers and providers of entertainment, films, music, toys, and other consumer products.
3. Opposer engages in a vast licensing program under which it uses or

licenses the use of its properties, characters, and trademarks in connection with a variety of products and services including, but not limited to, entertainment services, television programs, motion picture films, apparel, footwear, headwear, accessories, toys, dolls, decals, stickers, mugs, sporting goods, bags, personal care products, linens, towels, food, theme parks, games, music, and mobile applications, among many other things.

#### **Opposer and Its LET IT GO Mark**

4. Since at least 2013, Opposer has used its LET IT GO mark in commerce in connection with Opposer's well-known and successful 2013 animated film *Frozen* and its associated music.

5. Opposer's *Frozen* film featuring its LET IT GO mark has been enormously successful, earning hundreds of millions of dollars in box-office sales and numerous nominations and awards, including winning Academy Awards for Best Animated Feature and Best Original Song for the song LET IT GO featured in the *Frozen* film. The song LET IT GO also won Best Song Written for Visual Media at the 57th Annual GRAMMY Awards.

6. Since well before the filing date of the opposed application and any date of use that may be proven by Applicant, Opposer has used and/or licensed the use of its LET IT GO mark in commerce in connection with apparel and accessories, including t-shirts, sweatshirts, leggings, headwear, and gloves, as shown in the representative examples below. These products are offered and sold through Opposer-owned and third-party retail outlets, including SHOPDISNEY.COM and AMAZON.COM, among others.



★★★★★ (1)

### Elsa Hooded Fleece Top for Girls - Frozen

~~\$26.95~~ \$14.99

[View Product Details](#)

Size [View Chart](#)

Select Size ▼

Qty

1 ▼

Add to Bag

Save for Later

Take an Extra 25% Off with Code: EXTRA25



### Disney Frozen Elsa Let It Go Blue Short Sleeve Shirt

Be the first to review this item

Price: \$12.97

Size:

Select ▼

[Size Chart](#)

- 100% Cotton
- Disney Frozen Elsa T-Shirt
- "Let It Go" Lyric Printed On Shirt
- Blue T-Shirt with Glitter
- Available in sizes XS, SM, MD, LG, XL
- 100% Cotton- Machine Washable

#### Beauty Essentials, Amazon Exclusives

			
Tatu Blending sponge duo \$10.05	Paris and Vine Nail Lacquer, 496 Vivify \$7.20	Visage Envy Daily Facial Cleanser, (Pack of 2) \$11.56	Hairfx Professional Volumizing Shampoo +SP \$9.45



### Disney Let It Go Frozen Ladies All-Over-Print Leggings

★★★★☆ 3 customer reviews

Price: **\$19.99**

Size:

Select Size Chart

- 100% Polyester
- Officially licensed Disney Frozen product
- Cool Let It Go all-over print
- 95% Polyester/5% Spandex stretch fabric
- Multi-Colored

#### Our New Year, New You Ambassadors



Adriana Lima



James Harden



Zac Efron



Disney Frozen

### Disney Frozen Elsa Let It Go Girls Long Sleeve Tee

Be the first to review this item

Price: **\$11.26 - \$32.40**

Sale: Lower price available on select options

Size:

Select Size Chart

- Officially licensed
- 60% cotton, 40% polyester
- Machine wash cold
- Tumble dry low
- Do not iron

#### Beauty Essentials, Amazon Exclusives



Tatu Blending sponge duo \$10.05



Paris and Vine Nail Lacquer, 496 Vivify \$7.20



Visage Envy Daily Facial Cleanser, (Pack of 2) \$11.56



HairRx Professional Volumizing Shampoo +SP \$9.45

#### Customers who viewed this item also bought



### Disney Frozen Let It Go Ugly Christmas Sweater Sweatshirt

Be the first to review this item

Price: **\$44.99 & FREE Shipping**. Details  
Free Return on some sizes and colors

Fit Type: Unisex

Color: Black



Size:

Select  Size Chart

- Solid colors: 80% Cotton, 20% Polyester; Heather Grey: 78% Cotton, 22% Poly; Dark Heather: 50% Cotton, 50% Polyester
- Imported
- Machine wash cold with like colors, dry low heat
- Officially Licensed Disney Frozen Apparel
- T8FRZ00022A
- 8.5 oz, Classic fit, Twill-taped neck

Concept One Accessories

### Disney's Frozen Elsa "Let It Go" Hat & Gloves Set - Girls 7-16

Be the first to review this item

Price: **\$8.99 & FREE Shipping**. Details  
FREE Returns

New (1) from \$8.99 & FREE shipping.



Beauty Essentials, Amazon Exclusives



Tatu  
Blending  
sponge duo  
\$10.05



Paris and  
Vine Nail  
Lacquer,  
496 Vivify  
\$7.20



Visage  
Envy Daily  
Facial  
Cleanser,  
(Pack of 2)  
\$11.56

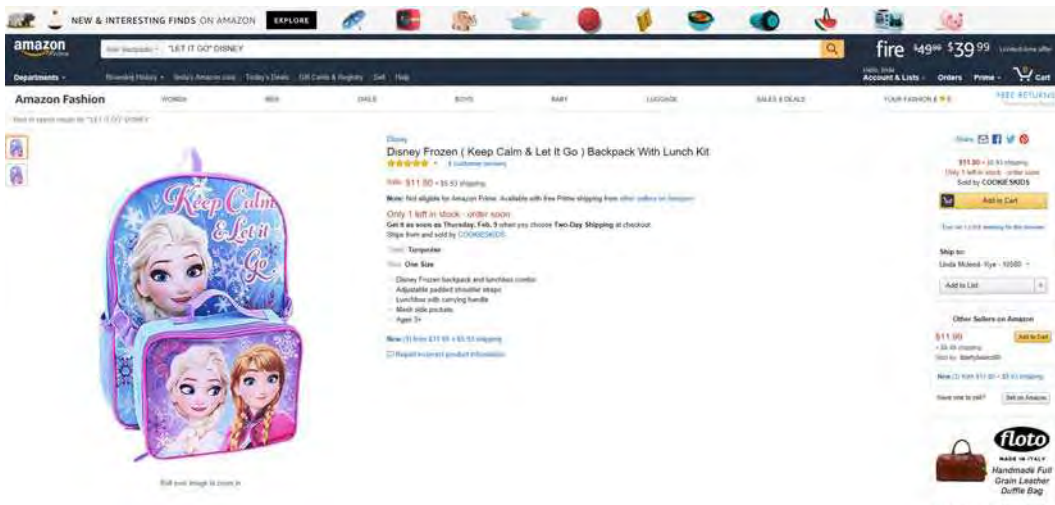


HairRx  
Professional  
Volumizing  
Shampoo  
+SP  
\$9.45

7. In addition, since long before the filing date of the opposed application and any date of first use that may be proven by Applicant, Opposer has used and/or licensed the use of its LET IT GO mark in commerce in connection with a wide variety of other goods including, but not limited to, jewelry, bags, backpacks, watches, clocks, figurines, books, DVDs, CDs, ringtones, and more. Many of these products are offered and sold through major brick-and-mortar and online retail outlets. Representative examples of jewelry, bags, backpacks, watches, clocks, and figurines bearing Opposer's LET IT GO mark are shown below. (Collectively, the names and marks and



goods and services in Paragraphs 2 to 7 are referred to as “Opposer’s LET IT GO Mark” and “Opposer’s Goods and Services,” respectively.)





Disney FROZEN "Let It Go" Elsa The Snow Queen Figurine



**Disney FROZEN "Let It Go" Elsa The Snow Queen Figurine**

Disney Let It Go Figurine  
Handcrafted figurine captures Elsa in a dramatic pose, with crystalline snowflakes, 18 Swarovski® crystals, glitter and elegant mirror base.

Price: \$99.96 US  
Available in 4 installments of \$24.99 US  
Express Ship Available!

**Add to Cart**

**Buy the Collection** by Subscriptions Plan  
This item is part of a collection. Subscribe to receive each issue in the collection by clicking "Add Collection to Cart."

Price: \$99.96 US  
Available in 4 installments of \$24.99 US  
**Add Collection to Cart**  
**View Collection Details**

**Description** **Features**

**Shop Similar Items**  
See All Disney Princess  
See All Disney  
See All Ladies of Elegance  
See All Figurines  
See All For Disney®  
See All For Granddaughter

**You May Also Like**  
Disney Princess Elsa Figurine  
Disney Princess Elsa Figurine  
Disney Princess Elsa Figurine  
Disney Princess Elsa Figurine

**Description**  
Disney's "FROZEN" is the biggest animated movie of all time! Now, celebrate the enchantment of this Academy Award-winning film with the Disney Let It Go Figurine. Inspired by Disney and available from The Hamilton Collection. Exquisitely showcasing Elsa, the Snow Queen, in a dramatic pose, further enhanced with the twinkle of freshly fallen snow, capturing the excitement of the movie and recasting the story of "FROZEN" in glittering style!  
Inspired by original Disney artwork, this fully hand-sculpted and hand-painted Elsa Let It Go figurine is masterfully handcrafted by Master Craftsmen and adorned with a flurry of sparkling accents: from her shimmering crystalline snowflakes to her 18 crystal-clear Swarovski® crystals and hand-applied silvery glitter. Plus, an elegant mirror base makes Elsa dazzle even brighter. Strong demand is anticipated for the Let It Go Figurine and the edition is limited to 95 casting days, so don't delay. Order now!  
A fine collectible, not intended for children.  
California Residents click here for Proposition 65 notice.

**Top of Page**

**Features**  
This collectible Disney FROZEN Elsa Figurine from The Hamilton Collection features:

- Celebrate the movie and the enchantment of Academy Award-winning Disney film "FROZEN" with the Disney Let It Go Figurine, available from The Hamilton Collection
- Licensed by Disney
- Inspired by original Disney artwork, this Elsa Figurine is hand-sculpted by Master Craftsmen and hand-cast in collector-quality artist's resin, then hand-painted to capture every detail of the Snow Queen in a dramatic pose
- Sparkles with shimmering crystalline snowflakes, hand-applied silvery glitter and 18 crystal-clear Swarovski® crystals for extra shine
- An elegant mirror base makes Elsa dazzle even brighter
- Edition limited to 95 casting days, so order now!
- Hand-numbered and accompanied by a matching Certificate Authenticating your figurine is an original from The Hamilton Collection
- Measures 7-1/2" H; 19.1 cm H

**Top of Page**

**Buy This Item Now!** Disney FROZEN "Let It Go" Elsa The Snow Queen Figurine  
Disney FROZEN Elsa The Snow Queen Let It Go Figurine Disney Princess Elsa Figurine  
Price: \$99.96 US  
Available in 4 installments of \$24.99 US  
**Add to Cart**

Due to the unique hand-crafting nature, each figurine may vary slightly from the image shown. Each adult figure is your assurance that your collection figurine is a one-of-a-kind work of art, not a machine-produced item.  
©2014 The Hamilton Collection





### **Applicant and Her LET IT GO Application**

8. Applicant Leigh Burton (“Applicant”) is a Canadian national having an address of 8 Gretna Green, Kingston, Ontario, Canada K7M3J2.

9. Applicant is the listed owner of Application No. 87691836 for the mark LET IT GO (“Applicant’s LET IT GO Mark”), filed on November 20, 2017 under Section 1(b), 15 U.S.C. § 1051(b), and Section 44(d), 15 U.S.C. § 1126(d), alleging a claim of priority based on Canada Application No. 1843400, which was filed on June 19, 2017 (the “Application”). The Application originally covered the following goods and services: “Sweatshirts, tshirts, tank tops, Socks, hats, sunglasses, scarves, wraps (pashmina), yoga pants, shorts, sports bras, head bands, flip flops, pet collars, Ankle bracelets, bracelets, necklaces, watches, rings, beads, tags, lanyards, key chains, pendants, phone and tablet apps, software, DVD’s, CD’s, MP3’s, videos, movies, documentaries, webinars, Pens, notebooks, journals, calendars, organizers, bookmarks, highlighters, workbooks, books (hardcover, soft cover, e-books, audio), Back packs, suitcases, briefcases, computer totes, shopping bags, ear buds, hand bags, beach bags, Flags,

posters, prints, artwork, banners, tablecloths, Towels, yoga mats, yoga blocks, beach towels, Cups, glasses, coolers, mosquito bracelets, water bottles, infusion bottles, wine glasses, shot glasses, Essential oils, lotions, creams, face wash, face masks, lip balm, body balm, soap, shampoo, conditioner, bug spray, body spray, room spray, deodorant, Tea, coffee, alcohol, wine, Meditation mats and cushions; organizing and conducting retreats; organizing and conducting seminars, workshops, conferences and training sessions; coaching and consulting services; membership services.”

10. On March 5, 2018, the U.S. Patent and Trademark Office (“PTO”) issued a non-final Office Action partially refusing the Application as to certain goods and services.

11. Applicant did not respond to the non-final Office Action, and on October 5, 2018, the PTO partially abandoned the Application by deleting the partially refused goods and services from the Application and approving the Application for publication with the following goods: “Sweatshirts, tshirts, tank tops, socks, hats, sunglasses, scarves, yoga pants, shorts, sports bras, head bands, flip flops” in Class 25 (“Applicant’s Goods”).

12. On November 27, 2018, Applicant’s LET IT GO Mark was published for opposition in the *Trademark Official Gazette* (TMOG), and Opposer timely filed an extension of time to oppose on December 20, 2018.

**Likelihood of Confusion. 15 U.S.C. § 1052(d)**

13. Opposer repeats and realleges each and every allegation set forth above.

14. Opposer’s LET IT GO Mark is distinctive, famous, and entitled to a broad scope of protection.

15. Opposer has priority based on its prior, continuous use in commerce of Opposer's LET IT GO Mark since before the filing date of the Application and any dates of first use that may be proven by Applicant.

16. Applicant's LET IT GO Mark is identical in appearance, sound, connotation, and commercial impression to Opposer's LET IT GO Mark.

17. Applicant's Goods and Opposer's Goods and Services offered and sold by Opposer under Opposer's LET IT GO Mark are identical or closely related goods and services.

18. Applicant's LET IT GO Mark so resembles Opposer's previously used LET IT GO Mark as to be likely, when registered and used in connection with Applicant's Goods, to cause confusion, or to cause mistake, or to deceive under Section 2(d) of the Lanham Act, as amended, 15 U.S.C. § 1052(d).

WHEREFORE, Opposer believes that it is being damaged by the Application and will be damaged by the registration of the mark shown in U.S. Application Serial No. 87691836, and requests that the opposition be sustained, and that registration to Applicant be refused.

The filing fee has been submitted electronically. Any deficiency in the fee should be charged to Deposit Account No. 506154.

Respectfully submitted,

DISNEY ENTERPRISES, INC.

Dated: February 5, 2019

By: /Linda K. McLeod/  
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*Attorneys for Plaintiff  
 Girl Scouts of the United States of America*

IN THE UNITED STATES DISTRICT COURT  
 FOR THE SOUTHERN DISTRICT OF NEW YORK

-----X		
GIRL SCOUTS OF THE UNITED STATES	:	
OF AMERICA,	:	
	:	18-CV-
Plaintiff,	:	
	:	
- against -	:	
	:	<b>COMPLAINT WITH JURY</b>
BOY SCOUTS OF AMERICA,	:	<b><u>DEMAND</u></b>
	:	
Defendant.	:	
-----X		

Plaintiff Girl Scouts of the United States of America, a congressionally chartered corporation (“GSUSA” or “Plaintiff”), complains and alleges against the Boy Scouts of America, a congressionally chartered corporation (“BSA” or “Defendant”), as follows.

**INTRODUCTION**

1. For over more than a century, GSUSA has established itself as the preeminent, best-known provider of leadership development services for American girls. Dedicated to the proposition that girls should be prepared for a lifetime of success, leadership and adventure, GSUSA has developed award-winning programs that empower girls to attain their full potential, develop a strong sense of self, and learn positive values that will aid them throughout their lives. Many millions of girls have participated in and benefited from GSUSA’s services, which are

founded on research showing that girls learn best in environments led by girls, through programs tailored specifically for girls. GSUSA's long track record of success is best symbolized by the extraordinary number of GIRL SCOUTS alumnae who are leaders across all segments of American society, in fields that include government, science, sports, industry, culture and many others.

2. The core elements of GSUSA's brand identity among the American public are its famous, registered GIRL SCOUTS trademarks, which are powerful symbols of a unique, extraordinarily valuable goodwill that has grown over decades and been carefully protected by GSUSA. To the vast majority of Americans, the GIRL SCOUTS trademarks embody the values of an organization whose unique and specific mission is to advance the cause of girls' leadership and empowerment through programs exclusively for girls, so that they will mature into the extraordinary women that every girl can and should become.

3. Throughout GSUSA's history, it has coexisted with defendant BSA, which has long offered programs aimed at boys under the BOY SCOUTS trademark. Like the GIRL SCOUTS trademark, the BOY SCOUTS trademark is a symbol of youth development programs that, for more than a century, have been aimed at, led by and developed primarily for boys. Thus, even though both GSUSA and BSA use the term SCOUTS as part of their core trademarks, the organizations are distinct, with one offering leadership programming developed for and aimed at girls, and the other offering programming developed for and aimed at boys.

4. However, that core gender distinction between the two organizations and their use of the term SCOUTS and variations thereof has been altered by BSA's recent decision to offer *all* of its services to *both boys and girls* of all ages for the first time in its long history. Indeed, even though GSUSA and BSA have Congressional charters and separate grants of intellectual

property rights that are specific to girls and boys, respectively, BSA is now using its trademarks in a manner that is both new and uniquely damaging to GSUSA, its trademarks and their underlying goodwill. In particular, given its significant programming shift, BSA is now trying to alter its core brand identity from BOY SCOUTS to SCOUTS, through the use of communicative elements like the slogan “Scout Me In” and the new name by which it will refer to its best known Boy Scout program – “Scouts BSA” with members being called “Scouts.”

5. BSA does not have the right under either federal or New York law to use terms like SCOUTS or SCOUTING by themselves in connection with services offered to girls, or to rebrand itself as “the Scouts” and thereby falsely communicate to the American public that it is now the organization exclusively associated with leadership development services offered under that mark to girls. Such misconduct will not only cause confusion among the public, damage the goodwill of GSUSA’s GIRL SCOUTS trademarks, and erode its core brand identity, but it will also marginalize the GIRL SCOUTS Movement by causing the public to believe that GSUSA’s extraordinarily successful services are not true or official “Scouting” programs, but niche services with limited utility and appeal.

6. Since BSA’s announcement that it would admit girls to its core programs, GSUSA’s fears about the damage that would be caused to its trademarks and the mission those trademarks symbolize have been realized. Throughout the country, families, schools and communities have been told that GSUSA and BSA have merged, or even that GSUSA no longer exists. Parents interested in signing up for GIRL SCOUTS programs have instead mistakenly signed up for the new girls’ programs offered by BSA. BSA regional councils and troops have used the GIRL SCOUTS trademarks in their advertising and marketing materials since BSA’s announcement occurred. BSA is even using quotations from GSUSA’s founder, Juliette Gordon



Low, about the value of GIRL SCOUTS programs to promote **BSA's** newly launched services. And even though GSUSA has repeatedly called to BSA's attention these ongoing instances of actual confusion, and the unauthorized uses of GSUSA's intellectual property, they keep recurring.

7. Only GSUSA has the right to use the GIRL SCOUTS and SCOUTS trademarks with leadership development services for girls. To the extent BSA wishes to open its programs to girls, it cannot do so using GSUSA's intellectual property without authorization, in a manner that causes confusion among the public and harms the goodwill of the GIRL SCOUTS trademarks. It is therefore imperative that this Court take action to prevent the ongoing acts of trademark infringement, unfair competition and dilution perpetrated by BSA, both directly and vicariously through its regional and local councils, in order to prevent further damage to GSUSA's trademarks and preserve their goodwill.

#### **THE PARTIES**

8. GSUSA is a congressionally chartered corporation organized under 36 U.S.C. § 80301. GSUSA's headquarters is located at 420 Fifth Avenue, New York, New York.

9. Defendant is a congressionally chartered corporation organized under 36 U.S.C. § 30901. Upon information and belief, Defendant's headquarters is located at 1325 West Walnut Hill Lane, Irving, Texas.

#### **JURISDICTION AND VENUE**

10. This is an action for direct and vicarious trademark infringement, trademark dilution and unfair competition in violation of the U.S. Trademark Act of 1946, 15 U.S.C. §1051, *et seq.* (the "Lanham Act"), and for trademark infringement, dilution, unfair competition, tortious

interference with prospective economic advantage, and deceptive business practices under New York law.

11. This Court has original jurisdiction over GSUSA's federal trademark infringement, trademark dilution and unfair competition claims pursuant to 15 U.S.C. §§ 1114, 1121, 1125 and 28 U.S.C. §§ 1331 and 1338.

12. This Court has supplemental jurisdiction over GSUSA's New York claims under 28 U.S.C. § 1367(a) because these claims are so related to the federal Lanham Act claims that they form part of the same case or controversy under Article III of the United States Constitution.

13. This Court has personal jurisdiction over Defendant under multiple prongs of the New York long-arm statute, CPLR 302, as well as under the Due Process Clause of the U.S. Constitution. Specifically, Defendant regularly transacts business within the State of New York, including by, upon information and belief, offering its services and programs within New York to its regional councils and local troops, and by raising funds for its services and programs within New York. Defendant has been registered since at least 1996 with the New York State Department of Law, Charities Bureau, as a charitable organization that operates and raises funds in the State of New York. Upon information and belief, Defendant hires lobbyists and conducts lobbying in New York. In addition, Defendant contracts to supply its leadership development programs within New York to regional councils and troops located here, making unauthorized use of GSUSA's trademarks in the process.

14. In addition, Defendant has engaged in tortious conduct within the State of New York by disseminating or causing to be disseminated within the State of New York advertising, promotional, marketing and programming materials that are violative of GSUSA's trademark

and other rights as set forth herein, and that are likely to cause and have caused confusion to occur within the State of New York, and caused damage to GSUSA within the State of New York.

15. Finally, Defendant has engaged in tortious conduct outside the State of New York that has caused injury to GSUSA within New York by disseminating or causing to be disseminated advertising, promotional, marketing and programming materials that are violative of GSUSA's trademark and other rights as set forth herein, and that are likely to cause and have caused confusion in New York and throughout the United States. Upon information and belief, and as set forth above, Defendant both regularly solicits business, engages in a persistent course of conduct, and derives substantial revenue from services rendered within the State of New York. Likewise, Defendant also should reasonably expect its misconduct as described herein to have consequences within the State of New York, given its awareness of GSUSA's location here. Upon information and belief, Defendant also derives substantial revenue from interstate commerce.

16. Venue is proper in the United States District Court for the Southern District of New York under 28 U.S.C. § 1391(b) because: (i) GSUSA maintains its headquarters in this judicial district; (ii) Defendant's tortious conduct has caused and will continue to cause injury in this judicial district; (iii) Defendant conducts regular and systematic business in this district; and/or (iv) a substantial part of the events or omissions giving rise to GSUSA's claims occurred in this judicial district.

## **FACTUAL BACKGROUND**

### **GSUSA AND THE GIRL SCOUTS TRADEMARKS**

17. GSUSA is a national, nonprofit organization that was incorporated in 1915 and thereafter congressionally chartered on March 16, 1950. It is currently the largest girl-led leadership development organization for girls in the world, and its iconic GIRL SCOUTS program is both well-known and highly regarded. Founded in 1912 by Juliette Gordon Low in Savannah, Georgia, GSUSA promotes, encourages and inspires girls to develop courage, confidence and character through a variety of activities and practical skills programs.

18. Over the past 106 years, many millions of American women have participated in the GIRL SCOUTS program coordinated by GSUSA, and GSUSA currently has about 2 million active members.

19. Over the years, Girl Scouts have been able to earn over 400 types of badges covering a broad range of skills and topics that include, among other things, camping, mechanical engineering, environmental stewardship, robotics, cyber security, financial literacy and athletics. Girl Scouts are able to participate in a variety of skill-based programs that include programs about the outdoors, STEM and life skills. The Girl Scout Cookie Program is also one of the most famous entrepreneurship and financial literacy programs in the United States, helping girls to develop essential life and business skills.

20. GSUSA recruits and offers programs for girls in grades K-12. The specific programs available to girls are determined by grade level: (i) grades K-1 are considered “Daisies;” (ii) grades 2-3 are considered “Brownies;” (iii) grades 4-5 are considered “Juniors;” (iv) grades 6-8 are considered “Cadettes;” (v) grades 9-10 are considered “Seniors;” and (vi) grades 11-12 are considered “Ambassadors.” All are considered Girl Scouts.

21. The Girl Scout Movement in the United States, its territories and possessions is directed and coordinated by GSUSA at the national level. GSUSA charters 112 local Girl Scout councils across the nation that deliver Girl Scout programming within their respective jurisdictions. GSUSA, among other things, licenses the GIRL SCOUTS and related trademarks, and other intellectual property, to each of the local councils. Individual girls may become Girl Scouts, and multiple Girl Scouts band together to form troops, which typically consist of 12-20 girls, led by a volunteer registered with a chartered Girl Scout council.

22. Girls in grades K-12 may sign up to join Girl Scouts by filling out a form online or signing up through local recruiting efforts. It is common for local Girl Scout troops to host tables at back-to-school events, churches and other community locations at the beginning of the school year for the purpose of renewing or enrolling new members.

23. GSUSA's brand and programs have received many prestigious awards, including being designated as a Top 10 brand for the last two years in the World Value Index compiled by the Enso branding agency, as well as numerous other accolades. GSUSA has been recognized and honored by Presidents throughout history, including by President George H.W. Bush on March 10, 1992. In 2012, President Barack Obama awarded the Presidential Medal of Freedom to Juliette Gordon Low posthumously for her work in founding the Girl Scouts.

24. GSUSA has long enjoyed an excellent reputation among the consuming public with respect to the positive and safe environment it creates for all girls who participate in its leadership programs. Among other things, the public perceives GSUSA programs as welcoming to all girls, regardless of race, ethnicity, background, disability, family structure, religious beliefs and socioeconomic status.

25. GSUSA is entitled to the exclusive use of the GIRL SCOUTS and related trademarks adopted by GSUSA pursuant to 36 U.S.C. § 80305, which in relevant part states that GSUSA “has the exclusive right to use all emblems and badges, descriptive or designating marks, and words or phrases the corporation adopts, including the badge of the Girl Scouts.”

26. The United States Patent and Trademark Office (the “PTO”) has recognized the congressional protections afforded to GSUSA that grant it the exclusive right to use and register the GIRL SCOUTS mark in every class of goods and services recognized by the PTO, under Serial No. 89/000,078.

27. To further protect its famous brand, and to place the public on notice of its trademark rights, GSUSA has secured and owns multiple trademark registrations for its GIRL SCOUTS and GIRL SCOUTS & Profile Design marks, including:



- **Girl Scouts**, incontestable U.S. Trademark Registration No. 1,318,643, issued February 5, 1985, in connection with “educational services-namely, conducting programs and activities for girls and young women to promote social, physical and intellectual growth and development” in International Class 41;





- **Girl Scouts**, incontestable U.S. Trademark Registration No. 1,142,655, issued December 9, 1980, in connection with “t-shirts” in International Class 25;





- **Girl Scouts**, incontestable U.S. Trademark Registration No. 1,142,666, issued December 9, 1980, in connection with “embroidered patch” in International Class 26;
- **CAMPUS GIRL SCOUTS**, incontestable U.S. Trademark Registration No. 0,905,264, issued March 25, 1968, in connection with “organizing and maintaining student groups in colleges and universities to develop leadership and fellowship through continued participation in such groups and through service within the college community” in Class 42;

- **DAISY GIRL SCOUT**, incontestable U.S. Trademark Registration No. 1,480,077, issued March 8, 1988, in connection with “educational services, namely, conducting programs and activities for girls and young women to promote social, physical and intellectual growth and development” in Class 41;
- **GIRL SCOUT COOKIE SALE**, incontestable U.S. Trademark Registration No. 1,816,138, issued January 11, 1994 in connection with “charitable fundraising services featuring the sale of cookies” in Class 36;
- **GIRL SCOUTS**, incontestable U.S. Trademark Registration No. 1,816,847, issued January 18, 1994, in connection with “stationery, note pads, book marks, stickers, pens, pencils and posters” in Class 16 and “sweaters, shirts, blouses, tee-shirts, ties, shorts, tights, socks, sweatshirts, sweatpants, scarves, hats, headbands, sweatbands and visors in Class 25;
- **GIRL SCOUT GOLD AWARD**, incontestable U.S. Trademark Registration No. 2,094,328, issued September 9, 1997, in connection with “jewelry” in Class 14, “paper goods in the nature of printed invitations, folders and certificate of merit and distinction” in Class 16, “picture frames and an award composed of a glass disc mounted on a wood base with an engraved brass plaque” in Class 20, “mugs” in Class 21, and “educational and entertainment services, namely, providing recognition to individuals for the purpose of outstanding service, achievement and quality in the field of scouting” in Class 41;

- **girl scouts**  , incontestable U.S. Trademark Registration No. 4,085,279, issued January 10, 2012, in connection with “tote bags” in Class 18, “clothing, namely, shirts, tee-shirts, and sweatshirts” in Class 25, and “educational services, namely, conducting programs and activities for girls to promote social, physical and intellectual growth and development” in Class 41;

- **girl scouts**  , U.S. Trademark Registration No. 4,276,193, issued January 15, 2013, in connection with “nut products, namely, candied nuts, flavored nuts and trail mixes consisting primarily of processed nuts” in Class 29 and “cookies, chocolate candies and chocolate covered nuts” in Class 30;

-  **gogold** , U.S. Trademark Registration No. 4,481,906, issued February 11, 2014, in connection with “providing recognition and incentives by way of awards to demonstrate outstanding service, achievement and quality in the field of scouting” in Class 41;

- **GIRL SCOUT COOKIE PROGRAM**, U.S. Trademark Registration No. 4,558,536, issued July 1, 2014, in connection with “educational services, namely, conducting cookie-related programs and activities for girls to promote entrepreneurial skills, business management, and intellectual growth and development” in Class 41;
- **girl scouts** , U.S. Trademark Registration No. 4,200,117, issued August 28, 2012, in connection with “stationery, namely, pens and pencils” in Class 16;
- **GIRL SCOUTS**, U.S. Trademark Registration No. 4,727,381, issued April 28, 2015, in connection with “lip balm; lip gloss” in Class 3; and
- **GIRL SCOUT S'MORES**, U.S. Trademark Registration No. 5,336,893, issued November 14, 2017, in connection with “cookies” in Class 30.

True and accurate copies of the aforementioned trademark registrations are attached collectively as Exhibit A.

28. In addition to these federally registered marks, GSUSA owns common law rights in each of the trademarks identified above, as well as in all variations of GIRL SCOUTS that GSUSA has used in connection with girls’ leadership development services and related products or services, as well as any related trade dress and other designations of source (collectively, hereinafter, the “GS Marks”). With respect to the term SCOUTS and SCOUTING in particular, by virtue of the long history of use of the GIRL SCOUTS trademark by GSUSA, the consuming public has come to recognize SCOUTS and SCOUTING as trademarks that, like the other GS Marks, belong exclusively to GSUSA when used in connection with leadership programs and related services for girls.

29. The GS Marks have been extensively advertised and promoted in various media in the United States, including online through the GIRL SCOUTS website (<https://www.girlscouts.org/>) and social media sites such as Facebook.



30. The GIRL SCOUTS mark is distinctive, famous within the meaning of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c), and uniquely associated by consumers with GSUSA and its programs, services and products, both in the State of New York and the United States as a whole. The GIRL SCOUTS mark serves as a strong source identifier by virtue of its long use, extensive promotion and long history with American consumers, and it is entitled to the widest scope of protection under federal and state anti-dilution laws.

31. GSUSA has marketed and offered its youth development services and programs for girls featuring the GIRL SCOUTS mark in interstate commerce since at least as early as 1913.

32. By virtue of its use, federal trademark registrations, and congressional charter, GSUSA has the exclusive right to use the GS Marks, and to prevent the use of any marks or trade dress confusingly similar thereto, in commerce in connection with youth development services and programs for girls.

#### **BSA AND ITS USE OF THE BOY SCOUTS TRADEMARK**

33. BSA is a congressionally chartered corporation that provides youth development services and programs for boys. BSA is the national organization that directs and coordinates leadership services and programs under the BOY SCOUTS trademark. Upon information and belief, those services and programs are offered through regional councils and local troops that operate under various trademarks used under license or authorized for use by BSA.

34. According to BSA's congressional charter as set forth in 36 U.S.C. § 30902, its purpose is "to promote, through organization, and cooperation with other agencies, the ability of boys to do things for themselves and others, to train them in scoutcraft, and to teach them

patriotism, courage, self-reliance, and kindred virtues, using the methods that were in common use by boy scouts on June 15, 1916.”

35. While GSUSA and Defendant are both congressionally chartered corporations that offer services to American youth, the two organizations are not associated with one another, and never have been. Defendant is also not endorsed or sponsored by or affiliated with GSUSA.

36. Defendant and GSUSA have coexisted in the marketplace for many decades, with each offering youth development services and programs, under the “SCOUT,” “SCOUTS” and “SCOUTING” trademarks. Crucially, and until recently, these terms when used have either been preceded by words like BOY or GIRL that have highlighted the gender-specific nature of each organization’s programs, or appeared in a context making clear that the programs at issue were developed by one organization or the other.

37. GSUSA has always offered and rendered its services to girls. Defendant historically targeted its core programming to boys, has represented that its congressional charter restricted its BOY SCOUTS and CUB SCOUTS programs to boys,<sup>1</sup> and has used its marks in connection with such boy programming.

<sup>1</sup> See, e.g., Long Island Girl Crusades for Right to Join Boy Scouts, *Southampton Patch* (Aug. 10, 2016, 1:41 PM, updated Aug. 11, 2016, 8:03 AM), <https://patch.com/new-york/southampton/bridgehampton-girl-crusades-right-join-boy-scouts> (quoting BSA spokesperson providing reason for denying a girl admission to Boy Scouts: “[T]he Boy Scouts of America was chartered by Congress in 1916 to serve boys and young men across the nation through the Cub Scouts and Boy Scouts programs, which are year-round programs for boys in the first grade through age 18. We have since developed alternative programs that are co-ed, such as Venturing, but to change the Cub or Boy Scouting programs would go outside the bounds of our charter”; 15-Year-Old Girl Denied Permission To Join Boy Scouts Because Of Gender, CBS New York (Aug. 10, 2016, 5:46 PM), <http://newyork.cbslocal.com/2016/08/10/girl-wants-to-join-boy-scouts/> (same); Petition for Writ of Certiorari, Boy Scouts of America v. Dale, 530 U.S. 640 (2000) (No. 99-699), 1999 WL 35238158, at \*18 (“Boy Scouting is an expressive organization with the purpose of instilling in boys and young men certain ideals of what it means to be a man. Youth membership is therefore confined to males....”).

38. BSA expressly acknowledged this important division in trademark rights before the Trademark Trial and Appeal Board (“TTAB”) of the PTO. Specifically, in 2004, BSA admitted in a filing made in a trademark opposition proceeding, No. 91157313, that GSUSA owned exclusive, congressionally granted rights to SCOUTS and SCOUTING with respect to youth development programs for girls. It further stated that, “the Boy Scouts controls use of the marks [SCOUT and SCOUTING] in connection with development programs for boys, while Girl Scouts controls use of the marks in connection with development programs for girls. Their joint use of the marks has been expressly recognized by Congress.” True and accurate copies of excerpts from this filing BSA made with the TTAB are attached as Exhibit B. *See* pp. 20-21.

39. When examining Defendant’s SCOUTING trademark, the PTO requested that BSA limit the scope of goods covered by that mark to magazines offering instructional advice specific to boys, “since a similar Federally distributed magazine sponsored for girls and young women also uses the term ‘Scout’ and ‘Scouting’ in referring to organizational activities and members of its organization.” *See* PTO Office Action issued on June 15, 1982, in connection with Application Serial No. 282546, a true and accurate copy of which is attached as Exhibit C. Plainly, the other “organization” in question is GSUSA.

40. Although Defendant has previously offered some limited programs in which girls could participate, it has not, until recently, offered any girls’ programming under the marks SCOUT or SCOUTING alone (without other source-identifying distinguishing leading words) in connection with those programs targeted to girls. For example, Defendant previously offered programs to young women under the EXPLORER and VENTURING marks.

41. Defendant has long acknowledged that use of the SCOUT or SCOUTING marks, unaccompanied by distinguishing terms or devoid of context, even in connection with its programs for boys, could result in confusion. For example, on January 23, 1979, Defendant conceded in a letter to GSUSA that its use of its SCOUTING/USA mark (which obviously combines SCOUTING with the merely descriptive and therefore non-distinctive term “USA”) could mislead the public into believing that GSUSA is affiliated with BSA, or could be confusing to donors who intended to donate to BSA or GSUSA. For this reason, BSA took care at that time to make sure that its councils and troops included BSA’s full name in marketing materials in which that mark was used. A true and accurate copy of this correspondence is attached as Exhibit D. Upon information and belief, this trademark is no longer used by BSA.

42. In another communication sent by BSA to GSUSA on April 26, 1978, Defendant stated that it had taken “several steps that should assist potential public confusion that the communicative term Scouting/USA also refers to [GSUSA]. For one thing, we have instructed our Scouters, including our Public Relations staff, to use the term sparingly, and when it is used to always also feature the words ‘Boy Scouts of America.’” A true and accurate copy of this correspondence is attached as Exhibit E. Significantly, these steps to prevent potential confusion caused by the use of the term SCOUTING/USA were taken, even though BSA only admitted boys to its central programs at that time.

43. Defendant has therefore long recognized both: (i) GSUSA’s trademark rights in the GS Marks, including SCOUTS and SCOUTING, when used in connection with leadership programs for girls and related services and products; and (ii) that Defendant’s use of the terms SCOUT or SCOUTING preceded by other distinguishing terms, or outside of a context making clear that the services in question are directed to boys, would be likely to cause confusion.

44. As the correspondence attached as Exhibits D and E demonstrates, all use of the terms BOY SCOUTS, SCOUTS, SCOUTING and related trademarks in connection with services and programs offered or promulgated by BSA is controlled and supervised by BSA through licensing agreements between BSA and its regional councils, local troops and individual leaders. Upon information and belief, BSA both has the right to supervise and control, and actually does supervise and control, the quality of goods and services offered by Defendant's various regional councils and local troops under BSA's various trademarks, as well as the use of such trademarks by BSA's regional councils, local troops and individual leaders.

45. Upon information and belief, Defendant has published a manual for its various local councils entitled, "THE COUNCIL: How the Council Functions to Carry Out the Purpose of the BSA," that articulates standards for BSA's programs and services to ensure their overall quality, with which each BSA council must comply. A true and accurate copy of this publication is attached as Exhibit F.

46. Upon information and belief, Defendant has also published an "Orientation Guide for Council Officers and Executive Board Members," a true and accurate copy of which is attached as Exhibit G, in order to ensure that its councils adhere to the quality standards set and promulgated by BSA.

47. Upon information and belief, Defendant also issues charters to each of its local BOY SCOUT councils, and each local council identified in this complaint is currently chartered with Defendant. Upon information and belief, as a condition of maintaining their charters, and the concomitant right to use the BOY SCOUTS trademarks and variations thereof, each regional BOY SCOUTS council is required to pay fees to BSA. Upon information and belief, all BOY SCOUTS troop members and leaders are likewise required to be members of BSA and pay

membership dues to BSA in order to remain in operation and retain the right to use the BOY SCOUTS trademarks.

48. Defendant has stated that “[i]t is the council’s responsibility to provide leadership and supervision for all program activities within the territory covered by its charter in such a manner as to ensure compliance with the provisions of the *Charter and Bylaws of the Boy Scouts of America* and the *Rules and Regulations of the Boy Scouts of America*. The local council is an administrative organization charged with fulfilling the purpose of the movement.” See Exh. G at pg. 7.

**BSA’S ACTS OF TRADEMARK INFRINGEMENT, UNFAIR COMPETITION AND DILUTION**

49. Despite a century of coexistence with GSUSA in their respective, exclusive and separate markets, and perhaps in an effort to address financial concerns or declining membership, BSA recently announced that it would expand its offerings under the SCOUTS and SCOUTING trademark to encompass programs for girls, beginning with the enrollment of girls into its CUB SCOUTS programs. A true and accurate copy of Defendant’s announcement, dated October 11, 2017, is attached as Exhibit H. It then announced that it would open its BOY SCOUTS program to girls beginning in February 2019.

50. In May 2018, BSA went one step further by unveiling a new *Scout Me In* advertising campaign. In announcing this campaign, BSA stated that “[t]he *Scout Me In* campaign celebrates [Defendant’s] expansion to serve families and welcome girls and boys into Scouting in communities across the country.” A true and accurate copy of Defendant’s press release dated May 2, 2018, is attached as Exhibit I. Defendant now uses the SCOUT, SCOUTING, FAMILY SCOUTING and SCOUT ME IN trademarks to recruit girls into its CUB SCOUTS and BOY SCOUTS programs and, upon information and belief, it has also directed or

instructed its regional councils and local troops to use these trademarks or variations thereof in connection with programs and services newly offered to girls.

51. As the May 2, 2018 press release also indicates, SCOUTS BSA has been introduced as the new name of Defendant's programs for youth who are ages 11 to 17, beginning in February 2019, and will replace the longstanding BOY SCOUTS trademark for programs offered to that age group. *Id.* Defendant intends to use the SCOUTS BSA mark in connection with youth development services and programs targeted to girls. In a June 12, 2018 publication entitled "Family Scouting Questions and Answers," a true and accurate copy of which is attached as Exhibit J, Defendant further made clear that participants in the SCOUTS BSA program – boys and girls alike – will be referred to as "Scouts." *Id.* at 10.

52. Consistent with this message, Defendant is also currently distributing marketing materials, including videos, in which it frequently refers to girls as "Scouts." For example, upon information and belief, Defendant published a video on June 13, 2018, entitled "SCOUT ME IN" that prominently featured girls and included statements by girls such as "the Scouting world starts with my very best, right now self, and will lead me to my very best future self. Scouting will show me a kid who is brave, trustworthy, loyal and kind. . ." Defendants have also published or disseminated numerous other advertisements that are directed to girls, show pictures of girls, and reference the advertised program as SCOUTING or SCOUTS.

53. Recent U.S. trademark filings made by BSA demonstrate that Defendant is seeking to obtain federal trademark registration rights for its rebranding effort. For example, Defendant filed a trademark application for the SCOUTS BSA mark (Serial No. 87/906,567) with the PTO based on its intent to use the mark in commerce in connection with "educational services, namely, providing programs and activities for youth" in International Class 41.

Defendant also filed a trademark application with the PTO for SCOUTS BSA as a collective membership mark (Serial No. 87/906,407) based on its intent to use the mark in commerce in connection with “indicating membership in an organization for youth.” Finally, Defendant has also filed a trademark application with the PTO for the SCOUT LIFE mark (Serial No. 87/882,226) based on its intent to use this mark in commerce in connection with “magazines directed to the interests of the members of a youth organization” in International Class 16, and “providing online magazines directed to the interests of the members of a youth organization” in International Class 41.

54. By way of assignment from a university, Defendant also owns a trademark registration for the SCOUT mark (Reg. No. 4,865,183), issued on December 8, 2015, in connection with “education services, namely, providing on-line classes in the fields of math, history, science, economics, social studies, psychology, computer science, and environmental science; education services, namely, providing online courses of instruction at the secondary level and distribution of course material in connection therewith” in International Class 41.

55. Defendant’s decision to expand its core leadership programs to encompass girls of all ages has dramatically changed the circumstances that previously allowed its use of trademarks like SCOUTS and SCOUTING to coexist with the GS Marks without causing confusion. As a result of this fundamental change in the nature of Defendant’s services and how its marks are used, numerous examples of the mis-use of GSUSA’s trademarks have come to GSUSA’s attention, and actual confusion among members of the public between the two organizations, their services and their trademarks has become rampant.

56. Indeed, acting at the direction of or instructed by BSA in connection with the implementation of its rebranding effort, Defendant’s regional councils, local troops and



individual leaders have used the SCOUTING and SCOUTS marks, and variations thereof, to promote, market, fundraise, deliver services, and advertise their activities targeted to girls in a manner violative of GSUSA's valuable trademark rights, as demonstrated in the examples below. Upon information and belief, in each and every one of these examples, the councils, troops or leaders in question acted at either the direction of Defendant, on Defendant's behalf, or for the purpose of assisting Defendant within the scope of their relationship with Defendant. Likewise, Defendant has a direct financial interest in all of the wrongful activity delineated in these examples by virtue of the membership fees and other revenues it receives from its councils and troops that are generated in part through such wrongful use of GSUSA's trademarks.

57. Upon information and belief, and as depicted in Example 1 below, Defendant's Orange County, California Council distributed fundraising materials in connection with an event held on November 30, 2017, stating that the proceeds from the event would help, among other things, "implementation of our New BSA Girl Scouting Program."

**Example 1: BSA Fundraising Flyer for “New BSA Girl Scouting” Programs**

*“THE EL CAPITAN DISTRICT SERVES OVER 1,400 YOUTH IN ANAHEIM, GARDEN GROVE, STANTON, AND SURROUNDING CITIES. SCOUTINGS POSITIVE IMPACT HELPS OUR LOCAL FAMILIES AND YOUR COMMUNITY. PLEASE JOIN US AS WE CELEBRATE SCOUTING AND HELP ENSURE BSA’S SPECIAL SCOUTING PROGRAMS FOR TODAY’S YOUTH”*

**Troop 111 Scoutmaster Emeritus [REDACTED]**

The proceeds from the luncheon will provide funding for our Cub Scouts, Boy Scouts, Adventure Scouts, Explorer Scouts, and in the development and implementation of our New BSA Girl Scouting Programs!

*Suggested Levels of Support for El Capitan Scouts*

★ Special Gift \$	_____
★ Tiger/Lion Sponsor	\$250.00
★ Cub Sponsor	\$500.00
★ Tenderfoot Sponsor	\$750.00
★ Star Sponsor	\$1,000.00
★ Life Sponsor	\$2,500.00
★ Eagle Sponsor	\$5,000.00

✂

Your Sponsorship Amount : \$ \_\_\_\_\_

Donation Information and ON-LINE Payment LINK:  
[REDACTED]

Please make checks payable to Orange County Council Boy Scouts of America-501(C)3 TAX ID 95-1727660 Donor Cards will be available and collected at the Luncheon or Please send checks or credit card authorization with attached form to:  
Orange County Council, Boy Scouts of America 1211 E. Dyer Road, Santa Ana, CA. 92705

Credit Card Account # \_\_\_\_\_ Type VISA MC Etc. \_\_\_\_\_

Expiration \_\_\_\_\_ Name on Card \_\_\_\_\_ Code \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ ZIP \_\_\_\_\_ Phone \_\_\_\_\_

Email \_\_\_\_\_ Signature \_\_\_\_\_

**Please RSVP by Friday Nov. 24<sup>th</sup> to Mayor Pro-Tem [REDACTED]**  
**[REDACTED] or [REDACTED] at [REDACTED]**

Questions: Mayor Pro-Tem [REDACTED] at above email address or phone number

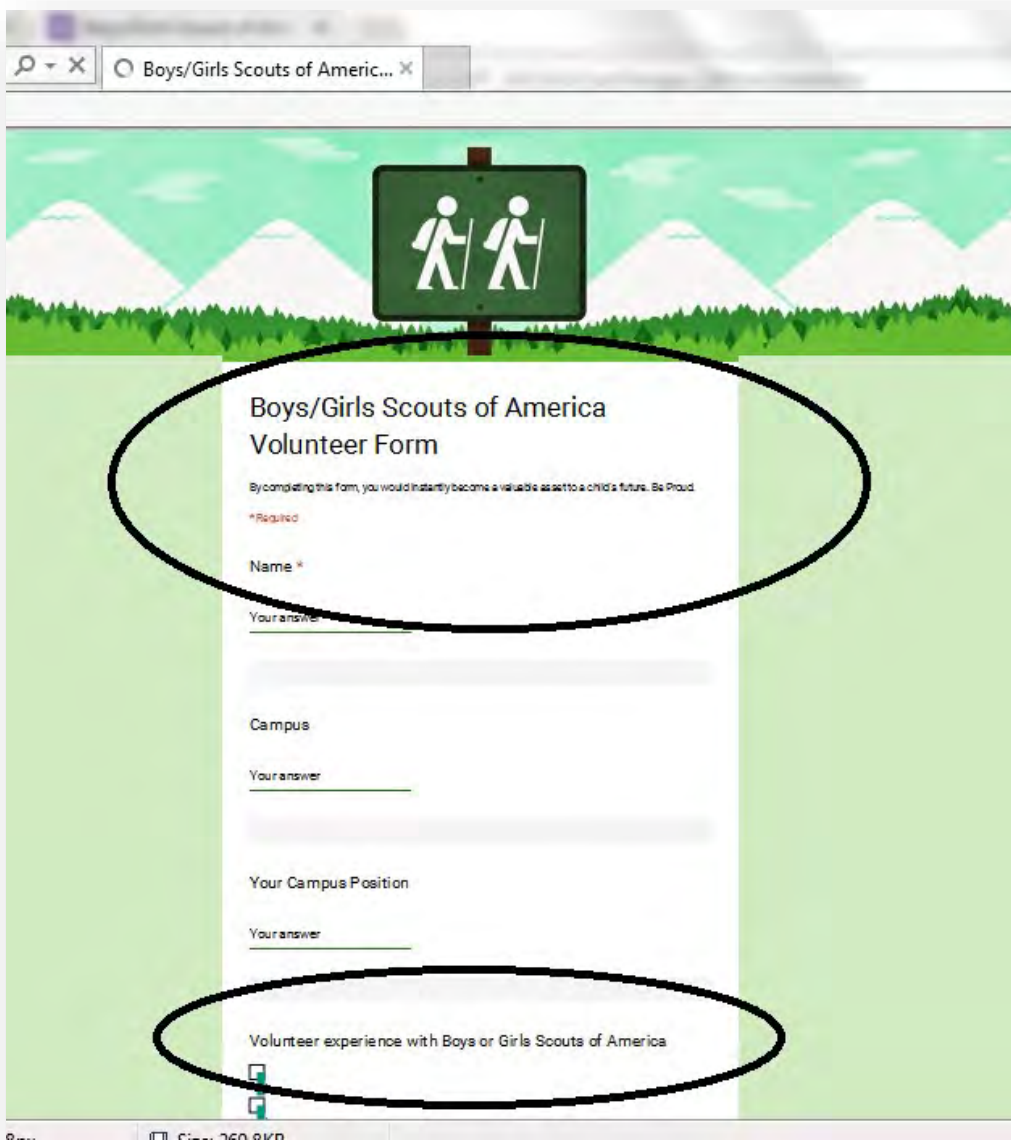
58. Upon information and belief, and as depicted in Example 2 below, a flyer for a Boy Scout day camp program held between June 4, 2018 and June 7, 2018 in Texas featured the GIRL SCOUT trademark.

**Example 2: “GIRL SCOUT Volunteer Opportunity” at Twilight Camp**



59. Upon information and belief, and as depicted in Example 3 below, a Boy Scout leader located in Texas used the phrase “Boys/Girls Scouts of America Volunteer Form” to recruit members online.

**Example 3: “Boys/Girls Scouts of America” Online Form**



60. Upon information and belief, and as depicted in Example 4 below, the Defendant’s Great Southwest Council in New Mexico constructed a sign that featured the words



“Boy & Girl Scouts [www.troop174NM.org](http://www.troop174NM.org).” Upon information and belief, the website [www.troop174NM.org](http://www.troop174NM.org) is owned and/or operated by Defendant or one of Defendant’s councils.

**Example 4: “Boy & Girl Scouts” Public Sign**



61. Upon information and belief, and as shown in Example 5 below, an organization located in Wantagh, New York that sponsors BSA services announced in October 2018 the planned formation of a “Girl Scouts BSA Troop” or a “Girl Scout troop” in February 2019.

**Example 5: Announcements Concerning Formation of a “Girl Scouts BSA Troop”**

**OUR COMMUNITY  
PACK AND TROOP**

**COME ON DOWN!**  
Pack [redacted] meets on Thursday nights  
from 6:15 pm - 7:30pm  
in the Youth Lounge and is looking  
for boys and girls in grades K-4.

Boy Troop [redacted] meets on Thursday nights  
from 7:30 pm - 9:00pm  
in the Youth Lounge  
and is looking for boys from 5th grade up to 18 years old.

We are in the process of forming a Girl Scouts BSA Troop  
as well (meetings will start at the beginning of February),  
which will meet Thursday nights from 7:30pm - 9:00pm  
(location still TBD) and are looking for  
interested girls from 5th grade up to 18 years old.  
For more information, please email me  
at [redacted].

All three units are always looking for adults to volunteer as  
well. Come on down and see how much fun it is!

by [redacted]

*Wantagh, Seaside Events Inaugurated by Jewish Community*

*Religious Awards Breakfast Article*


*Summer fun at [redacted]*

Visit [redacted] for the latest information.

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**OUR COMMUNITY**

**PACK AND TROOP**



Hi everyone,  
No new pictures yet, so I thought I would talk about Family Scouting, why it happened, and how it is being implemented.

The Boy Scouts of America's leadership has always operated on the premise that we are to ensure that the Scouting program and learning the values (as stated in the Scout Oath and Law) would be made available to as many youth as possible. BSA has had coed programs for decades and also recognized that because Cub Scouting was designed to be a family oriented program, girls had been attending meetings for years. They also did research and found that there were a significant number of families that wouldn't consider Scouting for their boys because they were looking for one organization that would accept the entire family.

So, they decided to make it available to girls as well. We implemented accepting girls into Cub Scouts (grades K-5) this past winter and will accept girls into the renamed Scouts BSA program (grades 6-12) starting February, 2019.


In Cub Scouts, packs can choose to be single gender or family packs. Family packs accept boys and girls, but they go into single gender dens. Most of the learning activities are done at the den level and most meetings are den meetings, so they spend most of the time in a single gender environment. Pack [redacted] is a family pack.

At the Scouts BSA program, boys and girls will be in separate troops. Each will have their own adult and youth leadership and, while they can do some activities together, the bulk of the meetings are separate. When all of the talk about accepting girls started, I thought we would be better off with coed troops (as is done in many other countries), but I have come around to thinking that single gender troops are better. From the boys' perspective, girls typically mature faster from ages 10-14, which would make them more likely to get selected for leadership roles, inhibiting the boys' leadership development. From the girls' perspective, while studies have had mixed results about whether single gender is

better for boys' learning, the studies are pretty convincing that girls learn better in single gender environments. So both genders benefit in different ways from being separate at the troop-level ages. **We will be forming a Girl Scout Troop in February.**

That is the short version. Anyone who has more questions is welcome to reach out to me or any of the Scout leadership here at [redacted] including [redacted] (Scoutmaster of the boy Troop) and [redacted] (Cubmaster of the Pack). Come on down on a Thursday night and see what Scouting can do for your family!

*(so many Scouting positions, so little space)*



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Visit [redacted] for the latest information.

62. Upon information and belief, and as depicted in Example 6 below, a Boy Scout leader in Kirkland, Washington used the phrase, "Come talk to me about the Girl Scouts BSA Troops forming in Kirkland" in a Facebook post online.

**Example 6: “Come talk to me about the Girl Scouts BSA Troops” Facebook Post**



63. Upon information and belief, and as depicted in Example 7 below, a Boy Scout leader in St. Louis, Missouri misappropriated GSUSA’s slogan and mission statement of “Building girls of courage, confidence and character who make the world a better place” by marketing the CUB SCOUTS program to girls under the slogan, “Building kids of courage, confidence, character and to love the outdoors, and who make the world a better place!”



GSUSA's mission statement above is explicitly set forth in the Preamble of GSUSA's Constitution, which is published in GSUSA's Blue Book of Basic Documents, publicly available, including on GSUSA's website, [www.girlscouts.org](http://www.girlscouts.org), and widely used in GSUSA's marketing materials.

**Example 7: Use of Girl Scouts' Slogan/Mission Statement in Boy Scouts Marketing**



64. Upon information and belief, a Boy Scout volunteer approached a former Gold Award Girl Scout and solicited her to join him and others to develop the "Girl Scout program" for Defendant's Northern Star Council (Twin Cities) located in Minneapolis, Minnesota.

65. Upon information and belief, GSUSA's Profile Design mark depicted in paragraph 27 above was used in Boy Scout New England Base Camp marketing materials, and also in a Boy Scouts council invitation to an event in Michigan.

66. Upon information and belief, Boy Scout councils have used pictures of Girl Scouts in Girl Scout uniforms to advertise BSA's programming in Massachusetts and Chicago.

67. Defendant's efforts to leverage the GIRL SCOUTS brand and confuse consumers has even gone so far as to prominently display a quote from GSUSA's founder on BSA's advertising for SCOUTS programs that has been disseminated to Defendant's councils through the BSA Brand Center. *See* Example 8, below.

**Example 8: Use of Quote from Girl Scouts' Founder in Boy Scouts Marketing**



68. GSUSA has sent numerous letters and warnings to Defendant and its regional councils regarding Defendant's serial infringing activity. In response, Defendant has acknowledged the "legally protected brand" that GSUSA owns in its GS Marks. A true and

accurate copy of correspondence from Defendant to GSUSA dated November 2, 2017 is attached as Exhibit K. This correspondence labeled the violation of GSUSA's trademark rights at issue therein as "inadvertent" and an "unfortunate error," but the ongoing violations of GSUSA's rights have mushroomed significantly since then, even though Defendant has been on notice of the infringing conduct of its councils, troops and volunteers throughout that time.

69. Indeed, to make matters worse, upon information and belief, Defendant and its councils have also engaged in a number of unfair business practices. For example, upon information and belief, in April and May 2018, one of Defendant's leaders approached a retailer in Red Bluff, California and attempted to dissuade the retailer from providing booth space to local Girl Scout members to sell their products, explaining that Defendant was now supposedly serving Girl Scouts and Boy Scouts. Upon information and belief, this Boy Scout leader acted at either the direction of Defendant or its local council, on behalf of Defendant or its local council, or for the purpose of helping Defendant or its local council within the scope of his relationship with those entities. True and accurate copies of correspondence dated April 17, 2018 and May 8, 2018 concerning this instance of unfair business practices are attached as Exhibit L.

70. Upon information and belief, Boy Scout council representatives in Illinois directed parents at a school open house to join the "Scouts," representing that the parties' separate organizations were now combined. In addition, upon information and belief, one of Defendant's leaders at a school recruitment event in Illinois stated that "there is no more Girl Scouts" or "there are no Girl Scouts" to a parent who was interested in signing their daughter up for GSUSA's programs. Upon information and belief, these Boy Scout council representatives acted at either the direction of Defendant, on Defendant's behalf, or for the purpose of helping Defendant within the scope of the representatives' relationship with Defendant.

71. Upon information and belief, Defendant's representatives in Texas have advised prospective parents interested in signing up for Girl Scouts that "it is all the same now" and that "Girl Scouts are in our pack." Parents are also being told that the Boy Scouts are the "official" Scouts, which has prompted some parents to ask GSUSA representatives if their longstanding Girl Scouts services are properly authorized. Upon information and belief, these Boy Scout council representatives acted at either the direction of Defendant, on Defendant's behalf, or for the purpose of helping Defendant within the scope of the representatives' relationship with Defendant.

72. Upon information and belief, a North Carolina Girl Scout recruitment staff member called to schedule visits with school principals in Henderson, Haywood and Jackson Counties, only to be told by these principals that they thought these visits had already been scheduled, because Defendant's representatives had told the schools that the Girl Scouts had been merged into the Boy Scouts.

73. In an effort to sow further confusion and interfere with GSUSA's leadership programming, upon information and belief, Defendant has used the GIRL SCOUTS trademark and variations thereof as Google Ad Words so that Defendant's advertisements would rank first in response to searches for "Girl Scouts" or "GSUSA Shop" on the Google search engine. A true and accurate copy with redactions of a screenshot from this search engine showing the effect of such wrongful use of GSUSA's GS Marks is attached as Exhibit M.

74. Upon information and belief, Defendant and its councils and volunteers have engaged in multiple other acts of misconduct that have violated GSUSA's trademark rights throughout the country that GSUSA can only fully discover through litigation. Despite

Defendant being on notice of such infringing conduct and the interference alleged herein, this conduct is continuous and ongoing.

75. As demonstrated by the examples above, there is a clear pattern of wrongful conduct by Defendant and its councils and leaders. Defendant has failed to take reasonable actions to prevent or correct the wrongful conduct of its councils and leaders.

**ADDITIONAL EXAMPLES OF ACTUAL CONSUMER CONFUSION**

76. Separate and apart from the unauthorized, wrongful acts of misconduct described above that have caused confusion among consumers, other use of the GS Marks, including SCOUTS and SCOUTING, as well as SCOUTS BSA, in advertising and promotional materials, has created confusion among consumers, and these are likely to continue to cause confusion unless enjoined by this Court.

77. Specifically, GSUSA has been made aware of several instances in which girls were mistakenly signed up for Boy Scouts programs when the intent was to sign them up for the GIRL SCOUTS. For example, upon information and belief, in Central Indiana, a parent contacted a Girl Scout council and reported that she had mistakenly enrolled her daughter in the Boy Scouts when she believed she was signing up for Girl Scouts. The parent asked whether the enrollment fees paid to Defendant could be transferred to GSUSA (they cannot). Upon information and belief, similar instances of parents mistakenly signing their girls up for BSA programs when they had intended to enroll them in GIRL SCOUTS programs have also occurred in Texas.

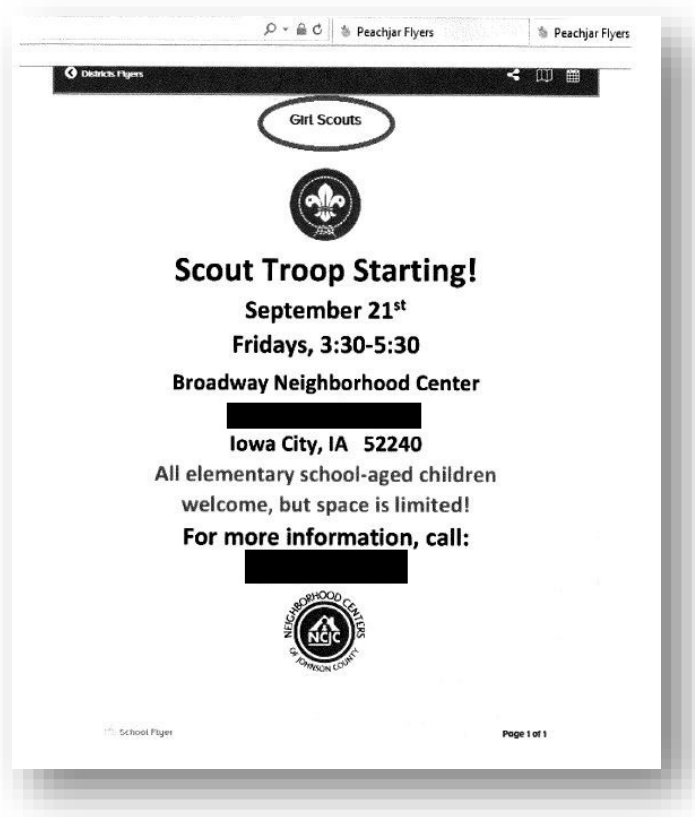
78. Upon information and belief, at a school recruitment event in South Dakota, a mother filled out membership paperwork provided by a Boy Scouts recruiter, believing that she was signing her five-year-old daughter up for GIRL SCOUTS programs.

79. Upon information and belief, at a school recruitment event in Goshen, Indiana, several parents reported to GSUSA volunteers that they had been confused by a presentation made by local BSA volunteers at a recruiting event as to whether they represented the Boy Scouts, the Girl Scouts, or both. One parent actually enrolled her daughter in the Boy Scouts thinking that she was signing her up for Girl Scouts and received a refund as a result.

80. Upon information and belief, a recruiter for Defendant repeatedly stated that “Boy Scouts is now accepting Girl Scouts” at an elementary school open house event in North Carolina, at which both Defendant and GSUSA councils had recruitment tables, prompting many attendees to express confusion to the recruiter at the GSUSA council table.

81. The confusion about the relationship between GSUSA and Defendant is spreading through third-party organizations and media channels as well. Upon information and belief, Neighborhood Centers of Johnson County, Iowa provided information on a recruitment flyer, depicted below, for Defendant that advertised “Scout Troop Starting! . . . all elementary school-aged children welcome” on September 18, 2018, which was billed as a “Girl Scouts” event and posted on the Grant Wood Elementary School’s website as such.

**“Girl Scouts” Flyer Posted by Neighborhood Centers of Johnson County**



82. In another example, a news article published in the *Brown County Press* located in Ohio concerned *solely* with Defendant’s events and recruiting was titled – “Boy and Girl Scouts looking for members.” A true and accurate copy of this article published in August 2018 is attached as Exhibit N. Another article published on September 10, 2018 in the *Barnesville Record* of Barnesville, Minnesota, entitled, “Scout Me In,” reported that “[a]fter a hundred years the girl scouts and boy scouts are merging into one group and will be known as Scouts BSA.” A local Boy Scout leader was quoted in the article as affirming the positive benefits that would flow from this purported merger. A true and accurate copy with redactions of this article published on September 10, 2018 is attached as Exhibit O.

83. Upon information and belief, Defendant’s use of SCOUT, SCOUTING and variations thereof like SCOUTS BSA in connection with all of its core programs offered to girls



of all ages nationwide has caused an extraordinary level of confusion among the public and violated GSUSA's valuable trademark rights.

84. This confusion will only be exacerbated when Defendant implements its recently announced SCOUTS BSA program in February 2019 that will see older girls admitted into BSA as "Scouts."

85. Defendant's use of the SCOUT mark and variations thereof in connection with all of BSA's core programs offered to girls of all ages on a nationwide basis has diluted and will continue to dilute GSUSA's famous GIRL SCOUTS trademark by blurring its distinctiveness and creating an improper and inaccurate association with BSA.

86. Such improper associations are of particular concern to GSUSA because Defendant has received significant negative publicity regarding its activities conducted under the BOY SCOUTS and SCOUTS marks, such that the goodwill associated with those terms when used in connection with boys' leadership development services has been damaged. In particular, there have been lawsuits and media articles alleging: a poor child safety record with respect to certain aspects of Defendant's programs; acts of misconduct perpetrated by some of its leaders over the years; and BSA's decision to lobby against child protection statutes in certain states.<sup>2</sup>

<sup>2</sup> Boy Scouts lobby in states to stem the flow of child abuse lawsuits, *The Washington Post*, (May 9, 2018), [https://www.washingtonpost.com/powerpost/boy-scouts-lobby-in-states-to-stem-the-flow-of-child-abuse-lawsuits/2018/05/08/0eee0a44-47d8-11e8-827e-190efaf1f1ee\\_story.html?utm\\_term=.21c485b800f9](https://www.washingtonpost.com/powerpost/boy-scouts-lobby-in-states-to-stem-the-flow-of-child-abuse-lawsuits/2018/05/08/0eee0a44-47d8-11e8-827e-190efaf1f1ee_story.html?utm_term=.21c485b800f9); Boy Scouts' 'perversion files' released: 'The secrets are out', *Los Angeles Times*, (Oct. 18, 2012), <https://latimesblogs.latimes.com/lanow/2012/10/boy-scouts-perversion-files-released-the-secrets-are-out.html>; Three things to know about the Boy Scouts sex abuse cases, *The Atlanta Journal-Constitution*, (Aug. 20, 2018), <https://www.ajc.com/news/crime--law/three-things-know-about-the-boy-scouts-sex-abuse-cases/EalhiPsV8ipUyIQVcb8CmK/>; 4 men sue Boy Scouts of America over alleged sexual abuse, *New York Post*, (July 24, 2018), <https://nypost.com/2018/07/24/4-men-sue-boy-scouts-of-america-over-alleged-sexual-abuse/>; 'Pedophile Magnet' Boy Scouts of America Let 'Serial' Sex Abuser Prey on Four Boys: *Lawsuit*, *Daily Beast*, (July 24, 2018),



As a result, Defendant's misleading and confusing use of the SCOUTS mark and variations thereof in connection with youth development services and programs for girls has damaged and will continue to damage the goodwill associated with the GIRL SCOUTS mark.

87. GSUSA's GIRL SCOUTS mark will be both blurred and tarnished as a result of consumers mistakenly associating the two organizations. The incorrect and improper association is likely to be and has been harmful to GSUSA's GIRL SCOUTS marks and the organization as a whole, resulting in the impairment in the distinctiveness of the GIRL SCOUTS mark. Indeed, the consuming public formerly associated the GIRL SCOUTS mark, when used in connection with girls' leadership development programs offered to all girls of all ages, exclusively with GSUSA, but Defendant's actions have now begun to create an improper association between that mark and a second source – BSA. This is a classic type of dilution prohibited under 15 U.S.C. § 1125(c).

88. GSUSA has no adequate remedy at law.

### **FIRST CAUSE OF ACTION**

#### **FEDERAL TRADEMARK INFRINGEMENT UNDER 15 U.S.C. § 1114(1)**

89. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

90. GSUSA owns the distinctive, valid and registered GS Marks.

<https://www.thedailybeast.com/pedophile-magnet-boy-scouts-of-america-let-serial-sex-abuser-prey-on-four-boys-lawsuit-claims>, *The Guam Daily Post*, (Jan. 8, 2018), [https://www.postguam.com/news/local/former-boy-scouts-file-sex-abuse-lawsuits/article\\_85e60006-f40f-11e7-8361-7369b1ee1218.html](https://www.postguam.com/news/local/former-boy-scouts-file-sex-abuse-lawsuits/article_85e60006-f40f-11e7-8361-7369b1ee1218.html); A list of Boy Scout outing deaths, *Los Angeles Times*, (Dec. 5, 2010), <http://articles.latimes.com/2010/dec/05/nation/la-na-scouts-list-online-20101205>; Sexual abuse of Explorer Scouts has gone on for decades across the nation, *Courier Journal*, (Published May 18, 2017, Updated June 27, 2018), <https://www.courier-journal.com/story/news/investigations/2017/05/18/sexual-abuse-explorer-scouts-has-gone-decades-across-nation/311510001/>.

91. Without GSUSA's consent, Defendant has used the SCOUTS and SCOUTING marks and marks similar thereto (and intends to use SCOUTS BSA), which are confusingly similar to the GS Marks, in commerce in connection with services targeted to girls and to advertise and promote such competing services.

92. In addition, Defendant's councils, troops and leaders, at the direction of Defendant, have also used the SCOUTS and SCOUTING marks and marks similar thereto (and will soon use SCOUTS BSA), which are confusingly similar to the GS Marks, in commerce in connection with services targeted to girls and to advertise and promote such competing services. Upon information and belief, Defendant has the authority to control the use of intellectual property related to Defendant's services by its councils, troops and leaders, and Defendant exercises control over the use of such intellectual property by its councils, troops and leaders. Upon information and belief, Defendant reaps a direct financial benefit from the infringing activities of its councils, troops and leaders by virtue of membership dues that flow back to Defendant.

93. Defendant's actions, as well as those of its councils, troops and leaders, as described herein, have caused and are likely to cause confusion, mistake, and deception among consumers as to the affiliation, connection, or association of Defendant with GSUSA, as to the true source of Defendant's services, and as to the sponsorship or approval of Defendant or Defendant's services by GSUSA.

94. Neither Defendant nor its councils, troops, and leaders are affiliated or associated with GSUSA or its services, and GSUSA does not approve or sponsor Defendant, Defendant's services, or the marketing in U.S. commerce of Defendant's services by Defendant's councils, troops and leaders.

95. Defendant is both directly and vicariously liable for the infringing use of the GS Marks, SCOUTS, SCOUTING and similar marks thereto, as well as that of Defendant's councils, troops and leaders, about which Defendant has received consistent notification from GSUSA.

96. The actions of Defendant described above constitute direct and vicarious trademark infringement in violation of 15 U.S.C. § 1114(1).

97. Defendant's actions are willful and reflect an intent to confuse consumers and profit from the goodwill and consumer recognition associated with GSUSA and the GS Marks.

98. GSUSA has been, and will continue to be, damaged and irreparably harmed by the actions of Defendant, which will continue unless Defendant is enjoined by this Court. GSUSA is therefore entitled to injunctive relief pursuant to 15 U.S.C. § 1116.

99. GSUSA is also entitled to actual monetary damages in an amount to be determined at trial, and to any profits made by Defendant in connection with its infringing activities.

100. Defendant's infringement of the registered GS Marks is deliberate, willful, and without extenuating circumstances, and constitutes a knowing use of GSUSA's trademarks. Defendant's infringement is thus an "exceptional case" within the meaning of section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a). GSUSA is therefore entitled to recover three times the amount of its actual damages and the attorneys' fees and costs incurred in this action, as well as prejudgment interest.

**SECOND CAUSE OF ACTION**

**FEDERAL UNFAIR COMPETITION AND FALSE DESIGNATION OF ORIGIN  
UNDER 15 U.S.C. § 1125(a)**

101. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

102. GSUSA owns the famous, distinctive, valid, and registered GS Marks, as well as common law rights in the GS Marks, including the marks SCOUTS and SCOUTING as used in connection with girls programs.

103. Without GSUSA's consent, Defendant has directly used the SCOUTS and SCOUTING marks and marks similar thereto (and intends to use SCOUTS BSA), which are confusingly similar to the GS Marks in commerce in connection with services targeted to girls and to advertise and promote such competing services.

104. In addition, Defendant's councils, troops and leaders, at the direction of Defendant, have also used the SCOUTS and SCOUTING marks and marks similar thereto (and will soon use SCOUTS BSA), which are confusingly similar to the GS Marks, in commerce in connection with services targeted to girls and to advertise and promote such competing services. Upon information and belief, Defendant has the authority to control the use of intellectual property related to Defendant's services by its councils, troops and leaders, and Defendant exercises control over the use of such intellectual property by its councils, troops, and leaders. Upon information and belief, Defendant reaps a direct financial benefit from the wrongful activities of its councils, troops, and leaders by virtue of membership dues that flow back to Defendant.

105. Defendant's actions, as well as those of its councils, troops, and leaders, as described herein have caused and are likely to cause confusion, mistake, and deception among

consumers as to the affiliation, connection, or association of Defendant with GSUSA, as to the true source of Defendant's services, and as to the sponsorship or approval of Defendant or Defendant's services by GSUSA.

106. Neither Defendant nor its councils, troops, and leaders are affiliated or associated with GSUSA or its services, and GSUSA does not approve or sponsor Defendant, Defendant's services, or the marketing in U.S. commerce of Defendant's services by Defendant's councils, troops, and leaders.

107. Defendant is both directly and vicariously liable for the use of the GS Marks, SCOUTS, SCOUTING and similar marks thereto, as well as that of Defendant's councils, troops, and leaders, about which Defendant has received consistent notification from GSUSA.

108. The actions of Defendant described above constitute unfair competition and false designation of origin in violation of 15 U.S.C. § 1125(a)(1).

109. Defendant's actions are willful and reflect an intent to confuse consumers and profit from the goodwill and consumer recognition associated with GSUSA and the GS Marks.

110. GSUSA has been, and will continue to be, damaged and irreparably harmed by the actions of Defendant, which will continue unless Defendant is enjoined by this Court. GSUSA is therefore entitled to injunctive relief pursuant to 15 U.S.C. § 1116.

111. GSUSA is also entitled to actual monetary damages in an amount to be determined at trial and to any profits made by Defendant in connection with its unfairly competitive activities.

112. Defendant's unfair competition and false designation of origin are deliberate, willful, and without extenuating circumstances. Defendant's conduct is thus an "exceptional case" within the meaning of Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a). GSUSA is

therefore entitled to recover three times the amount of its actual damages and the attorneys' fees and costs incurred in this action, as well as prejudgment interest.

**THIRD CAUSE OF ACTION**

**FEDERAL TRADEMARK DILUTION UNDER 15 U.S.C. § 1125(C)**

113. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

114. GSUSA's GIRL SCOUTS mark is famous and distinctive and has been for many years prior to the first offering of any services by Defendant to girls under the trademarks SCOUTS, SCOUTING and variations thereof.

115. Without authorization or license from GSUSA, Defendant is using and intends to use the SCOUTS and SCOUTING trademarks and marks similar thereto (and intends to use SCOUTS BSA) in commerce in a manner that impairs the distinctive quality, and harms the reputation, of GSUSA's famous GIRL SCOUTS mark.

116. In addition, Defendant's councils, troops, and leaders, at the direction of Defendant, have also used the SCOUTS and SCOUTING marks and marks similar thereto (and will soon use SCOUTS BSA) in commerce in a manner that impairs the distinctive quality, and harms the reputation, of GSUSA's famous GIRL SCOUTS mark. Upon information and belief, Defendant has the authority to control the use of intellectual property related to Defendant's services by its councils, troops, and leaders, and Defendant exercises control over the use of such intellectual property by its councils, troops, and leaders. Upon information and belief, Defendant reaps a direct financial benefit from the infringing activities of its councils, troops, and leaders by virtue of membership dues that flow back to Defendant.

117. The acts and conduct of Defendant alleged herein, as well as those of Defendant's councils, troops, and leaders occurring at Defendant's direction, occurred after

GSUSA's GIRL SCOUTS mark became famous and constitute dilution by blurring and dilution by tarnishment in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c), both directly and vicariously.

118. Upon information and belief, Defendant's acts of dilution and tarnishment are willful, deliberate, and in bad faith.

119. GSUSA has no adequate remedy at law.

120. Defendant's acts and conduct will cause immediate and irreparable injury to GSUSA, to its goodwill and reputation, and to the public, and will continue to threaten such injury unless enjoined by this Court.

121. GSUSA is entitled to injunctive relief and to recover GSUSA's actual damages and an award of GSUSA's profits, as well as costs and GSUSA's reasonable attorney's fees, under 15 U.S.C. §§ 1025(c), 1116, and 1117.

#### **FOURTH CAUSE OF ACTION**

##### **MODIFICATION OR PARTIAL CANCELLATION OF REGISTRATION**

122. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

123. Defendant's U.S. trademark registration for the SCOUT mark (Reg. No. 4,865,183) obtained by assignment from a university does not limit the identified online secondary level educational services to programs for boys.

124. Defendant's use of the SCOUT mark in connection with educational services for girls is likely to cause, and has already caused, consumer confusion.

125. Pursuant to 15 U.S.C. § 1119, this Court has the authority to "determine the right to registration, order cancellation of registrations, in whole or in part . . . and otherwise

rectify the register with respect to the registrations of any party” in an action involving a registered mark.

126. Consistent with the authority conferred by 15 U.S.C. § 1119, Defendant’s registration for the SCOUT mark should be modified or partially cancelled through entry of a decree ordering the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office to make an entry on the records of the PTO limiting the identified services in such registration to programs for boys.

**FIFTH CAUSE OF ACTION**  
**COMMON LAW TRADEMARK INFRINGEMENT,  
UNFAIR COMPETITION AND PASSING OFF**

127. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

128. GSUSA owns common law trademark rights in the GS Marks and all such rights owned by GSUSA are superior to any rights that the Defendant may claim to have in the SCOUTS or SCOUTING marks with respect to any goods or services targeted to girls.

129. Defendant’s unauthorized use of trademarks confusingly similar to the GS Marks in connection with youth development services or programs for girls is likely to cause confusion as to the source or sponsorship of these services, and is likely to lead the public to believe that GSUSA is affiliated with or sponsors or endorses Defendant and/or Defendant’s services, and is likely to mislead persons in the ordinary course of purchasing Defendant’s services, thereby injuring the reputation and goodwill and unjustly diverting from GSUSA to Defendant the benefits arising therefrom.

130. In addition, Defendant’s councils, troops, and leaders, at the direction of Defendant, have also used the SCOUTS and SCOUTING marks and marks similar thereto (and



will soon use SCOUTS BSA), which are confusingly similar to the GS Marks, in commerce in connection with services targeted to girls and to advertise and promote such competing services. Upon information and belief, Defendant has the authority to control the use of intellectual property related to Defendant's services by its councils, troops, and leaders, and Defendant exercises control over the use of such intellectual property by its councils, troops, and leaders. Upon information and belief, Defendant reaps a direct financial benefit from the wrongful activities of its councils, troops, and leaders by virtue of membership dues that flow back to Defendant.

131. Defendant's unlawful activities, as alleged above, constitute trademark infringement, unfair competition, and passing off as proscribed by common law.

132. Defendant's acts of trademark infringement, unfair competition, and passing off were committed, or will imminently be committed, willfully, knowingly, intentionally, and in bad faith.

133. Defendant's acts or intended acts of trademark infringement, unfair competition, and passing off, unless enjoined by this Court, will threaten to cause GSUSA irreparable damage, loss, and injury for which GSUSA has no adequate remedy at law. GSUSA is therefore entitled to injunctive relief enjoining such wrongful conduct, and to an award of damages that provides GSUSA with adequate compensation for the harm it has suffered.

#### **SIXTH CAUSE OF ACTION**

#### **TRADEMARK DILUTION UNDER NEW YORK GENERAL BUSINESS LAW § 360-I**

134. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

135. GSUSA's GIRL SCOUTS mark is distinctive within the State of New York and has been for many years prior to the first offering of any services by Defendant to girls under the SCOUTS and SCOUTING trademarks and marks similar thereto.

136. Without authorization or license from GSUSA, Defendant is using and intends to use the SCOUTS and SCOUTING trademarks and marks similar thereto (and intends to use SCOUTS BSA) in the State of New York in a manner that impairs the distinctive quality, and harms the reputation, of GSUSA's famous GIRL SCOUTS mark.

137. In addition, Defendant's councils, troops, and leaders within the State of New York, at the direction of Defendant, have also used the SCOUTS and SCOUTING marks and marks similar thereto (and will soon use SCOUTS BSA) in New York in a manner that impairs the distinctive quality, and harms the reputation, of GSUSA's famous GIRL SCOUTS mark. Upon information and belief, Defendant has the authority to control the use of intellectual property related to Defendant's services by its councils, troops, and leaders within the State of New York, and Defendant exercises control over the use of such intellectual property by its councils, troops, and leaders. Upon information and belief, Defendant reaps a direct financial benefit from the activities of its councils, troops, and leaders within the State of New York by virtue of membership dues that flow back to Defendant.

138. The acts and conduct of Defendant alleged herein, as well as those of Defendant's councils, troops, and leaders occurring at Defendant's direction, occurred after GSUSA's GIRL SCOUTS mark became distinctive within the State of New York and constitute dilution by blurring and dilution by tarnishment in violation of New York General Business Law § 360-1.

139. Defendant's acts and conduct will cause immediate and irreparable injury to GSUSA, to its goodwill and reputation, and to the public, and will continue to threaten such injury unless enjoined by this Court. GSUSA is therefore entitled to injunctive relief in New York under General Business Law § 360-1.

**SEVENTH CAUSE OF ACTION**

**TORTIOUS INTERFERENCE WITH PROSPECTIVE ECONOMIC ADVANTAGE**

140. GSUSA realleges and incorporates by reference herein each and every allegation of the foregoing paragraphs of this Complaint as if fully set forth herein.

141. Defendant's councils and GSUSA's councils occasionally attend the same recruitment events.

142. Defendant is aware that GSUSA has a prospective business relationship with the parents and girls who attend these recruitment events.

143. Defendant, by the acts described herein that illustrate a widespread and systematic course of conduct, intentionally interfered with those relationships by dishonest, unfair, and improper means. For example, Defendant's recruiters have recently told parents and girls that there "are no more Girl Scouts" or that the organizations have combined. These statements are dishonest, unfair, and improper because GSUSA is still in existence and Defendant cannot register girls for the GIRL SCOUTS program. Upon information and belief, these recruiters acted on behalf of Defendant or for the purpose of serving the Defendant's interest. Upon information and belief, as a result of Defendant's interference and/or knowledge of and failure to halt such systematic tortious behavior, girls have signed up for Defendant's program instead of GSUSA's program, causing significant harm to GSUSA's prospective business relationships with these individuals.

144. Likewise, GSUSA had a prospective business relationship with a retailer in Red Bluff, California to provide space to a Girl Scout council for the purpose of conducting Girl Scout activities. Defendant, knowing of this relationship, intentionally interfered with that relationship when it attempted to dissuade the retailer from providing booth space to the council on the basis that Defendant now serves both Boy Scouts and Girl Scouts. Upon information and belief, such dishonest, unfair, and improper statements interfered with the reservation of such booth space.

145. Upon information and belief, Defendant and its councils or leaders have made numerous other dishonest, unfair and improper statements for the purpose of intentionally and knowingly inducing parents and girls across the country to register with Defendant's programs instead of GSUSA's programs. Upon information and belief, GSUSA can only obtain information about these additional instances of dishonest, unfair, and improper actions through discovery.

#### **PRAYER FOR RELIEF**

WHEREFORE, GSUSA respectfully requests the following relief:

(a) That GSUSA be granted preliminary and permanent injunctive relief under 15 U.S.C. § 1051 *et seq.* and New York law specifically requiring that Defendant and all of its councils, troops, officers, leaders, agents, servants, representatives, employees, attorneys, parent and subsidiary corporations, assigns and successors in interest, and all other persons acting in concert or participation with them, or any of them, be preliminarily and permanently enjoined from: (i) using the GS Marks, or any confusingly similar variations thereof, in connection with the marketing, promotion, advertising, sale or rendering of any of Defendant's services, (ii) using the marks SCOUT, SCOUTS, SCOUTING, SCOUTS BSA, or any variation thereof, alone without an inherently distinctive or distinguishing term appearing immediately before it, in

connection with the marketing, promotion, advertising, sale or rendering of any of Defendant's services directed to girls; (iii) using any false designation of origin or any false description that can, or is likely to, mislead the public, or individual members thereof, to believe that any service distributed, sold, offered for sale, or advertised by Defendant is in any manner associated with or approved or sponsored by GSUSA; (iv) representing in any manner that Defendant or its councils or troops are endorsed or sponsored by GSUSA, or represent or work on behalf of GSUSA, or are affiliated or associated with GSUSA; and (v) any other infringing or misleading conduct discovered during the course of this action;

**(b)** That Defendant be ordered to provide training to all of its councils, troops, officers, leaders, agents, servants, representatives, employees, and volunteers to prevent confusion between the parties and their respective trademarks, including with respect to:

(i) Defendant's use of the marks SCOUT, SCOUTS, SCOUTING, SCOUTS BSA or variations thereof in a manner compliant with the injunction issued by this Court; (ii) Defendant's relationship with GSUSA; (iii) the GS Marks, and (iv) affirmative steps that must be taken to avoid or remediate instances of actual consumer confusion; and to provide GSUSA with a written report detailing such training;

**(c)** That Defendant be ordered to file a withdrawal with prejudice of Trademark Application Serial Nos. 87/906,407, 87/906,567, 87/882,226 with the PTO;

**(d)** That Defendant file with the Court, within ten (10) days from entry of the aforementioned injunction, a declaration signed under penalty of perjury certifying the manner in which Defendant has complied with the terms of the injunction;

**(e)** That Defendant is adjudged to have violated 15 U.S.C. § 1114(1) by infringing the GS Marks;

(f) That Defendant is adjudged to have violated 15 U.S.C. § 1125(a)(1) for unfairly competing against GSUSA and by using a false designation of origin for Defendant's services;

(g) That Defendant is adjudged to have violated 15 U.S.C. § 1125(c) by diluting the GIRL SCOUTS trademark;

(h) That judgment be entered in favor of GSUSA against Defendant to the effect that U.S. Reg. No. 4,865,183 is to be modified or partially cancelled, and ordering the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office to make an entry on the records of the PTO limiting the identified services in such registration to programs for boys;

(i) That Defendant is adjudged to have engaged in illegal acts of common law trademark infringement, unfair competition, and passing off;

(j) That Defendant is adjudged to have violated New York General Business Law § 360-1 by diluting the GIRL SCOUTS trademark;

(k) That Defendant is adjudged liable for tortious interference with prospective economic advantage;

(l) That GSUSA be awarded damages in an amount sufficient to compensate it for harm caused by Defendant's acts;

(m) That this Court order an accounting of Defendant's profits earned as a result of Defendant's unlawful activities and disgorge all of said profits to GSUSA;

(n) That GSUSA be awarded three times Defendant's profits and three times GSUSA's damages suffered as a result of Defendant's willful, intentional, and deliberate acts in violation of the Lanham Act and New York law;

- (o) That GSUSA be awarded its attorneys' fees and costs in this action under 15 U.S.C. § 1117 as a result of Defendant's Lanham Act violations;
- (p) That GSUSA be granted prejudgment and post judgment interest; and
- (q) That GSUSA be granted such further relief as the Court may deem just and equitable.

**DEMAND FOR JURY TRIAL**

Pursuant to Federal Rule of Civil Procedure 38, GSUSA hereby respectfully demands a trial by jury of all issues triable of right by a jury.

Dated: New York, New York  
November 6, 2018

Respectfully Submitted,  
  
DORSEY & WHITNEY LLP

By: /s/ Bruce R. Ewing  
Bruce R. Ewing  
Fara S. Sunderji  
Amanda M. Prentice  
51 West 52<sup>nd</sup> Street  
New York, New York 10019  
(212) 415-9200

*Attorneys for Plaintiff  
Girl Scouts of the United States of America*

ESTTA Tracking number: **ESTTA952405**

Filing date: **02/06/2019**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

**Notice of Opposition**

Notice is hereby given that the following party opposes registration of the indicated application.

**Opposer Information**

Name	Tiffany (NJ) LLC
Granted to Date of previous extension	02/06/2019
Address	15 Sylvan Way Parsippany, NJ 07054 UNITED STATES

Attorney information	John P. Margiotta FROSS ZELNICK LEHRMAN & ZISSU, P.C. 4 Times Square, 17th Floor New York, NY 10036 UNITED STATES jmargiotta@fzlz.com, skipen@fzlz.com, ttabfiling@fzlz.com 212-813-5900
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**Applicant Information**

Application No	87862570	Publication date	10/09/2018
Opposition Filing Date	02/06/2019	Opposition Period Ends	02/06/2019
Applicant	7Cs Fashion House 717 Madison Avenue New York, NY 10065 UNITED STATES		

**Goods/Services Affected by Opposition**

Class 014. First Use: 0 First Use In Commerce: 0 All goods and services in the class are opposed, namely: Jewelry
Class 035. First Use: 0 First Use In Commerce: 0 All goods and services in the class are opposed, namely: Wholesale store services in the field of jewelry; retail store services in the field of jewelry; advertising and marketing services in the field of jewelry

**Applicant Information**

Application No	87862556	Publication date	10/09/2018
Opposition Filing Date	02/06/2019	Opposition Period Ends	
Applicant	7Cs Fashion House 717 Madison Avenue		



	New York, NY 10065 UNITED STATES
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## Goods/Services Affected by Opposition

Class 014. First Use: 0 First Use In Commerce: 0 All goods and services in the class are opposed, namely: jewelry
Class 035. First Use: 0 First Use In Commerce: 0 All goods and services in the class are opposed, namely: Wholesale store services in the field of jewelry; retail store services in the field of jewelry; advertising and marketing services in the field of jewelry

## Grounds for Opposition

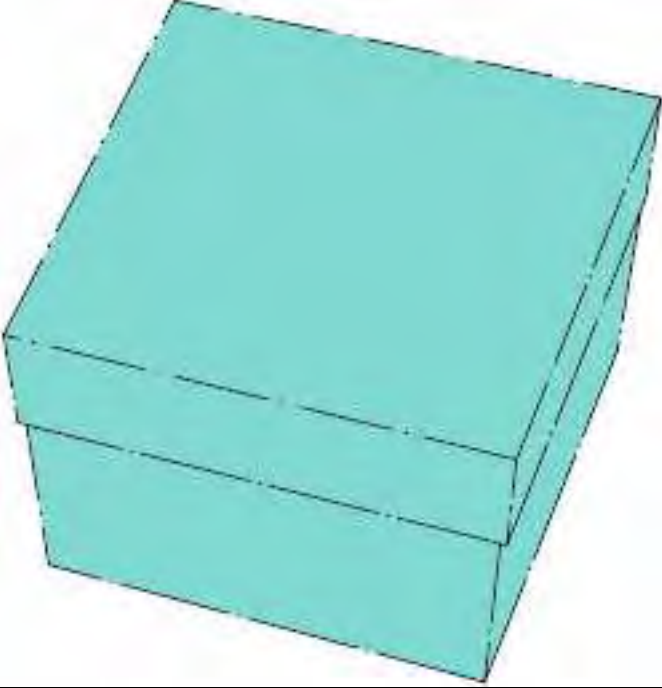
Priority and likelihood of confusion	Trademark Act Section 2(d)
Dilution by blurring	Trademark Act Sections 2 and 43(c)
Dilution by tarnishment	Trademark Act Sections 2 and 43(c)

## Marks Cited by Opposer as Basis for Opposition

U.S. Registration No.	2184128	Application Date	09/19/1997
Registration Date	08/25/1998	Foreign Priority Date	NONE
Word Mark	NONE		
Design Mark			
Description of Mark	NONE		
Goods/Services	<p>Class 003. First use: First Use: 1987/00/00 First Use In Commerce: 1987/00/00 fragrance products, namely, perfume, cologne, [ toilet water, ] toilet soap, [ baby powder, ] body cream, bath gel, shower gel, body lotion [ and personal deodorant ]</p> <p>Class 008. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 tableware, namely, knives, forks and spoons; pocket knives, scissors, and</p>		

	<p>razors</p> <p>Class 014. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 jewelry, watches and clocks, precious and semi-precious stones; decorative art objects made in whole or in part of precious or semi-precious metals, namely, figurines, boxes, and trophies; natural and cultured pearls; metal wares made in whole or in part of precious or semi-precious metals, namely, candelabras, candlesticks, cigar and cigarette boxes and ashtrays; bar accessories made of precious or semi-precious metals, namely, coasters; clothing accessories made of precious or semi-precious metals, namely, moneyclips, cufflinks, [ key holders, ] key rings, [ collar clips, collar pins, ] collar stays, tie bars, tie tacks, [ tie slides, ] belt buckles and shirt studs; pill boxes and pin boxes made of or plated with precious or semi-precious metals</p> <p>Class 016. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 stationery; diaries, calendars, drawing rulers, writing instruments and playing-cards, bookmarks</p> <p>Class 018. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 leather goods, namely, [ purses, ] handbags, wallets, credit card cases [ , keycases and brief case-type portfolios ]</p> <p>Class 020. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 picture, calendar and photograph frames made in whole or in part of precious or semi-precious metals</p> <p>Class 021. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 bowls, serving trays, tumblers, pitchers, corkscrews, cups, porringers, toothpicks and perfume flasks sold empty all made in whole or in part of precious or semi-precious metals; crystal glasses, bowls, vases, candy and jelly jars, candlesticks, serving platters, boxes, buckets and baskets; china, porcelain and earthenware dinnerware, bowls, serving platters, tea and coffee sets, mugs, vases, candy and jelly jars, candlesticks, boxes and baskets</p> <p>Class 025. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 clothing, namely, neckties, scarves and belts</p> <p>Class 028. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 baby rattles and place markers for golfballs made in whole or in part of precious or semi-precious metals</p> <p>Class 035. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 retail store and mail order catalog services featuring jewelry, watches and clocks, giftware, dinnerware, flatware, table service pieces, baby gifts, decorative home furnishings, stationery, writing instruments and desk accessories, clothing and accessories, trophies and medals, smokers' accessories, weather monitoring accessories, bar accessories, and perfumery</p>
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U.S. Registration No.	2359351	Application Date	08/24/1998
Registration Date	06/20/2000	Foreign Priority Date	NONE
Word Mark	NONE		

Design Mark	
Description of Mark	<p>The mark consists of a shade of blue often referred to as robin's-egg blue which is used on boxes. The matter shown in broken lines represents boxes of various sizes and serves to show positioning of the mark. No claim is made to shape of the boxes.</p>
Goods/Services	<p>Class 003. First use: First Use: 1987/00/00 First Use In Commerce: 1987/00/00 Fragrance products, namely, perfume, cologne, toilet water, [ toilet soap, baby-powder, body cream, bath gel, shower gel, ] body lotion [ and personal deodorant ]</p> <p>Class 008. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Tableware, namely, knives, forks and spoons; pocket knives, [ scissors, ] and razors</p> <p>Class 014. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Jewelry; watches and clocks; precious and semi-precious stones; decorative art objects made in whole or in part of precious metals and their alloys, namely, figurines, boxes and trophies; natural and cultured pearls; metal wares made in whole or in part of precious metals and their alloys, namely, candelabras, candlesticks, cigar and cigarette boxes and ashtrays; bowls, serving trays, tumblers, pitchers, corkscrews, cups, porringers, [ toothpicks ] and perfume flasks sold empty, all made in whole or in part of precious metals and their alloys; bar accessories made of precious metals and their alloys, namely, coasters; clothing accessories made of precious metals and their alloys, namely, money clips, cufflinks, [ key holders, ] key rings, [ collar clips, collar pins, ] collar stays, tie bars, tie tacks, tie slides, belt buckles, and shirt studs; pill boxes and pin boxes made of or plated with precious metals and their alloys; baby rattles, golf clubs, and place markers for golf balls made in whole or in part of precious metals and their alloys; picture calendar and photograph frames made in whole or in part of precious metals and their alloys</p> <p>Class 016. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Stationery; diaries, calendars, personal organizers, [ drawing rulers, ] bookmarks, writing instruments and playing cards</p> <p>Class 018. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Leather goods, namely, [ purses, handbags, ] wallets, credit card cases [ and key cases ]</p>

Class 021. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00  
 Crystal glasses, bowls, vases, candy and jelly jars, candlesticks, serving platters, decorative boxes, buckets and baskets; china, porcelain, and earthenware dinnerware, bowls, serving platters, tea and coffee sets, mugs, vases, candy [ and jelly jars ], candlesticks, boxes and baskets

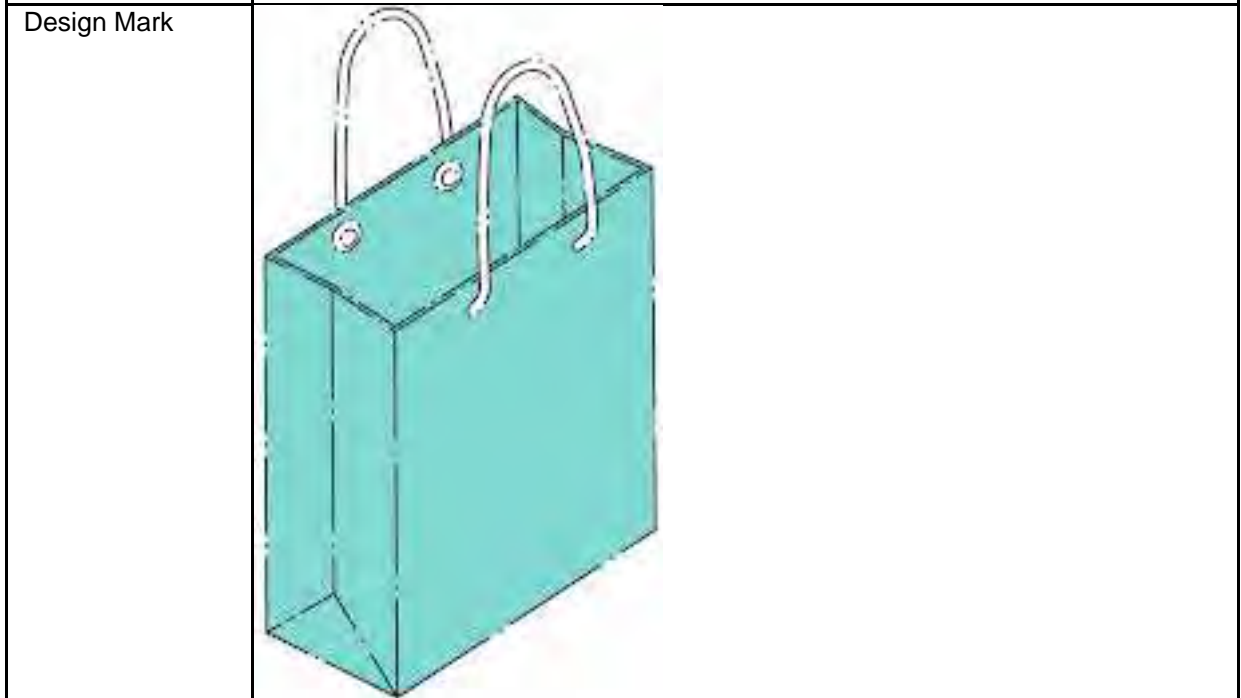
Class 025. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00  
 Clothing, namely, neckties, scarves and belts

Class 035. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00  
 Retail store and mail order catalog services featuring jewelry, watches and clocks, giftware, dinnerware, flatware, table service pieces, baby gifts, decorative home furnishings, stationery, writing instruments and desk accessories, clothing and accessories, trophies and medals, smokers' accessories, weather monitoring accessories, bar accessories, and perfumery

U.S. Registration No.	2416795	Application Date	08/24/1998
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Registration Date	01/02/2001	Foreign Priority Date	NONE
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Word Mark	NONE
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Description of Mark	The mark consists of a shade of blue often referred to as robin's-egg blue which is used on bags. The matter shown in broken lines represents bags of various sizes and serves to show positioning of the mark. No claim is made to shape of the bags.
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Goods/Services	<p>Class 003. First use: First Use: 1987/00/00 First Use In Commerce: 1987/00/00          Fragrance products, namely, perfume, cologne, toilet water, [ toilet soap, ] [ baby powder, ] [ body cream, bath gel, ] shower gel, body lotion [ and personal deodorant ]</p> <p>Class 008. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00          Tableware, namely, knives, forks and spoons; pocket knives, [ scissors, ] and razors</p> <p>Class 014. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00          Jewelry; watches and clocks; precious and semi-precious stones; decorative art</p>
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objects made in whole or in part of precious metals and their alloys, namely, figurines, boxes and trophies; natural and cultured pearls; metal wares made in whole or in part of precious metals, and their alloys, namely, candelabras, candlesticks, cigar and cigarette boxes and ashtrays; bowls, serving trays, tumblers, pitchers, corkscrews, cups, porringers, [ toothpicks ] and perfume flasks sold empty, all made in whole or in part of precious metals and their alloys; bar accessories made of precious metals and their alloys, namely, coasters; clothing accessories made of precious metals and their alloys, namely, money clips, cufflinks, [ key holders, ] key rings, [ collar clips, collar pins, ] collar stays, tie bars, tie tacks, [ tie slides, ] belt buckles, and shirt studs; pill boxes [ and pin boxes ] made of or plated with precious metals and their alloys; [ baby rattles, ] golf clubs, and place markers for golf balls made in whole or in part of precious metals and their alloys; picture, calendar and photograph frames made in whole or in part of precious metals and their alloys

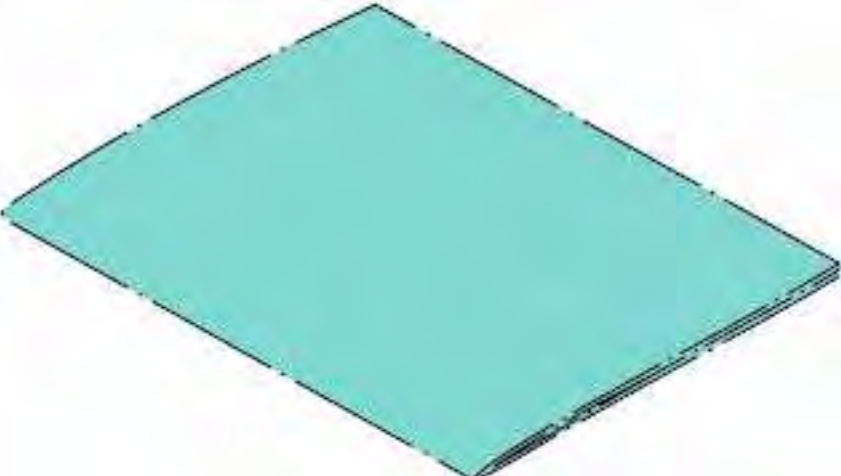
Class 016. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Stationery; diaries, calendars, personal organizers, [ drawing rulers, ] bookmarks, writing instruments and playing cards

Class 018. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Leather goods, namely, purses, handbags, wallets, credit card cases, [ and key cases ]

Class 021. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Crystal glasses, bowls, vases, candy and jelly jars, candlesticks, serving platters, decorative boxes, buckets and baskets; china, porcelain, and earthenware dinnerware, bowls, serving platters, tea and coffee sets, mugs, vases, candy and jelly jars, candlesticks, boxes and baskets

Class 025. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Clothing, namely, neckties, scarves and belts

Class 035. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Retail store and mail order catalog services featuring jewelry, watches and clocks, giftware, dinnerware, flatware, table service pieces, baby gifts, decorative home furnishings, [ stationery, ] writing instruments and desk accessories, clothing and accessories, trophies [ and medals, smokers' accessories, weather monitoring accessories, ] bar accessories [ , and perfumery ]

U.S. Registration No.	2416794	Application Date	08/24/1998
Registration Date	01/02/2001	Foreign Priority Date	NONE
Word Mark	NONE		
Design Mark			

Description of Mark	The mark consists of a shade of blue often referred to as robin's-egg blue which is used on catalog covers. The mattershown in broken lines represents coversof various sizes and serves to show positioning of the mark. No claim is made to shape of the catalogs.
Goods/Services	Class 035. First use: First Use: 1939/00/00 First Use In Commerce: 1939/00/00 Retail store and mail order catalog services featuring jewelry, watches and clocks, giftware, dinnerware, flatware, table service pieces, baby gifts, decorative home furnishings, [ stationery, ] writing instruments and desk accessories, clothing and accessories, trophies [ and medals, smokers' accessories, weather monitoring accessories, ] bar accessories, [ and perfumery ]

Attachments	75360201#TMSN.png( bytes ) 75544375#TMSN.png( bytes ) 75541599#TMSN.png( bytes ) 75541598#TMSN.png( bytes ) F2924505.pdf(85096 bytes )
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Signature	/John Margiotta/
Name	John P. Margiotta
Date	02/06/2019

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

-----X	:	
TIFFANY (NJ) LLC,	:	
	:	Opposition No. _____
Opposer,	:	
	:	
- v. -	:	<b>CONSOLIDATED</b>
	:	<b>NOTICE OF OPPOSITION</b>
	:	
7CS FASHION HOUSE d/b/a	:	
JEWEL CORNER,	:	
	:	
Applicant.	:	
-----X		

Tiffany (NJ) LLC (“Tiffany” or “Opposer”), a limited liability company duly organized and existing under the laws of the state of Delaware with a principal place of business at 15 Sylvan Way, Parsippany, New Jersey 07054, believes that it will be damaged by the issuance of a registration for the mark and design JC, applied for in Application Serial No. 87/862,570, and the mark and design JEWEL CORNER SINCE 1997 applied for in Application Serial No. 87/862,556, each filed on April 4, 2018 by 7Cs Fashion House d/b/a Jewel Corner, and therefore opposes the same. As grounds for the opposition, Opposer, by its attorneys Fross Zelnick Lehrman & Zissu, P.C., alleges as follows:

**FACTS**

**A. Opposer and Opposer’s Marks**

1. Opposer is one of the most well-known companies in the United States. Opposer’s business consists of the design, manufacture and sale of high-quality jewelry and other luxury consumer items as well as the provision of services relating thereto. In addition to the marks TIFFANY and TIFFANY & CO., Opposer has used a number of other trademarks and

service marks for its goods and services, including its famous robin's egg blue box (the "Blue Box"), which it has used for more than 75 years. *See, e.g.,* Kimberly Stevens, *All In the Presentation? Odes To The Little Blue Box*, N.Y. Times, Jan. 2, 2000, § 14, at 6 (discussing the "famous 'Tiffany blue' boxes"); Wendy Moonan, *A 128-Carat Diamond, But No Holly Golightly or Sterling Phone Dialer*, N.Y. Times, June 30, 2006, at E30 (stating that "the world" is "familiar with Tiffany's signature blue box"). In addition to using the Blue Box to package its goods, Opposer sells ceramic reproductions of its famous Blue Box, as well as jewelry and household items featuring the Blue Box.

2. The public associates this shade of blue ("Tiffany Blue") with Opposer. *See, e.g.,* Suzy Menkes, *Tiffany, In New Packaging*, N.Y. Times, Sept. 12, 2006, <http://www.nytimes.com/2006/09/12/style/12iht-rtiffany.2782763.html> (discussing the "famous 'Tiffany Blue' color").

3. Tiffany sells its products under the Blue Box mark in more than 70 retail stores in the U.S., through direct marketing channels including catalogs, and on its website.

4. Opposer owns a federal trademark registration for the Blue Box design (Reg. No. 2,184,128), as well as three registrations for the Tiffany Blue color used on packaging and related materials (Registration Nos. 2,359,351, 2,416,795, and 2,416,794.).

5. Among the many goods and services offered by Opposer in connection with the Blue Box and Tiffany Blue color are "retail store and mail order catalog services featuring jewelry, watches and clocks, giftware, dinnerware, flatware, table service pieces, baby gifts, decorative home furnishings, stationery, writing instruments and desk accessories, clothing and accessories, trophies and medals, smokers' accessories, weather monitoring accessories, bar accessories, and perfumery" in International Class 35 and "jewelry, watches and clocks, precious



and semi-precious stones; decorative art objects made in whole or in part of precious or semi-precious metals, namely, figurines, boxes, and trophies; natural and cultured pearls; metal wares made in whole or in part of precious or semi-precious metals, namely, candelabras, candlesticks, cigar and cigarette boxes and ashtrays; bar accessories made of precious or semi-precious metals, namely, coasters; clothing accessories made of precious or semi-precious metals, namely, money clips, cufflinks, key rings, collar stays, tie bars, tie tacks, belt buckles and shirt studs; pill boxes and pin boxes made of or plated with precious or semi-precious metals” in International Class 14.

6. Tiffany sells its products in connection with the Blue Box and Tiffany Blue marks in its own retail stores in the U.S., through authorized retail locations, and through direct marketing channels, including its catalogs and website. The Blue Box and Tiffany Blue are also widely featured in Opposer’s advertising, marketing and promotional materials, retail displays and signage.

7. Opposer’s foregoing registrations for the Blue Box and Tiffany Blue marks are valid, subsisting, and in full force and effect and serve as conclusive evidence of Opposer’s exclusive right to use the mark in commerce on or in connection with the goods identified in the Registrations, as provided by Section 33(b) of the Trademark Act, 15 U.S.C. § 1115(b), because they are all are incontestable under Section 15 of the Trademark Act, 15 U.S.C. § 1065.

8. By virtue of Opposer’s extensive sale, advertising and promotion of its goods and services under these marks, the Blue Box and Tiffany Blue marks have become instantly recognizable to the public as exclusively denoting Opposer, its goods and services. In addition, the Blue Box and Tiffany Blue marks have come to symbolize the high quality of Opposer’s products and services. As a result of Opposer’s substantial effort and investment on behalf of its

brand, the goodwill inherent in the Blue Box and Tiffany Blue marks is an enormously valuable asset of Opposer.

## **B. Applicant and Its Application**

9. On information and belief, Applicant is a New York limited liability company with an address of 717 Madison Avenue, New York, NY 10065.

10. On April 4, 2018, Applicant filed U.S. Application Serial No. 87/862,570 to register the design mark JC and U.S. Application Serial No. 87/862,556 to register the design mark JEWEL CORNER SINCE 1997, each for “Wholesale store services in the field of jewelry; retail store services in the field of jewelry; advertising and marketing services in the field of jewelry” in International Class 35 and “Jewelry” in International Class 14, based on an intent to use (collectively, the “Applications” and the marks therein, “Applicant’s Marks”). The Applications each describe Applicant’s Marks as consisting of, *inter alia*, a “teal blue design of a diamond.”

11. Opposer’s rights in the Blue Box and Tiffany Blue marks are prior and superior to any rights Applicant may claim in Applicant’s Marks.

12. Applicant’s filing date is long after Opposer’s date of first use of its Blue Box and Tiffany Blue marks and long after the date the Blue Box and Tiffany Blue marks were first registered in the U.S. Patent and Trademark Office.

13. The goods and services identified in the Applications are identical and/or highly related to goods Opposer offers under its Blue Box and Tiffany Blue marks.

14. At the time that Applicant filed the Applications herein opposed, Applicant was on constructive notice of Opposer’s prior and exclusive rights in its Blue Box and Tiffany Blue marks by virtue of Opposer’s federal registrations, pursuant to Section 22 of the Lanham Act, 15 U.S.C. § 1072.

15. Upon information and belief, at the time that Applicant filed the Applications herein opposed, Applicant had actual knowledge of Opposer's prior and exclusive rights in Opposer's Marks as a result of Opposer's extensive use of the Blue Box and Tiffany Blue marks.

16. Opposer's Blue Box and Tiffany Blue marks are famous and have been famous long prior to any rights Applicant may claim.

17. Applicant's Marks are so similar to the Blue Box and Tiffany Blue marks as to be likely to cause confusion, mistake or deception as to the source of Applicant's goods and services, to the damage of the Opposer and public.

18. Registration to Applicant of Applicant's Marks would be inconsistent with Opposer's prior exclusive rights in its marks, and would threaten Opposer's investment and goodwill in its long-established and valuable marks.

**FIRST CLAIM FOR RELIEF UNDER SECTION 2(f)**  
**DILUTION**

19. Opposer repeats and re-alleges each and every allegation contained in paragraphs 1 through 18 as if fully set forth herein.

20. Pursuant to 15 U.S.C. §§ 1052(f) and 1063, trademark applications may be opposed on grounds of dilution.

21. Opposer's Blue Box and Tiffany Blue marks, through long and extensive use, have become famous and were famous long prior to any rights Applicant may claim in Applicant's Marks herein opposed.

22. Applicant's Applications to register Applicant's Marks were filed after Opposer's Blue Box and Tiffany Blue marks became famous.

23. Additionally, registration of Applicant's Marks will create an association between Applicant and Opposer's famous Blue Box and Tiffany Blue marks that will harm the reputation of Opposer's marks.

24. Thus, Applicant's use and registration of Applicant's Marks in connection with the goods and services identified in the Applications is likely to cause dilution of Opposer's famous Blue Box and Tiffany Blue marks, in violation of Sections 13(a) and 43(c) of the Lanham Act, 15 U.S.C. §§ 1063(a), 1125(c).

**SECOND CLAIM FOR RELIEF UNDER SECTION 2(d)**  
**LIKELIHOOD OF CONFUSION**

25. Opposer repeats and re-alleges each and every allegation contained in paragraphs 1 through 24 as if fully set forth herein.

26. Opposer's Blue Box and Tiffany Blue marks are exclusively associated with Opposer and have been used continuously by Opposer since a date prior to any date on which Applicant can rely.

27. Applicant's Marks are confusingly similar in appearance to Opposer's registered and prior-used famous Blue Box and Tiffany Blue marks.

28. The goods for which Applicant seeks registration are identical or closely related to the goods offered by Opposer under its Blue Box and Tiffany Blue marks.

29. Applicant's Applications are unrestricted as to consumers or channels of trade. As a result, it is presumed that Applicant's goods will be offered to all consumers, including consumers of Opposer's goods and services, and through all channels of trade, including channels of trade that are the same as or similar to Opposer's.

30. The registration of Applicant's Marks is inconsistent with Opposer's prior rights in its Blue Box and Tiffany Blue marks and inconsistent with Opposer's statutory grant of exclusivity of use of its registered mark and would harm, damage or destroy Opposer's investment and goodwill in its mark.

31. By virtue of Opposer's longstanding use of its marks, the goodwill associated with the marks, and Opposer's Registrations therefor, the registration by Applicant of Applicant's Marks for goods identical or related to the goods sold by Opposer is likely to cause confusion or mistake or to deceive the purchasing public into believing that Applicant's goods and services offered under Applicant's Marks originate with, come from or are otherwise associated with Opposer, or that Applicant's goods and services are endorsed, licensed, or sponsored by or in some way connected with Opposer, in violation of Section 2(d) of the Lanham Act, 15 U.S.C. §1052(d).

WHEREFORE, Opposer respectfully requests that this opposition be sustained and that the registration sought by Applicant in Application Serial Nos. 87/862,570 and 87/862,556 be denied.

Dated: New York, New York  
February 6, 2019

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February 20, 2019

Opposition No. 91246260

Serial No. 87625570

Serial No. 87862556

*Tiffany (NJ) LLC*

*v.*

*7Cs Fashion House*

**By the Trademark Trial and Appeal Board:**

On February 6, 2019, **Tiffany (NJ) LLC** filed a notice of opposition in the above-identified applications.

However, on February 4, 2019, Applicant filed an abandonment of the applications. In view thereof, there was no viable application to oppose at the time the subject opposition was filed, and the above-captioned opposition proceeding should not have been instituted.

Accordingly, the above-captioned opposition proceeding is null and void, and it is dismissed. No further papers should be filed with this opposition number.

The matter will be referred to the Office of Finance for a refund of the opposition fee.

**United States Court of Appeals  
for the Federal Circuit**

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**ROYAL CROWN COMPANY, INC., DR  
PEPPER/SEVEN UP, INC.,**  
*Appellants*

v.

**THE COCA-COLA COMPANY,**  
*Appellee*

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2016-2375

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Appeal from the United States Patent and Trademark Office, Trademark Trial and Appeal Board in Nos. 91178927, 91180771, 91180772, 91183482, 91185755, 91186579, 91190658.

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Decided: June 20, 2018

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LAURA POPP-ROSENBERG, Fross, Zelnick, Lehrman & Zissu, PC, New York, NY, argued for appellants. Also represented by BARBARA SOLOMON, EMILY SARAH WEISS.

BRUCE WILLIAM BABER, King & Spalding LLP, Atlanta, GA, argued for appellee. Also represented by DARYL JOSEFFER, PAUL ALESSIO MEZZINA, Washington, DC.

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Before NEWMAN, O'MALLEY, and TARANTO, *Circuit Judges*.

O'MALLEY, *Circuit Judge*.

Royal Crown Company, Inc. and Dr Pepper/Seven Up, Inc. (together, "Royal Crown") appeal a decision of the Trademark Trial and Appeal Board ("the Board") dismissing Royal Crown's opposition to the registration of The Coca Cola Company's ("TCCC") trademarks for various soft drinks and sports drinks including the term ZERO. *Royal Crown Co. v. Coca-Cola Co. (TTAB Decision)*, Opposition No. 91178927 (Parent Case), 2016 TTAB LEXIS 234 (T.T.A.B. May 23, 2016).<sup>1</sup> Because we conclude that the Board erred in its legal framing of the question of the claimed genericness of TCCC's marks, and failed to determine whether, if not generic, the marks were at least highly descriptive, we vacate the Board's determination and remand for further proceedings.

#### I. BACKGROUND

The Royal Crown appellants are members of the Dr Pepper Snapple Group ("DPSG"). DPSG and TCCC compete in the beverage market by manufacturing and distributing various brands of beverages, including sparkling beverages, juices, juice drinks, and ready-to-drink teas, among others. Both companies manufacture and distribute beverages that use ZERO as an element of their

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<sup>1</sup> Royal Crown appeals the Board's dismissal of Opposition Nos. 91180771 (SPRITE ZERO), 91178927 (COCA-COLA ZERO), 91186579 (FANTA ZERO, VANILLA COCA-COLA ZERO, POWERADE ZERO), 91180772 (COKE ZERO), 91190658 (VAULT ZERO), 91183482 (PIBB ZERO, COKE CHERRY ZERO, CHERRY COCA-COLA ZERO, COCA-COLA VANILLA ZERO, CHERRY COKE ZERO, COCA-COLA CHERRY ZERO), and 91185755 (COKE ZERO ENERGY, COKE ZERO BOLD, VANILLA COKE ZERO).



marks. Multiple companies market beverages bearing ZERO as part of the brand name, including Royal Crown and TCCC. Royal Crown sought trademark protection for two marks that include the term ZERO: DIET RITE PURE ZERO and PURE ZERO. Royal Crown disclaimed the term ZERO apart from the marks as a whole. TCCC has used ZERO as an element in its marks for at least twelve different beverage products sold in the United States, including various versions of COCA-COLA ZERO and COKE ZERO, SPRITE ZERO, FANTA ZERO, PIBB ZERO, VAULT ZERO, POWERADE ZERO, and FULL THROTTLE ZERO. Many other soft drink companies have applied to register ZERO-inclusive marks for various types of soft drinks.

TCCC filed seventeen trademark applications for marks including the term ZERO with the Patent and Trademark Office (“PTO”).<sup>2</sup> In response to each of these applications, the PTO issued an office action requesting that TCCC disclaim the term “zero” because, in the examiner’s view, the term merely “describes a feature of the applicant’s goods, namely, calorie or carbohydrate content of the goods.” *See, e.g.*, J.A. 1049–51 (Office Action for Application Serial No. 78580598 for COCA-COLA ZERO). TCCC responded by claiming that each of its marks using

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<sup>2</sup> These applications include, primarily, the marks at issue in this appeal. TCCC also filed for trademark protection for FULL THROTTLE ZERO, Application No. 77413618, but the Board sustained Royal Crown’s objection to that registration. *TTAB Decision*, 2016 TTAB LEXIS 234, at \*48–49. TCCC sold the FULL THROTTLE brand to a third party in 2015, and that third party has not appealed the Board’s decision with respect to the FULL THROTTLE ZERO mark. Appellee Br. 7. This application is not at issue in this appeal.

the term ZERO had acquired distinctiveness under Section 2(f) of the Lanham Act, 15 U.S.C. § 1052(f), as part of a “family of ZERO marks,” and refused to disclaim ZERO. Section 2(f) permits registration of descriptive marks if the applicant proves that the mark “has become distinctive of the applicant’s goods in commerce.” *Id.* The PTO accepted TCCC’s Section 2(f) submissions and approved the marks for publication without requiring disclaimer of ZERO.

Royal Crown filed oppositions to these marks between August 2007 and June 2009, arguing that: (1) the term ZERO was merely descriptive of attributes of the associated products and could not indicate the source of TCCC’s goods, and (2) the term ZERO is generic when applied to certain beverage products and therefore cannot indicate the source of the goods. The Board sustained in part and dismissed in part Royal Crown’s consolidated oppositions. *TTAB Decision*, 2016 TTAB LEXIS 234, at \*1. Relevant to this appeal, the Board first examined Royal Crown’s contention that ZERO is generic and that the Board should require TCCC to disclaim the term before permitting registration of these marks.

As part of its inquiry, the Board found that the proper genus of the goods is “the broad category of soft drinks (and sports and energy drinks), which encompasses the narrower category of soft drinks (and sports and energy drinks) containing minimal or no calories.” *Id.* at \*20. The Board then considered whether ZERO is understood by the relevant public primarily to refer to soft drinks, energy drinks, or sports drinks, particularly those drinks with zero or near zero calories. The Board found that, as there are no restrictions or limitations to channels of trade or classes of consumers, the relevant consuming public is “ordinary consumers who purchase and drink soft drinks, energy drinks, or sports drinks.” *Id.* at \*22. Finally, the Board noted that Royal Crown did not offer direct consumer evidence (surveys or testimony), nor did

it offer dictionary evidence linking ZERO to soft drinks. Instead, Royal Crown offered indirect evidence of competitor use of ZERO, competitor trademark applications and registrations, consumer use of ZERO, and TCCC's own use of ZERO. Based on these findings, the Board concluded that Royal Crown had failed to demonstrate that ZERO is generic for the genus of goods TCCC identified in its applications. *Id.* at \*39.

The Board then assessed TCCC's claim of acquired distinctiveness in its ZERO marks. Notably, while the Board appeared to accept TCCC's concession that its use of ZERO rendered its mark descriptive, the Board did not assess whether the term was highly descriptive, rather than merely descriptive. TCCC offered evidence of its sales and advertising for ZERO products and what it described as unsolicited media coverage of its ZERO products. TCCC also submitted the deposition of Dr. Alex Simonson, who conducted a consumer survey in 2008 asking respondents if they "associated" the mark ZERO with one or more particular companies. The Board explained that Dr. Simonson's survey found that 61% of respondents associated the term ZERO with one company, but only 6% of respondents associated the control term DIET with one company. And, a majority of respondents (52%) mentioned COKE, COCA-COLA, or SPRITE when asked with which company's products they "associated" the term ZERO. Although it noted that the weight of the survey was somewhat diminished because approximately five years had passed between when the survey was conducted and the close of testimony in this proceeding, the Board concluded that the survey evidence supported TCCC's sales and advertising evidence and indicated that TCCC's ZERO marks had acquired distinctiveness. *Id.* at \*45–46. The Board also found that TCCC's use of the ZERO term in connection with soft drinks was substantially exclusive, because third-party use of ZERO in a

mark for soft drinks was inconsequential given the “magnitude of TCCC’s use.” *Id.* at \*46–48.

Based on this evidence, the Board found that TCCC had established, by a preponderance of the evidence, that it has acquired distinctiveness in the term ZERO when used as part of a mark for soft drinks.<sup>3</sup> *Id.* at \*48. Although nearly all of the evidence on acquired distinctiveness addressed soft drinks, the Board concluded that evidence filed under seal showing sales and marketing expenditures for POWERADE ZERO was sufficient to justify finding acquired distinctiveness as to the term ZERO for TCCC’s sports drinks as well. *Id.* The Board dismissed Royal Crown’s oppositions to the applications for registration of the TCCC marks for soft drinks and sports drinks without disclaimer of ZERO.<sup>4</sup>

Royal Crown appeals the Board’s determinations on genericness and acquired distinctiveness. We have jurisdiction over this appeal under Section 21(a)(1) of the Lanham Act, 15 U.S.C. § 1071(a)(1), and 28 U.S.C. § 1295(a)(4)(B).

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<sup>3</sup> The Board concluded that TCCC did not sustain its burden to establish it had acquired distinctiveness in the term ZERO for energy drinks and sustained Royal Crown’s opposition accordingly as to marks for energy drinks. *Id.* at \*48–49.

<sup>4</sup> TCCC opposed Royal Crown’s applications to register the marks PURE ZERO and DIET RITE PURE ZERO under sections 2(a) and 2(d) of the Lanham Act, 15 U.S.C. §§ 1052(a), (d), despite Royal Crown’s disclaimer of the term ZERO in both applications. The Board dismissed TCCC’s oppositions, *TTAB Decision*, 2016 TTAB LEXIS 234, at \*50–56, and TCCC does not appeal this decision.

## II. DISCUSSION

Whether the Board applied the correct legal standard to the facts is a question of law. *Princeton Vanguard, LLC v. Frito-Lay N. Am., Inc.*, 786 F.3d 960, 964 (Fed. Cir. 2015) (citing *In re Dial-A-Mattress Operating Corp.*, 240 F.3d 1341, 1345 (Fed. Cir. 2001)). We review the Board's legal determinations de novo and without deference. *Hewlett-Packard Co. v. Packard Press, Inc.*, 281 F.3d 1261, 1265 (Fed. Cir. 2002).

Whether an asserted mark is generic or descriptive is a question of fact. *Princeton Vanguard*, 786 F.3d at 964 (citing *In re Hotels.com, LP*, 573 F.3d 1300, 1301 (Fed. Cir. 2009)); *In re Bayer Aktiengesellschaft*, 488 F.3d 960, 964 (Fed. Cir. 2007). “On appellate review of the Board's factual finding of genericness, we determine whether, on the entirety of the record, there was substantial evidence to support the determination.” *Hotels.com*, 573 F.3d at 1302.

We review the Board's factual findings for substantial evidence, which requires “such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.” *Consol. Edison Co. of N.Y. v. N.L.R.B.*, 305 U.S. 197, 229 (1938). The Board's analysis must encompass the entire evidentiary record. *See Princeton Vanguard*, 786 F.3d at 970.

At the outset, because TCCC seeks registration of its ZERO-containing marks under Section 2(f) of the Lanham Act, TCCC has conceded that ZERO is not *inherently* distinctive in association with the genus of goods at issue—soft drinks, energy drinks, and sports drinks. And, TCCC thus concedes that ZERO is, to some extent, descriptive. The only relief Royal Crown seeks in its oppositions to TCCC's applications is that TCCC be required to disclaim the term ZERO. Royal Crown does not argue that, if TCCC disclaims ZERO, the marks should not be allowed. The PTO may condition registration of a larger

mark on the applicant's disclaimer of an "unregistrable component of a mark otherwise registrable." 15 U.S.C. § 1056(a); *In re Stereotaxis, Inc.*, 429 F.3d 1039, 1041 (Fed. Cir. 2005). "Disclaiming unregistrable components prevents the applicant from asserting exclusive rights in the disclaimed unregistrable terms." *In re La. Fish Fry Prods., Ltd.*, 797 F.3d 1332, 1335 (Fed. Cir. 2015) (citing *In re Wada*, 194 F.3d 1297, 1301 (Fed. Cir. 1999)).

If the Board concludes that Royal Crown has not met its burden to demonstrate the genericness of TCCC's ZERO-bearing marks, TCCC will need to demonstrate the acquired distinctiveness of its marks—that, "in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself." *Coach Servs., Inc. v. Triumph Learning LLC*, 668 F.3d 1356, 1379 (Fed. Cir. 2012) (quoting *Dial-A-Mattress*, 240 F.3d at 1347). Only then can marks such as the marks TCCC claims, which TCCC has conceded are not inherently distinctive based on its Section 2(f) filings, qualify for registration on the principal register. See 15 U.S.C. § 1052(f); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769 (1992). Where a mark sits on a sliding scale of descriptiveness impacts the burden a proposed registrant must bear with respect to its claim of acquired distinctiveness. See *In re Steelbuilding.com*, 415 F.3d 1293, 1300 (Fed. Cir. 2005) ("[T]he applicant's burden of showing acquired distinctiveness increases with the level of descriptiveness; a more descriptive term requires more evidence of secondary meaning."). In assessing acquired distinctiveness, accordingly, the Board must first determine whether the proposed mark is highly descriptive rather than merely descriptive.

The parties focused their briefing, both before the Board and on appeal, on the proper designation of the term ZERO. Royal Crown argues that this term is either generic or highly descriptive with no acquired distinctiveness. TCCC contends that ZERO is neither of those

things and that TCCC has adequately demonstrated secondary meaning for the term as used in its trademarks, i.e., that the relevant public equates the term with TCCC products.

Royal Crown appeals several portions of the Board's decision. It first challenges the Board's application of the legal framework for genericness and the Board's treatment of the evidence of record, particularly the indirect evidence Royal Crown offered to demonstrate the genericness of ZERO across the genus of goods at issue. Royal Crown contends the Board erred by discounting or disregarding evidence of the parties' use of ZERO, by discounting evidence of third-party use, registrations, and applications including ZERO, and by discounting consumer use of the term ZERO as a descriptive term for caloric content of the genus of beverages. Second, Royal Crown appeals the Board's finding that TCCC has demonstrated acquired distinctiveness in its ZERO marks, arguing that the Board erred in failing to first characterize TCCC's marks as highly descriptive, finding TCCC's use of ZERO to be substantially exclusive, and failing to explain its rationale for finding that TCCC acquired distinctiveness in its marks.

We conclude the Board erred in its legal framing of the genericness inquiry in two ways—it failed to examine whether ZERO identified a key aspect of the genus at issue, and it failed to examine how the relevant public understood the brand name at issue when used with the descriptive term ZERO. We also find that the Board should have first assessed the level of the marks' descriptiveness before determining whether TCCC satisfied its burden of establishing acquired distinctiveness. Absent such a finding, it is not possible for us to review on appeal whether the evidentiary record can support the Board's finding of acquired distinctiveness. We vacate and remand for the Board to apply the proper legal standard for genericness and, if the Board again concludes the marks

are not generic, for it to consider whether the marks are highly descriptive before assessing their acquired distinctiveness.

A. The Board Erred in Its Application of the  
Legal Framework for Genericness

A generic term “is the common descriptive name of a class of goods or services.” *H. Marvin Ginn Corp. v. Int’l Ass’n of Fire Chiefs, Inc.*, 782 F.2d 987, 989 (Fed. Cir. 1986). A generic mark, being the “ultimate in descriptiveness,” cannot acquire distinctiveness. *Id.* This is so because generic terms are “by definition incapable of indicating source,” and therefore “are the antithesis of trademarks, and can never attain trademark status.” *In re Merrill Lynch, Pierce, Fenner, & Smith, Inc.*, 828 F.2d 1567, 1569 (Fed. Cir. 1987) (citing *Dan Robbins & Assocs., Inc. v. Questor Corp.*, 599 F.2d 1009, 1014 (CCPA 1979)). But “[a] mark that is merely descriptive, but not the common name of the goods, can nevertheless be registered on the Principal Register if it has become distinctive in terms of section 2(f).” *In re Northland Aluminum Prods. Inc.*, 777 F.2d 1556, 1559 (Fed. Cir. 1985).

The test for determining whether a term is generic involves a two-step inquiry: “First, what is the genus of goods or services at issue? Second, is the term sought to be registered . . . understood by the relevant public primarily to refer to that genus of goods or services?” *Marvin Ginn*, 782 F.2d at 990. “The critical issue in genericness cases is whether members of the relevant public primarily use or understand the term sought to be protected to refer to the genus of goods or services in question.” *Id.* at 989–90.

“Evidence of the public’s understanding of the term may be obtained from any competent source, such as purchaser testimony, consumer surveys, listings in dictionaries, trade journals, newspapers and other publications.” *Merrill Lynch*, 828 F.2d at 1570; *see also*



*Northland Aluminum*, 777 F.2d at 1559. “In an opposition or cancellation proceeding, the opposer or petitioner bears the burden of proving genericness by a preponderance of the evidence.” *Princeton Vanguard*, 786 F.3d at 965 (citing *Magic Wand, Inc. v. RDB, Inc.*, 940 F.2d 638, 641–42 (Fed. Cir. 1991)).

As noted, the Board found that the relevant genus under the first prong of the *Marvin Ginn* test is “soft drinks, sports drinks, and energy drinks.” *TTAB Decision*, 2016 TTAB LEXIS 234, at \*20. Royal Crown argues that the Board erred in only discussing the broad genus of drink products it identified. Royal Crown contends, instead, that ZERO should be deemed generic or highly descriptive if it clearly refers to a particular characteristic of a subset of beverages—those with few or no calories or few or no carbohydrates. As to the second prong, the parties do not dispute the Board’s determination of the relevant consuming public as “ordinary consumers who purchase and drink soft drinks, energy drinks, or sports drinks.” *Id.* at \*22.

The primary dispute between the parties, therefore, is whether members of the relevant public primarily use or understand a designation sought to be registered to refer to the genus or category of goods or services in question. *Princeton Vanguard*, 786 F.3d at 965.

In its analysis of the relevant evidence on genericness as directed by the second *Marvin Ginn* prong, the Board examined whether the ZERO portion of the trademarks for which TCCC seeks registration is a generic name for the general types of beverages with respect to which TCCC proposes to use the marks. The Board acknowledged that TCCC’s uses of ZERO and 0 “certainly convey information about the nature of its products – including primarily that they contain zero (or at least fewer than five) calories.” *TTAB Decision*, 2016 TTAB LEXIS 234, at \*38. But the Board concluded that Royal Crown “has not

met its burden to establish by a preponderance of the evidence that ZERO is generic for soft drinks, sports drinks, or energy drinks, even such drinks that contain no, or fewer than five, calories.” *Id.* at \*39.

The Board’s approach was erroneous. The Board asked the wrong question in assessing the alleged genericness of the ZERO term. Specifically, the Board failed to consider that “a term can be generic for a genus of goods or services if the relevant public . . . understands the term to refer to a *key aspect* of that genus.” *In re Cordua Rests., Inc.*, 823 F.3d 594, 603 (Fed. Cir. 2016) (emphasis added). We explained in *In re Cordua* that “the test is not only whether the relevant public would itself *use* the term to describe the genus, but also whether the relevant public would *understand* the term to be generic. Any term that the relevant public understands to refer to the genus . . . is generic.” *Id.* at 603 (alteration in original) (quoting *In re 1800Mattress.com IP, LLC*, 586 F.3d 1359, 1364 (Fed. Cir. 2009)). We also explained that “a term is generic if the relevant public understands the term to refer to *part of the claimed genus of goods or services*, even if the public does not understand the term to refer to the broad genus as a whole.” *Id.* at 605 (emphasis added).

In *In re Cordua*, we found that the term “churrasco” was generic, even for use in connection with a broad class of restaurant services, because the key public would understand the term to be referring to a specialty dish—a sub-aspect of restaurant services. *Id.* at 604. We made clear that “[t]here is no logical reason to treat differently a term that is generic of a category or class of products where some but not all of the goods identified in an application fall within that category.” *Id.* at 605 (quoting *In re Analog Devices, Inc.*, 1988 WL 252496, at \*3 (T.T.A.B. Mar. 21, 1988)). We pointed out, for instance, that the term “pizzeria” would be generic for restaurant services, even though the public does not understand the term to refer to the broad class of restaurants as a whole; the

public need only understand that the term refers to “a particular sub-group or type of restaurant rather than to all restaurants.” *Id.*

So too here, if the public understands ZERO when used in combination with a designated beverage name to refer to a sub-group or type of beverage that carries specific characteristics, that would be enough to render the term generic. Because TCCC only seeks to use ZERO as part of combination marks, moreover, the Board may not divorce the public’s perception of the term ZERO from its perception of that term as part of a beverage combination mark. *See Princeton Vanguard*, 786 F.3d at 968–69 (“[E]ven in circumstances where the Board finds it useful to consider the public’s understanding of the individual words in a compound term as a first step in its analysis, the Board must then consider available record evidence of the public’s understanding of whether joining those individual words into one lends additional meaning to the mark as a whole.”); *DuoProSS Meditech Corp. v. Inviro Med. Devices, Ltd.*, 695 F.3d 1247, 1253 (Fed. Cir. 2012) (holding that, although the Board may “ascertain the meaning and weight of each of the components that makes up the mark,” it “ultimately must consider the mark as a whole and do so in the context of the goods or services at issue”).

The Board here failed to consider whether the relevant consuming public would consider the term ZERO to be generic for a subcategory of the claimed genus of beverages—i.e., the subcategory of the claimed beverages encompassing the specialty beverage categories of drinks with few or no calories or few or no carbohydrates. On remand, accordingly, the Board must examine whether the term ZERO, when appended to a beverage mark, refers to a key aspect of the genus. ZERO need not be equated by the general public with the entire broad genus TCCC claims in order for the term to be generic. The Board therefore must consider whether ZERO is generic

because it refers to a key aspect of at least a sub-group or type of the claimed beverage goods. The Board must make this determination by considering the facts that the genus of goods for which TCCC seeks registration of its marks clearly encompasses zero calorie beverages as a sub-group, and that TCCC only proposed to use ZERO in combination with beverage marks that offer zero calorie versions thereof.

B. The Board Erred in Failing to Assess the Level of the Marks' Distinctiveness

Putting aside the Board's misunderstanding of the genericness inquiry, the Board also erred in assessing whether TCCC satisfied its burden of proving acquired distinctiveness without first determining exactly what that burden was. Royal Crown clearly asserted that, even if not generic, the term ZERO when used in connection with beverages is so highly descriptive that the Board's assessment of TCCC's evidence of acquired distinctiveness must be exacting.

We have long held that "the applicant's burden of showing acquired distinctiveness increases with the level of descriptiveness; a more descriptive term requires more evidence of secondary meaning." *Steelbuilding.com*, 415 F.3d at 1300; *see also In re Boston Beer Co.*, 198 F.3d 1370, 1373 (Fed. Cir. 1999) ("[T]he greater the degree of descriptiveness the term has, the heavier the burden to prove it has attained secondary meaning." (quoting *In re Bongrain Int'l (Am.) Corp.*, 894 F.2d 1316, 1317 n.4 (Fed. Cir. 1990))). Other circuits have held similarly. *See, e.g., Commerce Nat'l Ins. Servs., Inc. v. Commerce Ins. Agency, Inc.*, 214 F.3d 432, 440–41 (3d Cir. 2000) (noting that, to establish secondary meaning in "a commonplace, descriptive term . . . , the evidentiary bar must be placed somewhat higher"); *Filipino Yellow Pages, Inc. v. Asian Journal Publ'ns, Inc.*, 198 F.3d 1143, 1151 (9th Cir. 1999) (holding that a descriptive mark that fell "perilously close

to the generic line . . . could be a valid trademark only with a strong showing of strong secondary meaning” (internal quotation marks omitted); *see also* 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 15:33 (5th ed. 2017) (“Several courts take the sensible position that, for descriptive words, the greater the degree of descriptiveness, the greater the evidentiary burden on the user to establish secondary meaning.”).

Our recent decision in *In re Louisiana Fish Fry* exemplifies this sliding-scale approach. In that case, we considered the Board’s decision that the would-be registrant, Louisiana Fish Fry, had failed to show that the term FISH FRY PRODUCTS had acquired distinctiveness, in part because the term was “highly descriptive” and thus Louisiana Fish Fry faced an “elevated burden to establish acquired distinctiveness.” 797 F.3d at 1336. We found that substantial evidence supported the Board’s conclusion of no acquired distinctiveness. *Id.* We first noted that Louisiana Fish Fry did not appeal the Board’s finding that FISH FRY PRODUCTS was highly descriptive. *Id.* We then held that, “[p]articularly for a mark that is as highly descriptive like FISH FRY PRODUCTS, the Board was within its discretion not to accept Louisiana Fish Fry’s alleged five years of substantially exclusive and continuous use as *prima facie* evidence of acquired distinctiveness.” *Id.* at 1337.

While the Board here cited *In re Steelbuilding.com* for the general proposition that higher levels of descriptiveness require a more substantial showing of acquired distinctiveness, it never returned to this point in its discussion. Thus, it did not make any finding as to the degree of descriptiveness conveyed by the term ZERO in the marks and, as discussed in more detail below, did not assess TCCC’s evidence through an exacting lens.

For this reason, the Board’s finding on acquired distinctiveness must also be vacated. If it reaches the ques-

tion of acquired distinctiveness, the Board must make an express finding regarding the degree of the mark's descriptiveness on the scale ranging from generic to merely descriptive, and it must explain how its assessment of the evidentiary record reflects that finding.

### C. The Board's Treatment of the Evidentiary Record

The Board must apply the proper legal standard to the evidence presented by the parties on both the genericness and acquired distinctiveness issues on remand, focusing on the relevant public's perception of the mark as well as on any identifiable subclass of the identified genus. *Merrill Lynch*, 828 F.2d at 1569. As we noted in *Princeton Vanguard*, the Board must make its factual findings based on a review of the entire evidentiary record, and we review those findings for substantial evidence:

[S]ubstantial evidence review requires an examination of the record as a whole, taking into account both the evidence that justifies and detracts from an agency's opinion. Our review under that standard can only take place when the agency explains its decisions with sufficient precision, including the underlying factfindings and the agency's rationale.

786 F.3d at 970 (citations and internal quotation marks omitted). In addition to the Board's failure to define the burden it was imposing on TCCC regarding the evidence it presented, we note several other concerns with the Board's treatment of the evidence relevant to its task on remand.

Despite the Board's intimations otherwise, Royal Crown was not required to provide direct evidence of consumer perception to support its genericness challenge to TCCC's marks, whether from a survey, dictionary, or

otherwise. See *TTAB Decision*, 2016 TTAB LEXIS 234, at \*24, \*33. As noted, evidence of the public's perception may be obtained from "any competent source, such as consumer surveys, dictionaries, newspapers and other publications." *Northland Aluminum*, 777 F.2d at 1559 (emphasis added). Royal Crown offered numerous sources of evidence on the issue of genericness which the Board generally found to be competent, including evidence of competitive use, evidence that other companies use ZERO in combination with their own soft drink marks, third-party registrations and applications for such combined marks, and evidence of third-party and TCCC descriptive uses of "zero" and "0" on various packaging and marketing materials. See *TTAB Decision*, 2016 TTAB LEXIS 234, at \*33–37 (summarizing this indirect evidence and finding it "competent, for the most part, but insufficient" (footnote omitted)). TCCC has failed to offer a case citation, nor have we found one, indicating that such evidence is categorically insufficient to support a finding of genericness.

TCCC also suggests on appeal that the Board's finding of acquired distinctiveness, especially with respect to TCCC's sales and advertising figures, supports a finding that ZERO is not generic. In concluding that Royal Crown's evidence on consumer use of ZERO was mostly competent but insufficient to prove genericness, the Board stated that the "handful of public references" Royal Crown offered failed to "establish that ordinary consumers primarily use or understand the term ZERO to refer to the genus" at issue here, particularly in light of "the context of the ubiquity of TCCC's ZERO products, which have had billions of dollars in sales since they first entered the market." *TTAB Decision*, 2016 TTAB LEXIS 234, at \*37.

TCCC's argument, and the Board's position, ignore the fact that "[g]eneric terms cannot be rescued by proof of distinctiveness or secondary meaning no matter how voluminous the proffered evidence may be." *Northland*

*Aluminum*, 777 F.2d at 1558 (alteration in original) (quoting Examiner); *see also Weiss Noodle Co. v. Golden Cracknel & Specialty Co.*, 290 F.2d 845, 847–48 (CCPA 1961) (“The examiner erred in accepting the showing of ‘distinctiveness’ in granting the registration because no matter what the market situation may have been as to indication of origin or secondary meaning, *the common descriptive name of the product cannot become a trademark owned exclusively by one vendor.*” (emphasis added)). To the extent the Board relied on TCCC’s sales and advertising figures as part of the genericness inquiry, it erred in doing so. This type of evidence may be probative of acquired distinctiveness to the extent it shows that a non-generic term has gained recognition with consumers primarily as to the source of a product. Sales and advertising figures do not, however, demonstrate that a term is not used by the public to refer to the genus of goods in question, or to a sub-group thereof.

The Board’s reliance on Dr. Simonson’s survey to find that TCCC had acquired distinctiveness in its ZERO marks is also troubling. As the Board acknowledged, this survey is not contemporaneous with the question of whether registration should be permitted here—Dr. Simonson conducted the survey more than five years before the close of testimony before the Board. *TTAB Decision*, 2016 TTAB LEXIS 234, at \*45. But “[s]econdary meaning is a time-related concept: it exists at a specific time, in a specific place, among a specific group of people who recognize that specified matter indicates commercial origin of a specified type of product or service from one unique commercial source.” 4A Callmann on Unfair Competition, Trademarks, and Monopolies § 20.23 (4th ed. 2017). “Therefore, a survey is only probative if it deals with conditions at the appropriate time.” *Id.* The Board gave this survey “somewhat diminish[ed]” weight for this reason, but nonetheless used its findings to “validate[] the significant sales and advertising numbers discussed



*supra.*” *TTAB Decision*, 2016 TTAB LEXIS 234, at \*45–46 (citation and internal quotation marks omitted). But, as it cannot disclose contemporary public perception, the probativeness of this survey, even merely to support other evidence, is questionable. This is particularly true in the face of Royal Crown’s evidence of substantial and increased use of ZERO by third parties in connection with beverages in the intervening years.

The framing of the survey questions also reduces the probative value of the results. Simonson asked consumers whether they “associated” the term ZERO with the products of one or more companies. J.A. 9139. But this question is not sufficient to demonstrate the public’s perception of the term ZERO; association does not imply that a consumer would be confused by seeing a ZERO-branded product under a different label, nor does it address what meaning consumers attach to the term ZERO. The Board’s reliance on the survey evidence here at least seems inconsistent with any heightened level of inquiry, if the Board intended to apply one.

In its discussion on TCCC’s opposition to Royal Crown’s applications, the Board also mentioned TCCC’s “ZERO family of marks.” But there is no indication in the Board’s opinion that it in fact made a finding that TCCC had demonstrated a family of marks. *TTAB Decision*, 2016 TTAB LEXIS 234, at \*51. And, TCCC now concedes on appeal that it does not rely on a ZERO-bearing family of marks to establish acquired distinctiveness. Appellee Br. 41. Had the Board made such a finding, moreover, application of the family of marks doctrine “requires a showing that the family feature or ‘surname’ is distinctive enough to trigger recognition ‘in and of itself.’” *Spraying Systems Co. v. Delavan, Inc.*, 975 F.2d 387, 395 (7th Cir. 1992) (quoting 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 23:19, at 103 (3d ed. 1992)). Some authorities have indicated that “descriptive terms cannot constitute the common element in a

family of marks,” so that “[i]t may be more accurate to say that a descriptive term can serve as a family surname only where there is a strong showing of secondary meaning in the term.” *Id.* (citations omitted). Without such a finding, it is hard to see how the survey has probative value for marks which consumers failed to mention in the survey.

### III. CONCLUSION

Because the Board applied the incorrect legal standard in assessing whether TCCC’s ZERO marks are generic, and did not adequately consider Royal Crown’s evidence with respect thereto, we vacate the Board’s dismissal of Royal Crown’s oppositions on that ground. We also vacate the Board’s acquired distinctiveness determination to allow it, in the first instance, to assess the nature of TCCC’s burden on that point and to explain how the evidence presented meets that precise burden. We remand for further proceedings consistent with this opinion.

### VACATED AND REMANDED

#### COSTS

No costs.

**FOR PUBLICATION**

**UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT**

CHRISTOPHER GORDON, an  
individual,

*Plaintiff-Appellant,*

v.

DRAPE CREATIVE, INC., a Missouri  
corporation; POPYRUS-RECYCLED  
GREETINGS, INC., an Illinois  
corporation,

*Defendants-Appellees.*

No. 16-56715

D.C. No.  
2:15-cv-04905-  
JFW-PLA

**ORDER AND  
OPINION**

Appeal from the United States District Court  
for the Central District of California  
John F. Walter, District Judge, Presiding

Argued and Submitted April 9, 2018  
Pasadena, California

Filed November 20, 2018

Before: Danny J. Boggs,\* Jay S. Bybee,  
and Paul J. Watford, Circuit Judges.

Order;  
Opinion by Judge Bybee

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\* The Honorable Danny J. Boggs, United States Circuit Judge for the U.S. Court of Appeals for the Sixth Circuit, sitting by designation.

**SUMMARY\*\***

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**Trademark**

The panel filed (1) an order granting appellees' petition for panel rehearing, withdrawing the panel's opinion, and ordering the filing of a superseding opinion; and (2) a superseding opinion reversing the district court's grant of summary judgment in favor of defendants in a trademark infringement suit under the Lanham Act.

In the superseding opinion, the panel held that, under the *Rogers* test, the Lanham Act applies to expressive works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression. This balance will normally not support application of the Act unless the use of the mark (1) has no artistic relevance to the underlying work whatsoever, or (2) explicitly misleads consumers as to the source or the content of the work.

Defendants designed and produced greeting cards using "Honey Badger" catchphrases from plaintiff Christopher Gordon's YouTube video.

The panel resolved the first *Rogers* prong against Gordon as a matter of law. The panel held that there was a triable issue of fact as to *Rogers*'s second prong because defendants did not use Gordon's mark in the creation of a song, photograph, video game, or television show, but largely just pasted Gordon's mark into their greeting cards. The panel

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\*\* This summary constitutes no part of the opinion of the court. It has been prepared by court staff for the convenience of the reader.

held that a jury could determine that this use of Gordon's mark was explicitly misleading as to the source or content of the cards. The panel reversed the district court and remanded for further proceedings.

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### COUNSEL

Daniel L. Reback (argued) and Ralph C. Loeb, Krane & Smith, Encino, California, for Plaintiff-Appellant.

Douglas J. Collodel (argued) and James J.S. Holmes, Clyde & Co US LLP, Los Angeles, California, for Defendants-Appellees.

Mark A. Lemley, Professor, Stanford Law School, Stanford, California, for Amici Curiae 37 Intellectual Property Law Professors.

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### ORDER

Appellees' petition for panel rehearing (Dkt. No. 39) is **GRANTED**. The opinion filed July 30, 2018, and published at 897 F.3d 1184, is withdrawn. The superseding opinion shall be filed concurrently with this order.

Further petitions for rehearing or petitions for rehearing en banc shall be allowed in the above-captioned matter. *See* Ninth Circuit General Order 5.3(a).

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**OPINION**

BYBEE, Circuit Judge:

Plaintiff Christopher Gordon is the creator of a popular YouTube video known for its catchphrases “Honey Badger Don’t Care” and “Honey Badger Don’t Give a S---.” Gordon has trademarked the former phrase for various classes of goods, including greeting cards. Defendants Drape Creative, Inc. (“DCI”), and Papyrus-Recycled Greetings, Inc. (“PRG”), designed and produced greeting cards using both phrases with slight variations. Gordon brought this suit for trademark infringement, and the district court granted summary judgment for defendants, holding that Gordon’s claims were barred by the test set forth in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989).

We use the *Rogers* test to balance the competing interests at stake when a trademark owner claims that an expressive work infringes on its trademark rights. The test construes the Lanham Act to apply to expressive works “only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.” *Id.* at 999. “[T]hat balance will normally not support application of the Act, unless the [use of the mark] has no artistic relevance to the underlying work whatsoever, or . . . explicitly misleads [consumers] as to the source or the content of the work.” *Id.*

The *Rogers* test is not an automatic safe harbor for any minimally expressive work that copies someone else’s mark. Although on every prior occasion in which we have applied the test, we have found that it barred an infringement claim as a matter of law, this case presents a triable issue of fact. Defendants have not used Gordon’s mark in the creation of a

song, photograph, video game, or television show, but have largely just pasted Gordon's mark into their greeting cards. A jury could determine that this use of Gordon's mark is explicitly misleading as to the source or content of the cards. We therefore reverse the district court's grant of summary judgment and remand for further proceedings on Gordon's claims.

## I

Plaintiff Christopher Gordon is a comedian, writer, and actor, who commonly uses the name "Randall" as an alias on social media.<sup>1</sup> Defendant DCI is a greeting-card design studio. DCI works exclusively with American Greetings Corporation and its subsidiaries, which include the other defendant in this case, PRG. PRG is a greeting-card manufacturer and distributor.

## A

In January 2011, under the name Randall, Gordon posted a video on YouTube titled *The Crazy Nastyass Honey Badger*, featuring National Geographic footage of a honey badger overlaid with Gordon's narration. In the video, Gordon repeats variations of the phrases "Honey Badger Don't Care" and "Honey Badger Don't Give a S---," as a honey badger hunts and eats its prey. The parties refer to these phrases as "HBDC" and "HBDGS," and we adopt their convention.

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<sup>1</sup> Because this case comes to us on appeal from a grant of summary judgment for defendants, we recount the facts in the light most favorable to Gordon. See *VMG Salsoul, LLC v. Ciccone*, 824 F.3d 871, 875 (9th Cir. 2016).

Gordon's video quickly generated millions of views on YouTube and became the subject of numerous pop-culture references in television shows, magazines, and social media. As early as February 2011, Gordon began producing and selling goods with the HBDC or HBDGS phrases, such as books, wall calendars, t-shirts, costumes, plush toys, mouse pads, mugs, and decals. Some of the items were sold online; others were sold through national retailers such as Wal-Mart, Target, Urban Outfitters, and Hot Topic. In June 2011, Gordon copyrighted his video's narration under the title *Honey Badger Don't Care*, and in October 2011, he began filing trademark applications for the HBDC phrase for various classes of goods. The Patent and Trademark Office ("PTO") eventually registered "Honey Badger Don't Care" for International Classes 9 (audio books, etc.), 16 (greeting cards, etc.), 21 (mugs), 25 (clothing), and 28 (Christmas decorations, dolls, etc.).<sup>2</sup> However, Gordon never registered the HBDGS phrase for any class of goods.

At the peak of his popularity, Gordon promoted his brand on television and radio shows and in interviews with national publications such as *Forbes*, *The Wall Street Journal*, and *The Huffington Post*. His brand was further boosted by celebrities like Taylor Swift and Anderson Cooper quoting his video and by LSU football players tagging their teammate, Heisman Trophy finalist Tyrann Mathieu, with the moniker "Honey Badger" for his aggressive defensive play.

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<sup>2</sup> Between January 2013 and April 2014, the PTO issued registrations for HBDC in International Classes 9, 21, 25, and 28. The PTO did not issue a registration for HBDC in International Class 16—which includes greeting cards—until October 2016, well after Gordon filed this suit. The timing of Gordon's registrations, however, is immaterial to the *Rogers* inquiry.



In November 2011, *Advertising Age* referred to Gordon's brand as one of "America's Hottest Brands" in an article titled "Hot Brand? Honey Badger Don't Care."

## B

In January 2012, Gordon hired Paul Leonhardt to serve as his licensing agent. Soon thereafter, Leonhardt contacted Janice Ross at American Greetings—the parent company of defendant PRG—to discuss licensing honey-badger themed greeting cards. Leonhardt and Ross had multiple email exchanges and conversations over several weeks. Ross at one point expressed some interest in a licensing agreement, stating: "I think it's a really fun and irreverent property and would love to see if there's an opportunity on one of our distribution platforms. But in order to do that, I need to get some key colleagues of mine on board the Crazy Honey Badger Bandwagon." Nevertheless, neither American Greetings nor defendants ever signed a licensing agreement with Gordon.

Leonhardt did eventually secure several licensing deals for Gordon. Between May and October 2012, Gordon's company—Randall's Honey Badger, LLC ("RHB")—entered into licensing agreements with Zazzle, Inc., and The Duck Company for various honey-badger themed products, including greeting cards. RHB also entered into licensing agreements with other companies for honey-badger costumes, toys, t-shirts, sweatshirts, posters, and decals, among other things. HBDC and HBDGS were the two most common phrases used on these licensed products. For example, two of Zazzle's best-selling honey-badger greeting cards stated on their front covers "Honey Badger Don't Care About Your Birthday."

At the same time that Gordon was negotiating licensing agreements with Zazzle and Duck, defendants began developing their own line of unlicensed honey-badger greeting cards. Beginning in June 2012, defendants sold seven different greeting cards using the HBDC or HBDGS phrases with small variations:

- The fronts of two “Election Cards” showed a picture of a honey badger wearing a patriotic hat and stated “The Election’s Coming.” The inside of one card said “Me and Honey Badger don’t give a \$#%@! Happy Birthday,” and the inside of the other said “Honey Badger and me just don’t care. Happy Birthday.”
- The fronts of two “Birthday Cards” featured different pictures of a honey badger and stated either “It’s Your Birthday!” or “Honey Badger Heard It’s Your Birthday.” The inside of both cards said “Honey Badger Don’t Give a S---.”
- The fronts of two “Halloween Cards” showed a picture of a honey badger next to a jack-o-lantern and stated “Halloween is Here.” The inside of the cards said either “Honey Badger don’t give a \$#\*%!” or “Honey Badger don’t give a s---.”
- A “Critter Card” employed a Twitter-style format showing a series of messages from “Honey Badger@don’tgiveas---.” The

front stated “Just killed a cobra. Don’t give a s---”; “Just ate a scorpion. Don’t give a s---”; and “Rolling in fire ants. Don’t give a s---.”<sup>3</sup> The inside said “Your Birthday’s here. . . I give a s---.”

The back cover of each card displayed the mark for “Recycled Paper Greetings” and listed the websites [www.DCIStudios.com](http://www.DCIStudios.com) and [www.prgreetings.com](http://www.prgreetings.com). DCI’s President testified that he drafted all of the cards in question but could not recall what inspired the cards’ designs. He claimed to have never heard of a video involving a honey badger.

In June 2015, Gordon filed this suit against DCI and PRG, alleging trademark infringement under the Lanham Act, among other claims. The district court granted summary judgment for defendants, holding that defendants’ greeting cards were expressive works, and applying the *Rogers* test to bar all of Gordon’s claims. Gordon timely appealed.<sup>4</sup>

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<sup>3</sup> Gordon’s video refers to a honey badger getting stung by bees and eating a cobra—e.g., “Now look, here’s a house full of bees. You think the honey badger cares? It doesn’t give a s---. . . . But look the honey badger doesn’t care, it’s getting stung like a thousand times. It doesn’t give a s---. . . . Look! Here comes a fierce battle between a king cobra and a honey badger. . . . And of course, what does a honey badger have to eat for the next few weeks? Cobra.”

<sup>4</sup> We have jurisdiction under 28 U.S.C. § 1291, and we review the district court’s grant of summary judgment de novo. See *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 806 (9th Cir. 2003).

## II

The Lanham Act, 15 U.S.C. § 1051 *et seq.*, “creates a comprehensive framework for regulating the use of trademarks and protecting them against infringement, dilution, and unfair competition.” *Fortune Dynamic, Inc. v. Victoria’s Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025, 1030 (9th Cir. 2010). The Act’s two underlying purposes are to ensure that (1) “owners of trademarks can benefit from the goodwill associated with their marks” and (2) “consumers can distinguish among competing producers.” *Id.*; *see also* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION § 2:2 (5th ed.) (“MCCARTHY”) (explaining the dual purposes of trademark law).

Under the Act, the owner of a trademark used in commerce may register the mark with the PTO. Registration is *prima facie* evidence of the mark’s validity and of the owner’s exclusive right to use the mark in connection with the goods and services specified in the registration. 15 U.S.C. § 1057(b). The owner has a cause of action against any person who, without the owner’s consent, “use[s] in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.” *Id.* § 1114(1)(a); *see also id.* § 1125(a) (providing a similar cause of action for “false designation of origin, false or misleading

description of fact, or false or misleading representation of fact,” irrespective of registration).<sup>5</sup>

In general, we apply a “likelihood-of-confusion test” to claims brought under the Lanham Act. *Twentieth Century Fox Television v. Empire Distrib., Inc.*, 875 F.3d 1192, 1196 (9th Cir. 2017); *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 806–07 (9th Cir. 2003). The likelihood-of-confusion test requires the plaintiff to prove two elements: (1) that “it has a valid, protectable trademark” and (2) that “the defendant’s use of the mark is likely to cause confusion.” *S. Cal. Darts Ass’n v. Zaffina*, 762 F.3d 921, 929 (9th Cir. 2014) (alteration omitted).<sup>6</sup> Ordinarily, this test “strikes a

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<sup>5</sup> The district court declined to distinguish between HBDC, which is a registered trademark, and HBDGS, which is not. We assume for purposes of this decision that HBDC and HBDGS are both protected marks, even if HBDGS is not registered. See *Matal v. Tam*, 137 S. Ct. 1744, 1752 (2017) (explaining that “an unregistered trademark can be enforced against would-be infringers” under 15 U.S.C. § 1125(a)); *Brown v. Elec. Arts, Inc.*, 724 F.3d 1235, 1241 (9th Cir. 2013) (noting that the *Rogers* test applies “in [§ 1125(a)] cases involving expressive works”). Gordon claimed infringement under § 1125(a) in his complaint, and defendants challenged Gordon’s ownership of HBDGS as a protected mark in their motion for summary judgment. The district court is free to revisit this issue on remand.

<sup>6</sup> We have identified eight factors—called the *Sleekcraft* factors—for determining whether a defendant’s use of the mark is likely to cause consumer confusion:

- (1) the strength of the mark;
- (2) the proximity of the goods;
- (3) the similarity of the marks;
- (4) evidence of actual confusion;
- (5) the marketing channels used;
- (6) the type of goods and the degree of care likely to be exercised by the purchaser;
- (7) the defendant’s intent in

comfortable balance” between the Lanham Act and the First Amendment. *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir. 2002).

That said, where artistic expression is at issue, we have expressed concern that “the traditional test fails to account for the full weight of the public’s interest in free expression.” *Id.* The owner of a trademark “does not have the right to control public discourse” by enforcing his mark. *Id.* We have adopted the Second Circuit’s *Rogers* test to strike an appropriate balance between First Amendment interests in protecting artistic expression and the Lanham Act’s purposes to secure trademarks rights. Under *Rogers*, we read the Act “to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.” *Id.* at 901 (quoting *Rogers*, 875 F.2d at 999). More concretely, we apply the Act to an expressive work only if the defendant’s use of the mark (1) is not artistically relevant to the work or (2) explicitly misleads consumers as to the source or the content of the work. *See id.* at 902. Effectively, *Rogers* employs the First Amendment as a rule of construction to avoid conflict between the Constitution and the Lanham Act.

We pause here to clarify the burden of proof under the *Rogers* test. The *Rogers* test requires the defendant to make a threshold legal showing that its allegedly infringing use is part of an expressive work protected by the First Amendment.

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selecting the mark; and (8) the likelihood of expansion of the product lines.

*Zaffina*, 762 F.3d at 930 (citing *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979)).

If the defendant successfully makes that threshold showing, then the plaintiff claiming trademark infringement bears a heightened burden—the plaintiff must satisfy not only the likelihood-of-confusion test but also at least one of *Rogers*'s two prongs. *Cf. Makaeff v. Trump Univ., LLC*, 715 F.3d 254, 261 (9th Cir. 2013) (if a defendant meets its “initial burden” of showing a First Amendment interest, then a public-figure plaintiff claiming defamation must meet a “heightened standard of proof” requiring a showing of “actual malice”). That is, when the defendant demonstrates that First Amendment interests are at stake, the plaintiff claiming infringement must show (1) that it has a valid, protectable trademark, and (2) that the mark is either not artistically relevant to the underlying work *or* explicitly misleading as to the source or content of the work. If the plaintiff satisfies both elements, it still must prove that its trademark has been infringed by showing that the defendant's use of the mark is likely to cause confusion.<sup>7</sup>

“Summary judgment may properly be entered only against a party who has failed to make a showing sufficient to establish a genuine dispute as to the existence of an

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<sup>7</sup> We have been careful not to “conflate[] the [‘explicitly misleading’] prong of the *Rogers* test with the general *Sleekcraft* likelihood-of-confusion test,” *Twentieth Century Fox*, 875 F.3d at 1199, but it bears noting that *Twentieth Century Fox* made this distinction to ensure that the likelihood-of-confusion test did not dilute *Rogers*'s explicitly misleading prong. Other circuits have noted that *Rogers*'s second prong is essentially a more exacting version of the likelihood-of-confusion test. *See Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 665 (5th Cir. 2000); *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1379 (2d Cir. 1993). A plaintiff who satisfies the “explicitly misleading” portion of *Rogers* should therefore have little difficulty showing a likelihood of confusion.

element essential to his case and upon which the party will bear the burden of proof at trial.” *Easley v. City of Riverside*, 890 F.3d 851, 859 (9th Cir. 2018). When, as here, the defendant moves for summary judgment and has demonstrated that its use of the plaintiff’s mark is part of an expressive work, the burden shifts to the plaintiff to raise a genuine dispute as to at least one of *Rogers*’s two prongs. In other words, to evade summary judgment, the plaintiff must show a triable issue of fact as to whether the mark is artistically relevant to the underlying work or explicitly misleads consumers as to the source or content of the work.

### III

Before applying the *Rogers* test to the instant case, we briefly review the test’s origin in the Second Circuit and development in our court.<sup>8</sup> We have applied the *Rogers* test on five separate occasions, and each time we have concluded that it barred the trademark-infringement claim as a matter of law. Three of those cases, like *Rogers*, involved the use of a trademark in the title of an expressive work. Two cases involved trademarks in video games and extended the *Rogers* test to the use of a trademark in the body of an expressive work.

### A

The *Rogers* case concerned the movie *Ginger and Fred*, a story of two fictional Italian cabaret performers who

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<sup>8</sup> The *Rogers* test has been adopted in other circuits as well. See *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 683 F.3d 1266, 1278 (11th Cir. 2012); *Parks v. LaFace Records*, 329 F.3d 437, 452 (6th Cir. 2003); *Westchester Media*, 214 F.3d at 665.



imitated the famed Hollywood duo of Ginger Rogers and Fred Astaire. 875 F.2d at 996–97. Rogers sued the film’s producers under the Lanham Act, alleging that the film’s title gave the false impression that the film—created and directed by well-known filmmaker Federico Fellini—was about her or sponsored by her. *Id.* at 997. The district court, however, granted summary judgment for the defendant film producers. *Id.*

On appeal, the Second Circuit recognized that, “[t]hough First Amendment concerns do not insulate titles of artistic works from all Lanham Act claims, such concerns must nonetheless inform our consideration of the scope of the Act as applied to claims involving such titles.” *Id.* at 998. The court said it would construe the Lanham Act “to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.” *Id.* at 999. Refining its inquiry, the court further held that, “[i]n the context of allegedly misleading titles using a celebrity’s name, that balance will normally not support application of the Act unless [1] the title has no artistic relevance to the underlying work whatsoever, or, [2] if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work.” *Id.*

With respect to artistic relevance, the Second Circuit found that the names “Ginger” and “Fred” were “not arbitrarily chosen just to exploit the publicity value of their real life counterparts” but had “genuine relevance to the film’s story.” *Id.* at 1001. The film’s title was “truthful as to its content” and conveyed “an ironic meaning that [was] relevant to the film’s content.” *Id.* On the second prong of its inquiry, the court held that the title was not explicitly misleading because it “contain[ed] no explicit indication that

Rogers endorsed the film or had a role in producing it.” *Id.* Any risk that the title would mislead consumers was “outweighed by the danger that suppressing an artistically relevant though ambiguous title will unduly restrict expression.” *Id.* The Second Circuit therefore affirmed summary judgment for the defendant film producers. *Id.* at 1005.

## B

We first employed the *Rogers* test in *MCA Records*, 296 F.3d 894, which concerned the song “Barbie Girl” by the Danish band Aqua. The song—which lampooned the values and lifestyle that the songwriter associated with Barbie dolls—involved one band member impersonating Barbie and singing in a high-pitched, doll-like voice. *Id.* at 899. Mattel, the manufacturer of Barbie dolls, sued the producers and distributors of “Barbie Girl” for infringement under the Lanham Act, and the district court granted summary judgment for the defendants. *Id.* Applying the *Rogers* test, we affirmed. *Id.* at 902. We held that the use of the Barbie mark in the song’s title was artistically relevant to the underlying work because the song was “about Barbie and the values Aqua claims she represents.” *Id.* In addition, the song “d[id] not, explicitly or otherwise, suggest that it was produced by Mattel.” *Id.* “The *only* indication that Mattel might be associated with the song [was] the use of Barbie in the title,” and if the use of the mark alone were enough to satisfy *Rogers*’s second prong, “it would render *Rogers* a nullity.” *Id.* Because the Barbie mark was artistically relevant to the song and not explicitly misleading, we concluded that the band could not be held liable for infringement.

We applied the *Rogers* test to another suit involving Barbie in *Walking Mountain*, 353 F.3d 792. There, photographer Thomas Forsythe developed a series of photographs titled “Food Chain Barbie” depicting Barbie dolls or parts of Barbie dolls in absurd positions, often involving kitchen appliances. *Id.* at 796. Forsythe described the photographs as critiquing “the objectification of women associated with [Barbie].” *Id.* Mattel claimed that the photos infringed its trademark and trade dress, but we affirmed summary judgment for Forsythe because “[a]pplication of the *Rogers* test here leads to the same result as it did in *MCA*.” *Id.* at 807. Forsythe’s use of the Barbie mark was artistically relevant to his work because his photographs depicted Barbie and targeted the doll with a parodic message. *Id.* Moreover, apart from Forsythe’s use of the mark, there was no indication that Mattel in any way created or sponsored the photographs. *Id.*

Most recently, we applied the *Rogers* test in *Twentieth Century Fox*, 875 F.3d 1192. Twentieth Century Fox produced the television show *Empire*, which revolved around a fictional hip-hop record label named “Empire Enterprises.” *Id.* at 1195. Empire Distribution, an actual hip-hop record label, sent Twentieth Century Fox a cease-and-desist letter, and Twentieth Century Fox sued for a declaratory judgment that its show did not violate Empire’s trademark rights. *Id.* In affirming summary judgment for Twentieth Century Fox, we rejected Empire’s argument that “the *Rogers* test includes a threshold requirement that a mark have attained a meaning beyond its source-identifying function.”<sup>9</sup> *Id.* at 1197.

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<sup>9</sup> We explained in *MCA Records* that trademarks sometimes “transcend their identifying purpose” and “become an integral part of our

Whether a mark conveys a meaning beyond identifying a product's source is not a threshold requirement but only a relevant consideration: "trademarks that transcend their identifying purpose are more likely to be used in artistically relevant ways," but such transcendence is not necessary to trigger First Amendment protection. *Id.* at 1198 (quotation marks and citation omitted).

We concluded that Empire could not satisfy *Rogers*'s first prong because Twentieth Century Fox "used the common English word 'Empire' for artistically relevant reasons," namely, that the show's setting was New York (the Empire State) and its subject matter was an entertainment conglomerate (a figurative empire). *Id.* Finally, we resisted Empire's efforts to conflate the likelihood-of-confusion test with *Rogers*'s second prong. To satisfy that prong, it is not enough to show that "the defendant's use of the mark would confuse consumers as to the source, sponsorship or content of the work"; rather, the plaintiff must show that the defendant's use "*explicitly* misl[ed] consumers." *Id.* at 1199. Because Twentieth Century Fox's *Empire* show contained "no overt claims or explicit references to Empire Distribution," we found that Empire could not satisfy *Rogers*'s second prong. *Id.* Empire's inability to satisfy either of *Rogers*'s two prongs meant that it could not prevail on its infringement claim.

## C

We first extended the *Rogers* test beyond a title in *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d

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vocabulary." 296 F.3d at 900. Examples include "Rolls Royce" as proof of quality or "Band-Aid" for any quick fix.

1095, 1099 (9th Cir. 2008). In that case, defendant Rockstar Games manufactured and distributed the video game *Grand Theft Auto: San Andreas*, which took place in a fictionalized version of Los Angeles. *Id.* at 1096–97. One of the game’s neighborhoods—East Los Santos—“lampooned the seedy underbelly” of East Los Angeles by mimicking its businesses and architecture. *Id.* at 1097. The fictional East Los Santos included a virtual strip club called the “Pig Pen.” *Id.* ESS Entertainment 2000, which operates the Play Pen Gentlemen’s Club in the real East Los Angeles, claimed that Rockstar’s depiction of the Pig Pen infringed its trademark and trade dress. *Id.*

We recognized that the *Rogers* test was developed in a case involving a title, and adopted by our court in a similar case, but we could find “no principled reason why it ought not also apply to the use of a trademark in the body of the work.” *Id.* at 1099. With respect to *Rogers*’s first prong, we explained that “[t]he level of relevance merely must be above zero” and the Pig Pen met this threshold by being relevant to Rockstar’s artistic goal of creating “a cartoon-style parody of East Los Angeles.” *Id.* at 1100. On the second prong, we concluded that the game did not explicitly mislead as to the source of the mark and would not “confuse its players into thinking that the Play Pen is somehow behind the Pig Pen or that it sponsors Rockstar’s product. . . . A reasonable consumer would not think a company that owns one strip club in East Los Angeles . . . also produces a technologically sophisticated video game.” *Id.* at 1100–01. Because ESS Entertainment 2000 could not demonstrate either of *Rogers*’s two prongs, we affirmed summary judgment for Rockstar.

Another video-game case dealt with the *Madden NFL* series produced by Electronic Arts, Inc. (“EA”). *Brown v.*

*Elec. Arts, Inc.*, 724 F.3d 1235 (9th Cir. 2013). Legendary football player Jim Brown alleged that EA violated § 43(a) of the Lanham Act by using his likeness in its games. *Id.* at 1238–39. The district court granted EA’s motion to dismiss, and we affirmed. *Id.* at 1239. We reiterated *E.S.S.*’s holding that the level of artistic relevance under *Rogers*’s first prong need only exceed zero and found it was “obvious that Brown’s likeness ha[d] at least some artistic relevance to EA’s work.” *Id.* at 1243. We also found that Brown had not alleged facts that would satisfy *Rogers*’s second prong: “EA did not produce a game called *Jim Brown Presents Pinball* with no relation to Jim Brown or football beyond the title; it produced a football game featuring likenesses of thousands of current and former NFL players, including Brown.” *Id.* at 1244. We asked “whether the use of Brown’s likeness would confuse *Madden NFL* players into thinking that Brown is somehow behind the games or that he sponsors EA’s product,” and held that it would not. *Id.* at 1245–47 (alterations omitted). As in *E.S.S.*, the plaintiff could not satisfy either of *Rogers*’s two prongs, and judgment for the defendant was proper.

#### IV

In each of the cases coming before our court, the evidence was such that no reasonable jury could have found for the plaintiff on either prong of the *Rogers* test, and we therefore concluded that the plaintiff’s Lanham Act claim failed as a matter of law. This case, however, demonstrates *Rogers*’s outer limits. Although defendants’ greeting cards are expressive works to which *Rogers* applies, there remains a genuine issue of material fact as to *Rogers*’s second prong—i.e., whether defendants’ use of Gordon’s mark in their greeting cards is explicitly misleading.

## A

As a threshold matter, we have little difficulty determining that defendants have met their initial burden of demonstrating that their greeting cards are expressive works protected under the First Amendment. As we have previously observed, “[a greeting] card certainly evinces ‘[a]n intent to convey a particularized message . . . , and in the surrounding circumstances the likelihood was great that the message would be understood by those who viewed it.’” *Hilton v. Hallmark Cards*, 599 F.3d 894, 904 (9th Cir. 2010) (quoting *Spence v. Washington*, 418 U.S. 405, 410–11 (1974) (per curiam)); see also *Roth Greeting Cards v. United Card Co.*, 429 F.2d 1106, 1110 (9th Cir. 1970) (plaintiff’s greeting cards, considered as a whole, “represent[ed] a tangible expression of an idea” and hence were copyrightable). Each of defendants’ cards relies on graphics and text to convey a humorous message through the juxtaposition of an event of some significance—a birthday, Halloween, an election—with the honey badger’s aggressive assertion of apathy. Although the cards may not share the creative artistry of Charles Schulz or Sandra Boynton, the First Amendment protects expressive works “[e]ven if [they are] not the expressive equal of *Anna Karenina* or *Citizen Kane*.” *Brown*, 724 F.3d at 1241. Because defendants have met their initial burden, the burden shifts to Gordon to raise a triable issue of fact as to at least one of *Rogers*’s two prongs.

## B

*Rogers*’s first prong requires proof that defendants’ use of Gordon’s mark was not “artistically relevant” to defendants’ greeting cards. We have said that “the level of artistic relevance of the trademark or other identifying material to the

work merely must be above zero.” *Id.* at 1243 (internal alterations omitted) (quoting *E.S.S.*, 547 F.3d at 1100). Indeed, “even the slightest artistic relevance” will suffice; courts and juries should not have to engage in extensive “artistic analysis.” *Id.* at 1243, 1245; see *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 251 (1903) (“It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits.”).

Gordon’s mark is certainly relevant to defendants’ greeting cards; the phrase is the punchline on which the cards’ humor turns. In six of the seven cards, the front cover sets up an expectation that an event will be treated as important, and the inside of the card dispels that expectation with either the HBDC or HBDGS phrase. The last card, the “Critter Card,” operates in reverse: the front cover uses variations of the HBDGS phrase to establish an apathetic tone, while the inside conveys that the card’s sender actually cares about the recipient’s birthday. We thus conclude that Gordon has not raised a triable issue of fact with respect to *Rogers*’s “artistic relevance” prong.

## C

Even if the use of the mark is artistically relevant to the work, the creator of the work can be liable under the Lanham Act if the creator’s use of the mark is “explicitly misleading as to source or content.” *Rogers*, 875 F.2d at 999. “This second prong of the *Rogers* test ‘points directly at the purpose of trademark law, namely to avoid confusion in the marketplace by allowing a trademark owner to prevent others from duping consumers into buying a product they



mistakenly believe is sponsored [or created] by the trademark owner.” *Brown*, 724 F.3d at 1245 (quoting *E.S.S.*, 547 F.3d at 1100). The “key here [is] that the creator must *explicitly* mislead consumers,” and we accordingly focus on “the nature of the [junior user’s] behavior” rather than on “the impact of the use.” *Id.* at 1245–46.

In applying this prong, however, we must remain mindful of the purpose of the *Rogers* test, which is to balance “the public interest in avoiding consumer confusion” against “the public interest in free expression.” *Rogers*, 875 F.2d at 999. This is not a mechanical test—“all of the relevant facts and circumstances” must be considered. *Id.* at 1000 n.6. We therefore reject the district court’s rigid requirement that, to be explicitly misleading, the defendant must make an “affirmative statement of the plaintiff’s sponsorship or endorsement.” Such a statement may be sufficient to show that the use of a mark is explicitly misleading, but it is not a prerequisite. See MCCARTHY § 10:17.10 (noting that *Rogers*’s second prong does not hinge on the junior user “falsely assert[ing] that there is an affiliation”). In some instances, the use of a mark alone may explicitly mislead consumers about a product’s source if consumers would ordinarily identify the source by the mark itself. If an artist pastes Disney’s trademark at the bottom corner of a painting that depicts Mickey Mouse, the use of Disney’s mark, while arguably relevant to the subject of the painting, could explicitly mislead consumers that Disney created or authorized the painting, even if those words do not appear alongside the mark itself.

To be sure, we have repeatedly observed that “the mere use of a trademark alone cannot suffice to make such use explicitly misleading.” *E.S.S.*, 547 F.3d at 1100 (citing *MCA*

*Records*, 296 F.3d at 902). But each time we have made this observation, it was clear that consumers would not view the mark alone as identifying the source of the artistic work. No one would think that a song or a photograph titled “Barbie” was created by Mattel, because consumers “do not expect [titles] to identify” the “origin” of the work. *MCA Records*, 296 F.3d at 902. Nor would anyone “think a company that owns one strip club in East Los Angeles . . . also produces a technologically sophisticated video game.” *E.S.S.*, 547 F.3d at 1100–01. But this reasoning does not extend to instances in which consumers *would* expect the use of a mark alone to identify the source.

A more relevant consideration is the degree to which the junior user uses the mark in the same way as the senior user. In the cases in which we have applied the *Rogers* test, the junior user has employed the mark in a different context—often in an entirely different market—than the senior user. In *MCA Records* and *Walking Mountain*, for example, Mattel’s Barbie mark was used in a song and a series of photos. In *E.S.S.*, the mark of a strip club was used in a video game. And in *Twentieth Century Fox*, the mark of a record label was used in a television show. In each of these cases, the senior user and junior user used the mark in different ways. This disparate use of the mark was at most “only suggestive” of the product’s source and therefore did not outweigh the junior user’s First Amendment interests. *Rogers*, 875 F.2d at 1000.

But had the junior user in these cases used the mark in the same way as the senior user—had Twentieth Century Fox titled its new show *Law & Order: Special Hip-Hop*

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*Unit*<sup>10</sup>—such identical usage could reflect the type of “explicitly misleading description” of source that *Rogers* condemns. 875 F.2d at 999–1000. *Rogers* itself makes this point by noting that “misleading titles that are confusingly similar to other titles” can be explicitly misleading, regardless of artistic relevance. *Id.* at 999 n.5 (emphasis added). Indeed, the potential for explicitly misleading usage is especially strong when the senior user and the junior user both use the mark in similar artistic expressions. Were we to reflexively apply *Rogers*’s second prong in this circumstance, an artist who uses a trademark to identify the source of his or her product would be at a significant disadvantage in warding off infringement by another artist, merely because the product being created by the other artist is also “art.” That would turn trademark law on its head.

A second consideration relevant to the “explicitly misleading” inquiry is the extent to which the junior user has added his or her own expressive content to the work beyond the mark itself. As *Rogers* explains, the concern that consumers will not be “misled as to the source of [a] product” is generally allayed when the mark is used as only one component of a junior user’s larger expressive creation, such that the use of the mark at most “implicitly suggest[s]” that the product is associated with the mark’s owner. *Id.* at 998–99; see MCCARTHY § 31:144.50 (“[T]he deception or confusion must be relatively obvious and express, not subtle and implied.”). But using a mark as the centerpiece of an expressive work itself, unadorned with any artistic contribution by the junior user, may reflect nothing more than an effort to “induce the sale of goods or services” by confusion or “lessen[] the distinctiveness and thus the

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<sup>10</sup> Cf. *Law & Order: Special Victims Unit* (NBC Universal).

commercial value of” a competitor’s mark. *S.F. Arts & Athletics, Inc. v. U.S. Olympic Comm.*, 483 U.S. 522, 539 (1987).

Our cases support this approach. In cases involving the use of a mark in the title of an expressive work—such as the title of a movie (*Rogers*), a song (*MCA Records*), a photograph (*Walking Mountain*), or a television show (*Twentieth Century Fox*)—the mark obviously served as only one “element of the [work] and the [junior user’s] artistic expressions.” *Rogers*, 875 F.2d at 1001. Likewise, in the cases extending *Rogers* to instances in which a mark was incorporated into the body of an expressive work, we made clear that the mark served as only one component of the larger expressive work. In *E.S.S.*, the use of the Pig Pen strip club was “quite incidental to the overall story” of the video game, such that it was not the game’s “main selling point.” 547 F.3d at 1100–01. And in *Brown*, Jim Brown was one of “thousands of current and former NFL players” appearing in the game, and nothing on the face of the game explicitly engendered consumer misunderstanding. 724 F.3d at 1244–46. Indeed, EA altered Brown’s likeness in certain versions of the game, an artistic spin that “made consumers less likely to believe that Brown was involved.” *Id.* at 1246–47.

In this case, we cannot decide as a matter of law that defendants’ use of Gordon’s mark was not explicitly misleading. There is at least a triable issue of fact as to whether defendants simply used Gordon’s mark with minimal artistic expression of their own, and used it in the same way that Gordon was using it—to identify the source of humorous greeting cards in which the bottom line is “Honey Badger don’t care.” Gordon has introduced evidence that he sold

greeting cards and other merchandise with his mark; that in at least some of defendants' cards, Gordon's mark was used without any other text; and that defendants used the mark knowing that consumers rely on marks on the inside of cards to identify their source. Gordon's evidence is not bulletproof; for example, defendants' cards generally use a slight variation of the HBDGS phrase, and they list defendants' website on the back cover. But a jury could conclude that defendants' use of Gordon's mark on one or more of their cards is "explicitly misleading as to [their] source." *Rogers*, 875 F.2d at 999.

Because we resolve the first *Rogers* prong against Gordon as a matter of law, a jury may find for Gordon only if he proves by a preponderance of the evidence that defendants' use of his mark is explicitly misleading as to the source or content of the cards.<sup>11</sup>

## V

For the foregoing reasons, we **REVERSE** and **REMAND** to the district court for further proceedings consistent with this opinion.

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<sup>11</sup> We note that the district court has not yet addressed defendants' abandonment defense. We express no opinion on that issue and leave it for the district court to address in the first instance.

**FOR PUBLICATION**

**UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT**

ADIDAS AMERICA, INC., a Delaware  
corporation; ADIDAS AG; ADIDAS  
INTERNATIONAL MARKETING B.V., a  
foreign entity,

*Plaintiffs-Appellees,*

v.

SKECHERS USA, INC., a Delaware  
corporation,

*Defendant-Appellant.*

No. 16-35204

D.C. No.  
3:15-cv-01741-  
HZ

OPINION

Appeal from the United States District Court  
for the District of Oregon  
Marco A. Hernandez, District Judge, Presiding

Argued and Submitted October 7, 2016  
Portland, Oregon

Filed May 10, 2018

Before: Diarmuid F. O'Scannlain, Richard R. Clifton,  
and Jacqueline H. Nguyen, Circuit Judges.

Opinion by Judge Nguyen;  
Partial Concurrence and Partial Dissent by Judge Clifton

## SUMMARY\*

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### **Lanham Act / Preliminary Injunction**

The panel affirmed in part and reversed in part the district court's preliminary injunction prohibiting Skechers USA, Inc., from selling shoes that allegedly infringe and dilute adidas America, Inc.'s Stan Smith trade dress and Three-Stripe mark.

Affirming in part, the panel held that the district court did not abuse its discretion in issuing the preliminary injunction as to adidas's claim the Skechers's Onix shoe infringed on adidas's unregistered trade dress of its Stan Smith shoe. The panel concluded that adidas was likely to succeed on the merits of this claim because the trade dress was nonfunctional, the trade dress had acquired secondary meaning, and there was a substantial likelihood of confusion between the parties' products. In addition, the district court did not clearly err in finding a likelihood of irreparable harm to the Stan Smith.

Reversing in part, the panel held that the district court erred in issuing a preliminary injunction as to adidas's claim that Skechers's Cross Court shoe infringed and diluted its Three-Stripe mark. The panel held that the district court did not err in finding that adidas showed a likelihood of success on its trademark infringement and trademark dilution claims. Nonetheless, the district court abused its discretion in issuing

\* This summary constitutes no part of the opinion of the court. It has been prepared by court staff for the convenience of the reader.

the preliminary injunction because adidas did not show that it would be irreparably harmed from sale of the Cross Court.

Concurring in part and dissenting in part, Judge Clifton wrote that the preliminary injunction should be affirmed in full. Judge Clifton disagreed with the majority's reversal of the preliminary injunction as to the Cross Court shoe on the ground that there was not evidence to support the district court's determination that adidas was likely to suffer irreparable injury.

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**COUNSEL**

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Richard Charles Henn Jr. (argued) and Charles H. Hooker III, Kilpatrick Townsend & Stockton LLP, Atlanta, Georgia; Adam H. Charnes, Kilpatrick Townsend & Stockton LLP, Dallas, Texas; for Plaintiffs-Appellees.

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## OPINION

NGUYEN, Circuit Judge:

Skechers USA, Inc. appeals the district court’s issuance of a preliminary injunction prohibiting it from selling shoes that allegedly infringe and dilute adidas America, Inc.’s Stan Smith trade dress and Three-Stripe trademark. We hold that the district court did not abuse its discretion in issuing the preliminary injunction as to adidas’s claim that Skechers’s Onix shoe infringes on adidas’s unregistered trade dress of its Stan Smith shoe. We conclude, however, that the district court erred in issuing a preliminary injunction as to adidas’s claim that Skechers’s Cross Court shoe infringes and dilutes its Three-Stripe mark. Accordingly, we affirm in part and reverse in part.

### I.

#### FACTUAL BACKGROUND

adidas is a leading manufacturer of athletic apparel and footwear. Skechers is a footwear company that competes with adidas in the active footwear and apparel market. Skechers has grown to become the second largest footwear company in the United States, ahead of adidas and behind only Nike.

The Stan Smith has become one of adidas’s most successful shoes in terms of sales and influence since its release in the 1970s. Deemed “[t]he favorite shoe of [fashion industry] insiders like designer Raf Simons and Marc Jacobs” by *The Wall Street Journal* and the “ultimate fashion shoe” by *i-D* magazine, the Stan Smith has received extensive media coverage and been featured in such print and online publications as *Time*, *Elle*, *InStyle*, and *Vogue*.

The Stan Smith also has frequently appeared on lists of the most important or influential sneakers of all time and has earned industry accolades such as *Footwear News*'s 2014 "Shoe of the Year." That same year, adidas announced that the Stan Smith had become its top-selling shoe of all time, selling more than 40 million pairs worldwide.

adidas is also known for its Three-Stripe mark, which has been featured on its products for many years as part of its branding strategy and for which it owns federal trademark registrations. adidas claims to earn several hundred million dollars in annual domestic sales of products bearing the Three-Stripe mark. adidas advertises the Three-Stripe mark in print publications, on television, and in digital media and promotes it through celebrity endorsements, sporting events sponsorships, and athletic partnerships.

The parties have a history of trademark litigation that has previously resulted in Skechers acknowledging that "adidas is the exclusive owner" of the Three-Stripe mark and agreeing not to use it or any other protected mark "confusingly similar thereto." Despite the agreement, adidas has sued Skechers several times in the last twenty years for infringement of its Three-Stripe trademark.<sup>1</sup>

<sup>1</sup> Skechers's unopposed motion for judicial notice is granted.

adidas filed the present lawsuit against Skechers on September 14, 2015, alleging, among other things, that Skechers's Onix shoe infringes on and dilutes the unregistered trade dress of adidas's Stan Smith shoe (both pictured below).

**The Stan Smith Trade Dress**



**The Skechers "Onix"**



adidas further alleges that Skechers's Relaxed Fit Cross Court TR (pictured below) infringes and dilutes adidas's Three-Stripe trademark, in violation of 15 U.S.C. § 1125(a), (c).



adidas filed a motion for preliminary injunction to prohibit Skechers from manufacturing, distributing, advertising, selling, or offering for sale the Onix and Cross Court. The district court granted adidas's motion and issued the preliminary injunction, finding that adidas established all the *Winter* factors. *See Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008) (“A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.”).

Skechers timely appealed.

## II.

### STANDARD OF REVIEW

We review the district court's issuance of a preliminary injunction for an abuse of discretion. *See Marlyn Nutraceuticals, Inc. v. Mucos Pharma GmbH & Co.*, 571 F.3d 873, 876 (9th Cir. 2009). “A district court abuses its discretion in issuing a preliminary injunction if its decision is based on either an erroneous legal standard or clearly erroneous factual findings . . . .” *Negrete v. Allianz Life Ins. Co. of N.A.*, 523 F.3d 1091, 1096 (9th Cir. 2008). “The legal issues underlying the injunction are reviewed de novo because a district court would necessarily abuse its discretion if it based its ruling on an erroneous view of law.” *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1204 (9th Cir. 2000) (internal quotation marks omitted). By contrast, the district court's factual findings are reviewed for clear error. *See Lahoti v. VeriCheck, Inc.*, 586 F.3d 1190, 1195–96 (9th Cir. 2009).

### III.

#### ANALYSIS

Skechers contests only two of the factors under *Winter*, specifically, the district court's findings that adidas showed a likelihood of success on the merits and irreparable harm. Because the analysis for Skechers's Onix and Cross Court shoes differ, we take them each in turn.

#### A. Skechers's Onix and adidas's Stan Smith

##### i. Likelihood of Success on the Merits

Skechers challenges the district court's finding that adidas demonstrated a likelihood of success on its claim that Skechers's Onix shoe infringes on and dilutes adidas's unregistered Stan Smith trade dress.

"Trade dress protection applies to 'a combination of any elements in which a product is presented to a buyer,' including the shape and design of a product." *Art Attacks Ink, LLC v. MGA Entm't Inc.*, 581 F.3d 1138, 1145 (9th Cir. 2009) (quoting 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 8:1 (4th ed. 2008)).<sup>2</sup> To prove infringement of an unregistered trade dress, "a plaintiff must demonstrate that (1) the trade dress is nonfunctional, (2) the trade dress has acquired secondary meaning, and (3) there is a substantial likelihood of

<sup>2</sup> adidas defines its Stan Smith trade dress as having: (1) "a classic tennis-shoe profile with a sleek white leather upper"; (2) "three rows of perforations in the pattern of" adidas's Three-Stripe mark; (3) "a defined stitching across the sides of each shoe," (4) "a raised mustache-shaped colored heel patch, which often is green"; and (5) "a flat tonal white rubber outsole."

confusion between the plaintiff's and defendant's products." *Id.* Skechers contests only the latter two elements.

A trade dress has acquired secondary meaning when consumers associate the design features with a particular producer. *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.*, 654 F.3d 958, 967 (9th Cir. 2011) (citation omitted). "Secondary meaning and likelihood of buyer confusion are separate but related determinations . . ." *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 821 (9th Cir. 1980). Some of the relevant factors for determining secondary meaning include the exclusivity, manner, and length of use of the trade dress, the amount and manner of advertising, the amount of sales, and proof of intentional copying by the defendant. *Art Attacks*, 581 F.3d at 1145.

The district court's finding that the Stan Smith has likely acquired secondary meaning is supported by ample evidence in the record. The evidence showed that adidas has used the Stan Smith trade dress exclusively since the early 1970s, expended considerable capital and human resources to promote the shoe, and reaped significant but difficult-to-quantify value from placing the Stan Smith with celebrities, musicians, athletes, and other "influencers" to drive consumer hype and recognition of the trade dress—which, in 2014, became adidas's top selling shoe of all time with the 40 millionth pair sold. *See Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1016 (9th Cir. 1985) (finding evidence of sales, promotional efforts, and duration of exclusive use indicative of secondary meaning). Also indicative of secondary meaning is the considerable amount of unsolicited media coverage praising the Stan Smith's influence and iconic status as one of the most famous sneakers of all time. *See Golden Door, Inc. v. Odisho*, 646 F.2d 347, 350–51 (9th Cir. 1980) ("The district

court's finding that a secondary meaning has attached is supported by evidence of the extensive media coverage . . . .").

Skechers's own conduct also supports the district court's finding. "[P]roof of copying strongly supports an inference of secondary meaning." *Vision Sports, Inc. v. Melville Corp.*, 888 F.2d 609, 615 (9th Cir. 1989). Skechers placed metadata tags on its website that directed consumers who searched for "adidas Stan Smith" to the page for the Onix shoe. "Using another's trademark in one's metatags is much like posting a sign with another's trademark in front of one's store." *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1064 (9th Cir. 1999). We agree with the district court that "the only reason 'adidas Stan Smith' is a useful search term is that consumers associate the term with a distinctive and recognizable shoe made by adidas." Therefore, the district court did not clearly err by finding that the Stan Smith had acquired secondary meaning.

We turn next to the likelihood of confusion between the shoes. This factor turns on whether a reasonably prudent consumer would be confused about the source of the goods bearing the marks. *Dreamwerks Prod. Grp., Inc. v. SKG Studio*, 142 F.3d 1127, 1129 (9th Cir. 1998). "Likelihood of confusion in the trade dress context is evaluated by reference to the same factors used in the ordinary trademark context[:] strength of the trade dress, similarity between plaintiff's and defendant's trade dress, evidence of actual confusion, marketing channels used, type of goods and likely degree of purchaser care, and the defendant's intent in selecting its trade dress." *Vision Sports*, 888 F.2d at 616 (internal citation omitted) (citing *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979)). These are commonly referred to as the "*Sleekcraft* factors." We review the district court's

findings on these factors under the clearly erroneous standard. *Id.*

The first *Sleekcraft* factor is of considerable importance to the likelihood of confusion analysis, given that “the greater the similarity between the two marks at issue, the greater the likelihood of confusion.” *GoTo.com*, 202 F.3d at 1206. The similarities between the Stan Smith and Onix are unmistakable. Both shoes share the same white leather upper, a raised green mustache-shaped heel path, angled stripes with perforations, the identical defined stitching pattern around the perforations, and a flat white rubber outsole. Minor differences, including the use of Skechers’s logo, do not negate the overall impression of similarity between these two shoes. *See Clicks Billiards Inc. v. Sixshooters Inc.*, 251 F.3d 1252, 1259 (9th Cir. 2001) (“[T]he issue is not whether defendant’s package or trade dress is identical to plaintiff’s in each and every particular. Rather, it is the similarity of the *total*, overall impression that is to be tested . . . .” (alterations in original) (quoting 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 8:2 (4th ed. 2000))).

Other *Sleekcraft* factors also favor adidas. “Related goods are generally more likely than unrelated goods to confuse the public as to the producers of the goods.” *Brookfield Commc’ns*, 174 F.3d at 1055 (citing *Official Airline Guides, Inc. v. Goss*, 6 F.3d 1385, 1392 (9th Cir. 1993)). “Related goods are those products which would be reasonably thought by the buying public to come from the same source if sold under the same mark.” *Sleekcraft*, 599 F.2d at 348 n.10 (internal quotation marks omitted). There can be little doubt that the shoes in question here are similar goods, and that, if the shoes were sold under the same mark, the public would reasonably think they came from the



same source. This makes the likelihood of confusion greater here than in other cases. And, as we discussed when analyzing the Stan Smith's secondary meaning above, adidas has presented ample evidence that the Stan Smith has enjoyed tremendous commercial success and market recognition. Finally, the evidence supports an inference that Skechers intended to confuse consumers; it not only created a nearly identical shoe to the Stan Smith, but then used metadata tags to direct consumers who searched for "adidas stan smith" to the Onix web page.<sup>3</sup>

"[O]nly a subset of the *Sleekcraft* factors are needed to reach a conclusion as to whether there is a likelihood of confusion." *GoTo.com*, 202 F.3d at 1206. Given the evidence, the district court here did not clearly err in concluding that adidas was likely to succeed on its claim that Skechers's Onix shoe infringes on adidas's Stan Smith trade dress.

<sup>3</sup> Relying on *Multi Time Machine, Inc. v. Amazon.com, Inc.*, 804 F.3d 930 (9th Cir. 2015), Skechers argues that its use of metadata tags clearly identifying the source of the product being sold is indicative only of an intent to *compete*, not an intent to infringe. This reliance is misplaced. In *Multi Time*, a watch manufacturer brought an action alleging that an online retailer's listing of competitors' products in response to a search for the manufacturer's mark constituted trademark infringement. *Id.* at 934–35. Because the defendant there did not create any of the competing products, the use of the metadata was not probative of its intent to exploit the existing secondary meaning of a competitor's mark or trade dress. *Id.* at 936–37. Here, however, Skechers's use of the metadata is probative of its attempt to capitalize on the Stan Smith by both creating and selling the similar-looking Onix.

## ii. Likelihood of Irreparable Harm

Skechers also argues that the district court's finding of a likelihood of irreparable harm to the Stan Smith was erroneous.

In *Herb Reed Enterprises, LLC v. Florida Entertainment Management, Inc.*, we reaffirmed that “[e]vidence of loss of control over business reputation and damage to goodwill [can] constitute irreparable harm,” so long as there is concrete evidence in the record of those things. 736 F.3d 1239, 1250 (9th Cir. 2013). Consistent with *Herb Reed*, the district court here based its finding of irreparable harm from the Onix shoe on evidence that adidas was likely to suffer irreparable harm to its brand reputation and goodwill if the preliminary injunction did not issue. adidas’s Director of Sport Style Brand Marketing testified to the significant efforts his team invested in promoting the Stan Smith through specific and controlled avenues such as social media campaigns and product placement, and he stated that the Stan Smith earned significant media from various sources that was not initiated or solicited by adidas. adidas also presented evidence regarding its efforts to carefully control the supply of Stan Smith shoes and its concerns about damage to the Stan Smith’s reputation if the marketplace were flooded with similar shoes. Finally, adidas produced customer surveys showing that approximately twenty percent of surveyed consumers believed Skechers’s Onix was made by, approved by, or affiliated with adidas.<sup>4</sup>

<sup>4</sup> Skechers’s intent to foment and capitalize on such confusion is evident from its use of the terms “adidas” and “Stan Smith” in its source code for the Onix shoe webpage.

The extensive and targeted advertising and unsolicited media, along with tight control of the supply of Stan Smiths, demonstrate that adidas has built a specific reputation around the Stan Smith with “intangible benefits.” *See Regents of Univ. of Cal. v. Am. Broad. Cos.*, 747 F.2d 511, 519 (9th Cir. 1984) (internal quotation marks omitted). And, the customer surveys demonstrate that those intangible benefits will be harmed if the Onix stays on the market because consumers will be confused about the source of the shoes. We find that the district court’s finding of irreparable harm is not clearly erroneous. *See Herb Reed*, 736 F.3d at 1250; *Rent-A-Ctr., Inc. v. Canyon Television & Appliance Rental, Inc.*, 944 F.2d 597, 603 (9th Cir. 1991) (noting that harm to advertising efforts and goodwill constitute “intangible injuries” that warrant injunctive protection).

## **B. Skechers’s Cross Court and adidas’s Three-Stripe Mark**

### **i. Likelihood of Success on the Merits**

adidas alleges that Skechers’s Cross Court shoe infringes and dilutes its Three-Stripe trademark. The district court found that adidas showed a likelihood of success on the merits as to both the infringement and dilution claims.

#### ***a. Trademark Infringement***

To establish trademark infringement, a plaintiff must show, among other things, ownership of its trademark and a likelihood of confusion between its and the defendant’s marks. 15 U.S.C. § 1125(a)(1)(A). Although Skechers concedes adidas’s ownership of the Three-Stripe mark, Skechers challenges the district court’s finding that adidas was likely to succeed in establishing the confusion element of its trademark infringement claim.

Given our deferential review, we cannot say the district court clearly erred in its analysis of the *Sleekcraft* factors. Both the Cross Court and adidas's designs have three stripes, and while there are distinctions between the marks—including a difference in the thickness of the stripes, the inclusion of a strip between the three stripes on the Cross Court, and the fact that the stripes do not continue to the sole of the shoe—the district court was permitted to discount these differences in conducting its factual determination regarding similarity. See *Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025, 1032 (9th Cir. 2010) (noting that “similarities are weighed more heavily than differences” in this analysis (internal quotation marks omitted)). This is especially true when the marks are attached to closely related products, as they are here. See *Goss*, 6 F.3d at 1392 (noting that a “diminished standard of similarity is therefore applied when comparing the marks of closely related goods”); see also *supra* Part III.A.i (discussing relatedness).

Nor did the district court clearly err in finding that the strength of the registered mark factor weighs in adidas's favor. “The stronger a mark—meaning the more likely it is to be remembered and associated in the public mind with the mark's owner—the greater the protection it is accorded by the trademark laws.” *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1149 (9th Cir. 2011) (quoting *Brookfield Commc'ns*, 174 F.3d at 1058). “Two relevant measurements are conceptual strength and commercial strength.” *Id.* “[A] mark's conceptual strength is proportional to the mark's distinctiveness.” *M2 Software, Inc. v. Madacy Entm't*, 421 F.3d 1073, 1080 (9th Cir. 2005). “[A]n arbitrary or fanciful mark is the most distinctive.” *Id.* (citing *GoTo.com*, 202 F.3d at 1207). On the other hand, “[c]ommercial strength is based on ‘actual marketplace

recognition.”” *Network Automation*, 638 F.3d at 1149 (quoting *Brookfield Commc’ns*, 174 F.3d at 1058). Evidence of substantial advertising expenditures can transform a suggestive mark into a strong mark. *Id.* The Three-Stripe mark possesses both conceptual and commercial strength. Conceptually, it features an arbitrary and distinctive design. Commercially, the mark enjoys a long history of marketplace recognition, as well as adidas’s significant investment of resources to advertise the mark.

The district court also did not clearly err in finding that Skechers’s intent in selecting its mark weighs in adidas’s favor. In light of the parties’ litigation history, Skechers undoubtedly knew of adidas’s Three-Stripe mark when it conceived of its Cross Court shoe. “When one party knowingly adopts a mark similar to another’s, reviewing courts presume that the defendant will accomplish its purpose, and that the public will be deceived.” *Acad. of Motion Picture Arts & Scis. v. Creative House Promotions, Inc.*, 944 F.2d 1446, 1456 (9th Cir. 1991) (citing *Sleekcraft*, 599 F.2d at 354). This knowledge supports the district court’s finding that Skechers intended to deceive the public as to the source of its shoe by using a similar mark.

Taken together, we cannot say that the district court clearly erred in evaluating the *Sleekcraft* factors cited above in adidas’s favor.<sup>5</sup> Accordingly, we hold that the district

<sup>5</sup> Skechers argues that the use of its own logo on the Cross Court negates any confusion arising from its use of a similar three-striped mark. But a trademark may not be freely appropriated so long as the user also includes its own logo. *See Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 822 (9th Cir. 1980). Whether the likelihood of confusion persists despite the presence of the alleged infringer’s own logo is a question of fact, and the district court here did not clearly err in finding that Skechers’s logo was not sufficiently prominent in comparison to the

court did not err in finding adidas showed a likelihood of success on its trademark infringement claim.

***b. Trademark Dilution***

“Dilution is ‘the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—(1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception.’” *Nissan Motor Co. v. Nissan Compt. Corp.*, 378 F.3d 1002, 1011 (9th Cir. 2004) (quoting 15 U.S.C. § 1127). To establish dilution, “a plaintiff must show that (1) the mark is famous and distinctive; (2) the defendant is making use of the mark in commerce; (3) the defendant’s use began after the mark became famous; and (4) the defendant’s use of the mark is likely to cause dilution by blurring or dilution by tarnishment.” *Jada Toys, Inc. v. Mattel, Inc.*, 518 F.3d 628, 634 (9th Cir. 2008) (citing 15 U.S.C. § 1125(c)(1)). “[T]he court may consider all relevant factors” to determine whether dilution is likely, including:

- (i) The degree of similarity between the mark or trade name and the famous mark.
- (ii) The degree of inherent or acquired distinctiveness of the famous mark.

three-stripped mark to alleviate the likelihood of confusion. *See Keds Corp. v. Renee Int’l Trading Corp.*, 888 F.2d 215, 222 (1st Cir. 1989) (rejecting argument that sneaker label negated confusion because “the impressed words can only be read a few feet away from the eyes”).

- (iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.
- (iv) The degree of recognition of the famous mark.
- (v) Whether the user of the mark or trade name intended to create an association with the famous mark.
- (vi) Any actual association between the mark or trade name and the famous mark.

15 U.S.C. § 1125(c)(2)(B). No one factor is necessarily determinative. *See id.*; *see also Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 736 F.3d 198, 207, 211 (2d Cir. 2013) (noting that “the importance of each factor will vary with the facts” and that “the test is not an inflexible one”).

There is substantial overlap between many of these factors and the *Sleekcraft* factors. In challenging the district court’s determination that these factors weigh in favor of a likelihood of dilution, Skechers relies on many of the same objections it made to the district court’s findings regarding a likelihood of success on the trademark infringement claim. We reject these arguments here for the same reasons we rejected them in the infringement context. Skechers’s only new argument is that adidas failed to produce evidence of the degree of recognition of the Three-Stripe mark, but this is simply incorrect. There was substantial evidence from which the district court could find that the Three-Stripe mark enjoyed a high degree of recognition. Accordingly, we hold

that the district court did not err in finding a likelihood of success on the merits on adidas's trademark dilution claim.

## ii. Likelihood of Irreparable Harm

Skechers next argues that the district court abused its discretion in issuing the preliminary injunction because under *Winter*, adidas has not shown that it will be irreparably harmed from sale of the Cross Court. We agree.

Both below and on appeal, adidas advanced only a narrow argument of irreparable harm as to the Cross Court: that Skechers harmed adidas's ability to control its brand image because consumers who see others wearing Cross Court shoes associate the allegedly lesser-quality Cross Courts with adidas and its Three-Stripe mark.<sup>6</sup> Yet we find no evidence in the record that could support a finding of irreparable harm based on this loss of control theory.

First, adidas's theory of harm relies on the notion that adidas is viewed by consumers as a premium brand while Skechers is viewed as a lower-quality, discount brand. But even if adidas presented evidence sufficient to show its efforts to cultivate a supposedly premium brand image for itself, adidas did not set forth evidence probative of

<sup>6</sup> While there are other ways post-sale confusion could hypothetically harm a trademark holder, *see, e.g., Gen. Motors Corp. v. Keystone Auto. Indus., Inc.*, 453 F.3d 351, 358 (6th Cir. 2006); 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:7 (5th ed. 2017), adidas has not raised any other theories of harm here. Unlike the dissent, we hold adidas to its burden of showing a likelihood of irreparable harm on the theory that it actually raised. *See* Dissent at 26–29 & n.2 (outlining how adidas *could have* suffered post-sale harm if the Skechers buyer could benefit from others believing she was wearing adidas shoes).



Skechers's allegedly less favorable reputation. The only evidence in the record regarding Skechers's reputation was testimony from adidas employees.<sup>7</sup> First, adidas claimed that "Skechers generally sells its footwear at prices lower than adidas's"—how much lower, and for what of any number of possible reasons other than the quality of its products, we do not know. This generalized statement regarding Skechers's price point does not indicate that consumers view Skechers as a value brand. Second, one adidas employee noted that within adidas, Skechers is viewed as inferior to adidas. Again, Skechers's reputation among the ranks of adidas employees does not indicate how the general consumer views it. Thus, the district court's finding that Skechers is viewed as a "value brand" is an "unsupported and conclusory statement[]" that is not "grounded in any evidence or showing offered by [adidas]."

<sup>7</sup> Such employee testimony is hardly the most reliable evidence of the reputation of a competitor. *See Art Attacks Ink, LLC v. MGA Entm't*, 581 F.3d 1138, 1147 (9th Cir. 2009) (holding that a reasonable jury "could not have found actual confusion" between subject trademarks based on testimony of three of plaintiff's employees); *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 59 F.3d 902, 910 (9th Cir. 1995) (holding that declarations meant to rebut genericness of name "had little probative value regarding the assessment of consumer perception because they were from [plaintiff's] employees and wholesalers" and "[t]rademark law is skeptical of the ability of an associate of a trademark holder to transcend personal biases" (internal quotation marks omitted)). However, we need not (and do not) rely on the diminished reliability of employee testimony here, where the testimony did not demonstrate that Skechers is a lower-value brand—one of the tenets of adidas's theory of irreparable harm—anyway. Nor do we "disregard" it, as the dissent suggests, Dissent at 33–34; we merely disagree with the dissent about what the testimony actually shows.

*See Herb Reed*, 736 F.3d at 1250 (internal quotation marks omitted).<sup>8</sup>

Second, adidas's theory of harm is in tension with the theory of customer confusion that adidas has advanced to establish a likelihood of success on the merits. adidas did not argue in the district court, and has not argued on appeal, that a Cross Court purchaser would mistakenly believe he had bought adidas shoes at the time of sale. Indeed, this argument would be implausible because the Cross Court contains numerous Skechers logos and identifying features. Instead, adidas argues only that *after* the sale, *someone else* looking at a Cross Court shoe from afar or in passing might not notice the Skechers logos and thus might mistake it for an adidas.

The tension between adidas's consumer confusion and irreparable harm theories, then, boils down to this: How would consumers who confused Cross Courts for adidas shoes be able to surmise, from afar, that those shoes were low quality? If the "misled" consumers could not assess the

<sup>8</sup> The dissent criticizes our reliance on *Herb Reed*. Dissent at 31–32. True, there are more facts in the record here that adidas *claims* support a finding of likelihood of irreparable harm than there were in *Herb Reed*. See 736 F.3d at 1250 (noting there was only one email in the record that might support an inference of irreparable harm). The problem is that none of those facts *actually* support such a finding. *Herb Reed* makes clear that it is the plaintiff's burden to put forth specific evidence from which the court can infer irreparable harm. See *id.* ("The district court's analysis of irreparable harm is cursory and conclusory, rather than being grounded in any evidence or showing offered by [the plaintiff]."). Regardless of our deferential review, there must actually be such evidence in the record before we can uphold the district court's factual findings. *Id.* (overturning the district court where its "pronouncements [were] grounded in platitudes rather than evidence"). We simply disagree with the dissent that there is any such evidence supporting adidas's theory of irreparable harm on this record.

quality of the shoe from afar, why would they think any differently about adidas's products? How could adidas's "premium" brand possibly be hurt by any confusion?

Indeed, such a claim is counterintuitive. If a consumer viewed a shoe from such a distance that she could not notice its Skechers logos, it is unlikely she would be able to reasonably assess the quality of the shoes. And the consumer could not conflate adidas's brand with Skechers's supposedly "discount" reputation if she did not know the price of the shoe and was too far away to tell whether the shoe might be a Skechers to begin with. In short, even if Skechers does make inferior products (or even if consumers tend to think so), there is no evidence that adidas's theory of post-sale confusion would cause consumers to associate such lesser-quality products with adidas. And, even if we agree with the district court that some consumers are likely to be confused as to the maker of the Cross Court shoe, we cannot simply assume that such confusion will cause adidas irreparable harm where, as here, adidas has failed to provide concrete evidence that it will. *See Herb Reed*, 736 F.3d at 1250–51.

As discussed above, adidas presented specific evidence that its reputation and goodwill were likely to be irreparably harmed by Skechers's Onix shoe based on adidas's extensive marketing efforts for the Stan Smith and its careful control of the supply of Stan Smiths available for purchase. Thus, even post-sale confusion of consumers from afar threatens to harm the value adidas derives from the scarcity and exclusivity of the Stan Smith brand. But there was no comparable argument or evidence for the Cross Court.

Because adidas failed to produce evidence that it will suffer irreparable harm due to the Cross Court, we conclude that the district court abused its discretion by issuing a

preliminary injunction for the Cross Court. *See Herb Reed*, 736 F.3d at 1250.

\* \* \*

We affirm the district court's preliminary injunction order as to the Onix shoe as likely infringing on, and causing irreparable harm to, adidas's Stan Smith trade dress. However, because we find that there was no evidence in the record that met the standard outlined in *Herb Reed* for likelihood of irreparable harm to adidas's Three-Stripe mark, we reverse the preliminary injunction as to the Cross Court shoe. The parties should bear their own costs on appeal.

**AFFIRMED IN PART, REVERSED IN PART.**

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CLIFTON, Circuit Judge, concurring in part and dissenting in part:

The preliminary injunction entered by the district court should be affirmed in full. I join with my colleagues in affirming the preliminary injunction regarding Skechers's Onix shoe based on its infringement on the trade dress of adidas's Stan Smith shoe and concur in that part of the majority opinion.

Where I part ways with the majority concerns the infringement by Skechers with its Cross Court shoe of the Three-Stripe mark owned by adidas. The majority holds that adidas has demonstrated a likelihood of success on the merits of that claim, sufficiently demonstrating both trademark infringement and trademark dilution, and I agree. Nonetheless, the majority reverses the preliminary injunction as to the Cross Court shoe on the ground that there

was not evidence to support the district court's determination that adidas was likely to suffer irreparable injury. As to that, I disagree. In my view, the majority opinion misunderstands our precedent, misperceives the means by which adidas will suffer irreparable injury, and mischaracterizes the evidence before the district court. As a result, I must, in part, respectfully dissent.

### **I. Herb Reed**

The precedent relied upon by the part of the majority decision in question comes down essentially to a single case, *Herb Reed Enterprises, LLC v. Florida Entertainment Management, Inc.*, 736 F.3d 1239 (9th Cir. 2013). That case involved the “The Platters,” the legendary vocal group that produced dozens of hits in the 1950s.<sup>1</sup> The band broke up in the 1960s and “each member continued to perform under some derivation of the name ‘The Platters.’” *Id.* at 1242. Litigation followed, described in that opinion, from which Herb Reed Enterprises emerged as the legal owner of “The Platters” name. (Herb Reed was one of the founders of the original group.) Decades later, Herb Reed Enterprises sought to prevent the use of that name by another vocal group. The district court granted a preliminary injunction in favor of Herb Reed, which this court reversed. We concluded that the record supported the district court's determination that Herb Reed was likely to succeed on the merits of its trademark claim, but that the record did not support the finding of a likelihood that Herb Reed

<sup>1</sup> As noted in our opinion, The Platters put 40 singles on the Billboard Hot 100 List, including “Great Pretender,” “Smoke Gets In Your Eyes,” “Only You,” and “To Each His Own.” *Herb Reed*, 736 F.3d at 1242.

Enterprises suffered irreparable harm as a result of the trademark infringement.

Our decision noted that the legal rule previously was that “irreparable injury may be *presumed* from a showing of likelihood of success on the merits of a trademark infringement claim.” *Id.* at 1248–49 (emphasis in *Herb Reed*) (quoting *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999)). Subsequent Supreme Court decisions undermined that presumption, however, and in *Herb Reed* we held that a plaintiff could not simply rely on that presumption but must establish irreparable harm in order to obtain an injunction. We went on to reverse the preliminary injunction that had been entered by the district court, noting that the finding of irreparable harm was not “grounded in *any* evidence or showing offered by” the plaintiff. *Id.* at 1250 (emphasis added). We emphasized that “missing from this record is *any* such evidence.” *Id.* (emphasis added).

The argument by the *Herb Reed* plaintiff, as expressed by the district court in that case, was “the harm to Reed’s reputation caused by a different unauthorized Platters group warranted a preliminary injunction.” *Id.* (quoting from the district court order). This court “comb[ed] the record” and came up with only “an email from a potential customer complaining to [the appellants’] booking agent that the customer wanted Herb Reed’s band rather than another tribute band,” which we concluded “simply underscores customer confusion, not irreparable harm.” *Id.* There was, we concluded, no evidence at all to support the proposition that Reed’s reputation had been harmed. Importantly, the factual circumstances did not provide support for such an inference. More than a half century after the real Platters broke up, a legal claim to the name did not itself differentiate

among the reputations of different tribute bands claiming tenuous connections with the original Platters through different performers. If the group that licensed the name from Herb Reed Enterprises could prove that it lost bookings as a result, it could claim damages, of course, but we saw no support for a finding that the reputation of the group associated with Herb Reed Enterprises had been injured.

Our decision in *Herb Reed* did not disclaim the logic that led to the creation of the now-discarded legal presumption, however. It is not hard to understand how the presumption arose. If a plaintiff can demonstrate a likelihood that it will succeed on the merits of its trademark claim—as adidas succeeded in establishing that Skechers’s Cross Court shoe infringed and diluted adidas’s famous Three-Stripe mark, a conclusion we affirm—it is not a big leap to conclude that adidas would be injured by that action. The inference might not always follow, as the facts in *Herb Reed* illustrate. That one Platters tribute band might be mistaken for another did not necessarily establish that the band that had a legal right to the name suffered an injury to its reputation. But in other circumstances, including those here, the inference of injury is logical. As the Third Circuit observed in affirming a similar preliminary injunction: “Although we no longer apply a presumption, the logic underlying the presumption can, and does, inform how we exercise our equitable discretion in this particular case.” *Groupe SEB USA, Inc. v. Euro-Pro Operating LLC*, 774 F.3d 192, 205 n.8 (3d Cir. 2014). Our decision in *Herb Reed* did not change that.

## **II. Irreparable Injury**

The district court found that adidas likely suffered harm as the result of post-sale confusion. The theory of post-sale confusion in the trademark context provides that “consumers could acquire the prestige value of the senior user’s product

by buying the copier's cheap imitation," and that, "[e]ven though the knowledgeable buyer knew that it was getting an imitation, viewers would be confused." 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:7 (5th ed. 2018). "Thus, the senior user suffers a loss of sales diverted to the junior user, the same as if the actual buyer were confused." *Id.* In other words, sale of the Cross Court, which infringed and diluted adidas's Three-Stripe trademark, would result in post-sale confusion and harm adidas, the trademark holder, by threatening to divert potential customers who can obtain the prestige of its goods without paying its normal prices.<sup>2</sup> See *Rolls-Royce Motors Ltd. v. A & A Fiberglass, Inc.*, 428 F. Supp. 689, 694 n.10 (N.D. Ga. 1976) (regarding grill and hood ornament kit meant to make a Volkswagon look like a Rolls-Royce).

Post-sale confusion accounts for consumers who buy imitations of a prestigious senior holder's brand at lower prices in the very hope that others will confuse their products as being manufactured by the senior holder. About thirty years ago, when I was in private practice, my law firm was retained by Louis Vuitton to combat the sale of cheaper imitations. Some were counterfeits, reproducing the distinctive "LV" mark and pattern on bags similar to those actually sold by Louis Vuitton. Others were knock-offs, such as bags with a similar looking "LW" mark or products that Louis Vuitton probably wouldn't dream of making, such as baseball caps covered with dozens of "LV" marks. Many

<sup>2</sup> Diversion of customers is a form of irreparable harm. See McCarthy, *supra*, § 30:47 ("confusion may cause purchasers to refrain from buying either product and to turn to those of other competitors. Yet to prove the loss of sales due to infringement is also notoriously difficult"); see also, e.g., *China Cent. Television v. Create New Tech. (HK) Ltd.*, 2015 WL 12732432, at \*20 (C.D. Cal. Dec. 7, 2015).



of the items were sold at locations, like swap meets and flea markets, where few would expect to find real Louis Vuitton products. Prices were often a tiny fraction of what the real thing cost, and it was unlikely that the purchasers thought that they were walking away with genuine Louis Vuitton merchandise. Leaving the legal arguments aside, it wasn't a surprise to me (and still isn't) that Louis Vuitton was concerned and was willing to expend considerable effort to protect its trademark. As Professor McCarthy described, if the prestige of carrying a bag with the Louis Vuitton trademark could be obtained at a fraction of the price, and if viewers could not tell the difference, the value of the trademark would be in jeopardy. And, if someone did confuse the cheap imitation for the real thing, the lesser quality of the imitator could further imperil the perceived value of the Louis Vuitton products and trademark.

The Three-Stripe mark owned by adidas is one of the most famous marks in the world. There is evidence in the record that it has been heavily advertised and promoted by adidas for many years, at the cost of millions of dollars each year. adidas sells several hundred million dollars worth of products bearing the Three-Stripe mark each year in the United States and billions of dollars globally. The Three-Stripe mark is the subject of multiple trademark registrations, in this country and others. adidas has worked to protect its mark, including through litigation against Skechers, and Skechers has acknowledged, as the majority opinion notes, at 3, that adidas is the exclusive owner of the Three-Stripe mark and agreed not to use it or any confusingly similar mark.

That adidas is concerned about the impact of trademark infringement and dilution on the Three-Stripe mark, like Louis Vuitton was, is obvious. The reasons seem pretty

obvious to me as well. If a shoe bearing a mark that looks like the Three Stripes cannot reliably be identified as being an adidas shoe, available at adidas prices, and made to satisfy the quality standards of adidas, then that Three-Stripe mark will lose some of its value and adidas will be harmed.

The majority opinion describes this as “counterintuitive.” Maj. Op. at 22. It seems logical to me, and it is well established in the law as a basis for a claim of dilution.

The majority opinion attempts to justify its constrained consideration of the post-sale confusion harm suffered by adidas on the premise that adidas “advanced only a narrow argument of irreparable harm” as to the Skechers shoe that infringed on the Three-Stripe mark, the Cross Court shoe. *Id.* at 19. The majority describes the argument as follows: “that Skechers harmed adidas’s ability to control its brand image because consumers who see others wearing Cross Court shoes associate the allegedly lesser-quality Cross Courts with adidas and its Three-Stripe mark.” *Id.*<sup>3</sup>

That argument is actually not so narrow. It is remarkably similar to the explanation provided by Professor McCarthy, as quoted above, at 26–27, that the majority opinion claims that adidas did not make: that “consumers could acquire the prestige value of the senior user’s product by buying the copier’s cheap imitation,” and that, “[e]ven though the knowledgeable buyer knew that it was getting an imitation, viewers would be confused.” McCarthy, *supra*, § 23:7. It is also consistent with the definition of “dilution” applied by

<sup>3</sup> As discussed below, at 37–38, the majority is wrong in concluding that adidas’s dilution claim depends upon establishing that Skechers is perceived as a lesser-quality brand.

the district court in its preliminary injunction order: “the lessening of the capacity of a famous mark to identify and distinguish goods or services’ of the owner of the famous mark such that the strong identification value of the owner’s trademark whittles away or is gradually attenuated as a result of its use by another.” (Quoting *adidas-Am., Inc. v. Payless Shoesource, Inc.*, 546 F. Supp. 2d 1029, 1060 (D. Or. 2008) (quoting *Horphag Research Ltd. v. Garcia*, 475 F.3d 1029, 1035 (9th Cir. 2007) (quoting 15 U.S.C. § 1127)).)

The district court went on to observe that “[t]here are two types of dilution: by blurring and by tarnishment.” Tarnishment appears to be the only argument the majority considers. The district court described that form of dilution: “a famous mark is considered diluted by tarnishment when the reputation of the famous mark is harmed by the association resulting from the use of the similar mark.” But the district court’s order described the blurring form of dilution as well, recognizing it as part of adidas’s claim, and defining it as “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” The district court found that adidas has offered sufficient proof to support a blurring claim. It specifically found that “Skechers’ infringement undermines adidas’s substantial investment in building its brand and the reputation of its trademarks and trade dress” and that “Skechers’ attempts to ‘piggy back’ off of adidas’s efforts by copying or closely imitating adidas’s marks means adidas loses control over its trademarks, reputation, and goodwill.” There was nothing counterintuitive or narrow about the dilution claim presented by adidas and found persuasive by the district court.

### **III. Standard of Review**

Before getting to a discussion of the evidence, I note that the majority appears to ignore the proper standard of review. Although the majority opinion correctly identifies clear error as the standard of review that applies to the district court's factual determinations, Maj. Op. at 7, it does not actually refer to or apply that standard in rejecting the finding of the district court that adidas had produced "sufficient evidence of irreparable harm." The failure to apply the proper standard makes it easier for the majority to substitute its own evaluation of the evidence for that of the district court. That is not our role.

### **IV. Evidence**

*Herb Reed* faulted the plaintiff in that case for not producing "any" evidence in support of its claim of irreparable injury, as noted above, at 25. The majority apparently concludes the same to be true here. *See* Maj. Op. at 21 n.8, 22–23.

The district court was aware of *Herb Reed*. Its order cited and quoted from our decision in that case: "In trademark cases, although '[e]vidence of loss of control over business reputation and damage to goodwill [can] constitute irreparable harm,' a court making a finding of irreparable harm must ground its analysis in evidence rather than conclusory assertions or speculation." (Quoting *Sleash, LLC v. One Pet Planet, LLC*, 2014 WL 4059163, at \*6 (D. Or. Aug. 15, 2014) (quoting *Herb Reed*, 736 F.3d at 1250).) Yet the majority opinion neither acknowledges that the district court cited the relevant precedent nor references the four pages in the district court's order devoted to its discussion of irreparable harm.

adidas, in contrast to the appellee in *Herb Reed*, provided ample evidence of this harm. The record includes the sworn declarations and live testimony by several adidas employees, including marketing executives. These employees testified that adidas has, over decades, established a reputation for itself as a premium sports brand, whereas Skechers's brand perception is as a "value brand" or "lower-end brand." They also testified to the particular steps regarding investments in advertising, promotion, and quality control that adidas has taken to achieve and maintain this positive reputation. These steps include taking special care to ensure that the Three-Stripe mark is always prevalent, whether on a shoe or in a retail location. In addition, adidas spends millions each year on promotions and brand advertising on television, in print publications, and via digital media; sponsorships of sporting events such as the FIFA World Cup and Boston Marathon; college sports programs like those at Arizona State, Miami, Nebraska, and Texas A&M; teams such as the Manchester United Football Club and the French national basketball team; professional sports leagues such as Major League Soccer; and individual professional athletes like NBA player James Harden and MLB player Kris Bryant. adidas also uses "influencer marketing," and works with celebrities like Kanye West and Pharrell Williams to ensure that they promote the adidas brand to their fans and followers.

Skechers did not rebut adidas's evidence of the brands' respective reputations, failing to cross-examine the adidas employees on these issues or to provide any counter evidence of its own. Nor did it submit any evidence denying the efforts of adidas to promote and protect the Three-Stripe mark or the sales of adidas products bearing the Three-Stripe mark. The majority opinion does not explain why the evidence of the substantial efforts of adidas to promote its brand and its Three-Stripe mark was insufficient. Nor does

it explain why those efforts do not distinguish this case from the factual setting of *Herb Reed*, where the plaintiff failed to produce “any” evidence.

The majority asserts that it has not disregarded the evidence presented by adidas and relied upon by the district court, contending that it “simply disagree[s] with the dissent that there is any such evidence supporting adidas's theory of irreparable harm on this record.” Maj. Op. at 21 n.8. But as described above, and as will be further described below, there was lots of evidence to that effect. In a footnote, the majority opinion acknowledges that there were factual assertions supported by the record but asserts that none of those facts “*actually* support” the district court’s finding. *Id.* (emphasis in original). The district court found differently, however, and nowhere does the majority explain what was clearly erroneous about the findings of the district court, let alone why the evidence presented by adidas fell short.

To the extent that it offers an explanation, the majority criticizes adidas’s showing by asserting that “[t]he only evidence in the record regarding Skechers’s reputation was testimony from adidas employees” and that “employee testimony is hardly the most reliable evidence.” *Id.* at 20 & n.7. It further denigrates that evidence by remarking that “Skechers’s reputation among the ranks of adidas employees does not indicate how the general consumer views it.” *Id.* at 20. To begin with, the majority further illustrates by those words that there was evidence in the record supporting adidas’s contentions. The majority has elected to discount that evidence, by applying its own skepticism toward employee testimony. But the district court concluded that the evidence was reliable. The majority simply substituted its own view of the evidence to disregard it. That is not our function as a court of appeals.

The majority cites no authority to support the proposition that a preliminary injunction can be based only on the “most reliable” evidence. That is not the law. To the contrary, *Herb Reed* recognized that for a preliminary injunction, courts may even consider evidence that would normally be inadmissible. *See* 736 F.3d at 1248–50 & n.5.<sup>4</sup>

More broadly, the notion that the court of appeals can decide for itself that evidence relied upon by the district court should be ignored because it was provided by an employee of a party is both unsupported and badly misguided. Almost every case involves testimony by a witness who has a self-interest. We do not automatically disregard such evidence. The district court, like any trier of fact, could take that into account, and it could have decided that the evidence was not reliable. In this case, however, it concluded that the evidence was reliable. There was nothing clearly erroneous about doing so, and no legal rule supports the majority’s rejection of the district court’s finding.

Indeed, this court recently affirmed a preliminary injunction that relied on similar evidence by an employee of one of the parties. In *Disney Enterprises, Inc. v. VidAngel, Inc.*, we held that the evidence—the unrebutted declaration of an employee of one of the plaintiffs which stated that the defendant’s infringement interfered with their right to control how consumers viewed the plaintiffs’ copyrighted works—was sufficient to establish the likelihood of

<sup>4</sup> The cases cited in the majority opinion are easily distinguishable. *See* Maj. Op. at 20 n.7. *Art Attacks Ink, LLC v. MGA Entm’t*, 581 F.3d 1138, 1147 (9th Cir. 2009), was an appeal of a jury verdict, and the appellant in *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 59 F.3d 902 (9th Cir. 1995), challenged the dissolution of a preliminary injunction that the district court based upon its invalidation of claimed trade names and marks.

irreparable harm. 869 F.3d 848, 865–66 (9th Cir. 2017). The defendant there made essentially the same argument that the majority makes here, “that once the district court concluded the [plaintiffs] were likely to succeed on their copyright infringement claim, it relied on a forbidden presumption of harm rather than ‘actual evidence.’” *Id.* at 866. However, the district court rejected this contention, and found that the sworn testimony of the plaintiffs’ employee, even without corroborating evidence, was sufficient evidence of irreparable harm. *Id.* Our court’s decision, affirming the district court, concluded that *Herb Reed* permitted the district court to rely on such evidence to find irreparable harm. The decision of the majority in this case to disregard employee evidence conflicts with our precedent.

The majority attempts to back away from the implications of its negative characterization of the evidence provided by adidas employees, by denying in a footnote that it relies on what it calls the “diminished reliability of employee testimony here.” Maj. Op. at 20 n.7. But, tellingly, its statement to that effect in a footnote does not withdraw the denigration of that testimony in the text of its opinion. And if that evidence is not discounted based on its source, it is unclear how the majority can assert, as it does on 21 n.8, that there is no evidence in the record supporting adidas’s theory of irreparable harm.

Besides, the majority is factually wrong about the source and substance of the evidence in the record. It was not just “testimony from adidas employees” regarding “Skechers’s reputation among the ranks of adidas employees.” A marketing professional has to be knowledgeable about consumer perceptions of his own brand, in this case adidas, and also of competitors, including Skechers. The evidence presented by adidas included evidence of what *customers*



thought. The record shows that adidas employees, as a normal part of their jobs, obtained and reviewed focus group research to understand “retail and consumer perceptions” of adidas products. *See Barthelemy v. Air Lines Pilots Ass’n*, 897 F.2d 999, 1018 (9th Cir. 1990) (holding that witnesses’ personal knowledge may be “inferred from their positions and the nature of their participation in the matters to which they swore”). The evidence included testimony that consumers as well as adidas viewed Skechers as a lower end value brand: “Where *our consumer* and, in my opinion, where we see Skechers is a lower end value brand.” (Emphasis added.) Contrary to the characterization in the majority opinion, that statement expressed more than a statement by adidas employees of their personal opinions regarding Skechers’s reputation.

The record also includes evidence that adidas products were generally priced above comparable Skechers products. There was testimony by an adidas employee that “Skechers generally sells its footwear at prices lower than adidas’s.” It would be expected that a company would be aware of relative pricing by competitors. Skechers never disputed the competence of that testimony or provided evidence to the contrary. Beyond that, the record also contains evidence that specific adidas products sold at higher prices than their alleged Skechers’s counterparts. For example, the record contains proof that the standard version of the adidas Stan Smith retailed between \$85 to \$75, whereas the Skechers Onix was priced at \$65. The adidas Supernova was priced between \$130 to \$95, whereas the Skechers Supernova was \$70. There is no reason why this evidence of the prices of other shoes could not be relied upon by the district court to corroborate the statement by adidas’s employee that Skechers generally sold its shoes at a lower price. Again,

Skechers did not contest the relative prices of the brands' shoes, leaving the evidence of its lower pricing unrebutted.

In sum, based on the record before it, the district court was well within its discretion to infer that confusion between Skechers's "lower-end" footwear and adidas's footwear was likely to harm adidas's reputation and goodwill as a premium shoe brand. This is precisely the type of harm that is "irreparable" insofar as it cannot be adequately compensated for by money damages. *Rent-A-Center, Inc. v. Canyon Television & Appliance Rental, Inc.*, 944 F.2d 597, 603 (9th Cir. 1991). It was simply not the case, as the majority opinion asserts, that "the testimony did not demonstrate that Skechers is a lower-value brand." Maj. Op. at 20 n.7. The findings by the district court were not clearly erroneous.

Finally, the district court's determination did not even depend on adidas's testimony regarding Skechers's reputation as a lower quality brand. The premise of the majority opinion that adidas had to establish that difference in reputation, stated multiple times, *see, e.g.*, Maj. Op. at 20 & n.7, is wrong. Instead, the loss by adidas of control over its mark was by itself irreparably harmful. "A trademark carries with it a message that the trademark owner is controlling the nature and quality of the goods or services sold under the mark. Without quality control, this message is false because without control of quality, the goods or services are not truly 'genuine.'" 1 *McCarthy on Trademarks and Unfair Competition* § 3:11 (5th ed. 2018). "One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark. . . . For this purpose the actual quality of the goods is irrelevant: it is the control of quality that a

trademark holder is entitled to maintain.” *Id.* (quoting *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986)). Accordingly, irreparable harm exists in a trademark case when the party seeking the injunction shows that it will lose control over the reputation of its trademark. *See, e.g., La Quinta Corp. v. Heartland Props. LLC*, 603 F.3d 327, 343 (6th Cir. 2010) (explaining that a plaintiff who loses “the ability to control its brand image and reputation” loses an “intangible, but valuable . . . asset[.]”). There was substantial evidence in the record regarding the value of adidas’s mark and its management of the mark through investment and quality control over its products. Though the majority ignores that evidence, it was there and could properly be relied upon by the district court to support its finding of irreparable harm.

## **V. Conclusion**

In reviewing a preliminary injunction, the scope of our review “is limited and deferential.” *Guzman v. Shewry*, 552 F.3d 941, 948 (9th Cir. 2009) (citation omitted). *Herb Reed* reiterated that “limited and deferential” standard. 736 F.3d at 1247 (citation omitted). Moreover, *Herb Reed* instructed us to afford district courts wide discretion to make a finding when there is supporting evidence, and acknowledged that, “we will reverse only if the court’s decision resulted from a factual finding that was illogical, implausible, or without support in inferences that may be drawn from the facts in the record.” *Id.* (internal quotation marks omitted). Based upon the record and adidas’s un rebutted evidence, it is clear to me that the district court did not abuse its discretion, and that the preliminary injunction should be affirmed in full. I respectfully dissent.

**IN THE UNITED STATES COURT OF APPEALS  
FOR THE FIFTH CIRCUIT**

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No. 17-20334

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United States Court of Appeals  
Fifth Circuit

**FILED**

May 22, 2018

Lyle W. Cayce  
Clerk

VIACOM INTERNATIONAL, INCORPORATED,

Plaintiff–Appellee,

v.

IJR CAPITAL INVESTMENTS, L.L.C.,

Defendant–Appellant.

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Appeal from the United States District Court  
for the Southern District of Texas

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Before REAVLEY, SMITH, and OWEN, Circuit Judges.

PRISCILLA R. OWEN, Circuit Judge:

Viacom International, Inc. (Viacom) sued IJR Capital Investments, L.L.C. (IJR) for infringing on its common law trademark of The Krusty Krab—a fictional restaurant in the popular “SpongeBob SquarePants” animated television series—after IJR took steps to open seafood restaurants using the same name. The district court granted summary judgment to Viacom on its trademark infringement and unfair competition claims. IJR appeals, asserting that Viacom does not have a valid trademark for The Krusty Krab and that its seafood restaurants would not create a likelihood of confusion between the two marks. We affirm the judgment of the district court.

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**I**

In 1999, Viacom launched the animated television series “SpongeBob SquarePants” on its Nickelodeon network. The show revolves around SpongeBob SquarePants, a sea sponge that wears square shorts, lives in an underwater pineapple, and works at the fictional The Krusty Krab restaurant as a fry cook with an array of characters including a cranky co-worker and the owner of The Krusty Krab. The show has become the most-watched animated television series for 15 consecutive years, with over 73 million viewers in the second quarter of 2016 alone. While the audience is predominately comprised of children, one-third of all viewers are 18 or older.

The fast food restaurant The Krusty Krab played a prominent role in the pilot episode of the series and has appeared in 166 of 203 episodes. The Krusty Krab was featured in two “SpongeBob SquarePants” feature films that grossed \$470 million (and incurred \$197 million in promotional expenses). The Krusty Krab Restaurant is also an element of Viacom’s mobile app “SpongeBob Moves In” (seven million global downloads), appears in a play called *The SpongeBob Musical*, and is frequently mentioned in the franchise’s advertisements and online outreach (approximately seven million page views across platforms per week). The press has referenced The Krusty Krab many times when discussing the show.

The Krusty Krab is also licensed to third parties for a variety of products. These licensed products include: licensed Krusty Krab playsets from Just Play, Mattel, The LEGO Company, and Mega Brands, Inc. (\$1.4 million in royalties since 2009), the video game “SpongeBob SquarePants Creature from The Krusty Krab” (over one million units), The Krusty Krab aquarium accessories (187,000 units), reusable franchise-themed stickers of The Krusty Krab, The Krusty Krab shirts sold at The SpongeBob Store at Universal Studios, Florida, and more. Viacom has never attempted to license The Krusty Krab mark to a

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restaurant. However, Viacom's subsidiary company Paramount Pictures Corporation did license Bubba Gump Shrimp Co. for seafood restaurants based on the fictional business from the 1994 movie "Forrest Gump."

In 2014, IJR's owner, Javier Ramos, decided to open seafood restaurants in California and Texas. Ramos asserts that he was describing the crusted glaze applied to cooked seafood when his friend Ivan Murillo suggested naming the restaurant Crusted Crab, which quickly became The Krusty Krab. Both Murillo and Ramos deny having considered SpongeBob during this conversation, however Murillo has since stated that those who see the name may think of the restaurant from "SpongeBob SquarePants." Also, an IJR investor mentioned SpongeBob "out of the blue" while discussing the restaurant. Ramos said that he first became aware of the fictional restaurant from "SpongeBob SquarePants" when he performed a search using Google to determine if there were restaurants with a name similar to The Krusty Krab.

Because Ramos's search did not find an actual restaurant that used the mark, IJR filed a trademark application with the United States Patent and Trademark Office (USPTO) for THE KRUSTY KRAB. Viacom had not previously registered The Krusty Krab mark. The USPTO approved IJR's mark and published the application for opposition. Viacom did not oppose at this time, and the USPTO issued a notice of allowance for the mark authorizing issuance once IJR filed a statement of use.

Beyond filing an intent-to-use trademark application, IJR also developed a business plan for potential investors in The Krusty Krab. The business plan included a logo for the restaurant and described the eatery as a "Cajun seafood restaurant" that would sell shrimp, crawfish, and po-boys. IJR intended to target families, singles, and students through print, radio, and online advertisements. The business plan makes no reference to the SpongeBob franchise or the fictional restaurant The Krusty Krab. IJR also purchased four

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domain names for the restaurant concept, leased property in California, and procured restaurant equipment.

In November 2015, Viacom sent a cease-and-desist letter that demanded the withdrawal of IJR's trademark application and alleged infringement of The Krusty Krab mark. IJR promptly responded, declining to cease use and asserting that Viacom does not actually use The Krusty Krab as a trademark and that there was no likelihood of consumer confusion. However, IJR postponed opening any restaurants. Viacom then filed suit in January 2016.

Viacom asserted nine claims against IJR including unfair competition under the Lanham Act and trademark infringement under Texas common law. The complaint included allegations that IJR's use of the mark in connection with restaurant services was likely to cause, or to have caused, confusion or mistake and to have deceived potential customers, causing them to believe that the services offered by IJR were affiliated with, sponsored by, or connected with Viacom; use of the mark would materially influence customers' purchasing decisions for restaurant services; and as a result, Viacom suffered and would continue to suffer damages to its goodwill and reputation.

Viacom commissioned a consumer survey and an expert report by Dr. Edward Blair. The survey found that 30% of respondents thought The Krusty Krab was connected with Viacom and 35% of respondents associated the hypothetical restaurant with Viacom. IJR filed a *Daubert* motion to exclude Dr. Blair's report and testimony—alleging it was flawed—and Viacom filed a motion for summary judgment on eight of its nine claims.

The court held a hearing on the motions and denied IJR's motion to exclude Dr. Blair's report. The district court then granted, in part, Viacom's summary judgment motion on its common law trademark infringement and Lanham Act unfair competition claims. The district court held that: Viacom established ownership of the mark through sales and licensing; Viacom

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demonstrated that The Krusty Krab has acquired distinctiveness; and every likelihood-of-confusion factor indicated IJR's proposed use would probably cause confusion. Viacom then requested that the district court dismiss its other seven claims with prejudice and enter final judgment. The district court did so, and IJR appealed.

## II

A trademark infringement action under Texas common law is analyzed in the same manner as a Lanham Act claim.<sup>1</sup> For Viacom to prevail on these claims, it must show (1) that it owns a legally protectable mark in The Krusty Krab and (2) that IJR's use of the mark creates a likelihood of confusion as to source, affiliation, or sponsorship.<sup>2</sup>

IJR contends that the district court erred in granting summary judgment for Viacom. We review *de novo* a district court's grant of summary judgment.<sup>3</sup> IJR specifically asserts that there are genuine issues of material fact as to whether Viacom owns a legally protectable mark and whether there is a likelihood of confusion between the two The Krusty Krab marks.

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<sup>1</sup> *Streamline Prod. Sys., Inc. v. Streamline Mfg., Inc.*, 851 F.3d 440, 450 (5th Cir. 2017) (“The elements of common law trademark infringement under Texas law are the same as those under the Lanham Act.” (citing *Hot-Hed, Inc. v. Safehouse Habitats (Scotland), Ltd.*, 333 S.W.3d 719, 730 (Tex. App.—Houston [1st Dist.] 2010, pet. denied)); *Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225, 235 n.7 (5th Cir. 2010) (“A trademark infringement and unfair competition action under Texas common law presents essentially ‘no difference in issues than those under federal trademark infringement actions.’” (quoting *Horseshoe Bay Resort Sales Co. v. Lake Lyndon B. Johnson Improvement Corp.*, 53 S.W.3d 779, 806 n.3 (Tex. App.—Austin 2011, pet. denied))).

<sup>2</sup> See, e.g., 15 U.S.C. § 1125(a)(1)(A); *Streamline*, 851 F.3d at 450; *Nola Spice Designs, LLC v. Haydel Enters., Inc.*, 783 F.3d 527, 536 (5th Cir. 2015).

<sup>3</sup> *Nola Spice Designs*, 783 F.3d at 536 (citing *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 226 (5th Cir. 2009)).



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A trademark infringement action cannot be sustained unless the mark is legally protectable.<sup>4</sup> While Viacom has never registered The Krusty Krab mark, the Supreme Court has held that the Lanham Act “protects qualifying unregistered marks.”<sup>5</sup> The Lanham Act provides that the term “trademark” includes “any word, name, symbol, or device, or any combination thereof” that is used or intended to be used “to identify and distinguish” one’s goods “from those manufactured or sold by others.”<sup>6</sup> Viacom’s mark is legally protectable if it establishes ownership by demonstrating that it uses The Krusty Krab as a source identifier.<sup>7</sup> Often this court has bypassed the use inquiry and conducted only a distinctiveness analysis.<sup>8</sup> However, the two issues are separate questions,<sup>9</sup> and because the use-as-a-source-indicator requirement is

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<sup>4</sup> *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 194 (5th Cir. 1998) (“[T]he threshold requirement [is] that the plaintiff must possess a protectible mark, which must be satisfied before infringement can be actionable.”).

<sup>5</sup> *Sugar Busters LLC v. Brennan*, 177 F.3d 258, 267 (5th Cir. 1999) (citing *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992)).

<sup>6</sup> 15 U.S.C. § 1127; *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 (1995) (“A trademark is a word . . . that is used in a manner that identifies those goods or services and distinguishes them from the goods or services of others.”).

<sup>7</sup> *See Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265-66 (5th Cir. 1975) (“[T]he question of use adequate to establish appropriation remains one to be decided on the facts of each case, and that evidence showing, first, adoption, and, second, use in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark, is competent to establish ownership.” (quoting *New England Duplicating Co. v. Mendes*, 190 F.2d 415, 418 (1st Cir. 1951))); *see also Nextel Commc’ns, Inc. v. Motorola, Inc.*, 91 U.S.P.Q.2d 1393, 1404 (T.T.A.B. 2009) (defining trademark as a word used “to indicate the source of the goods” (quoting 15 U.S.C. § 1127)).

<sup>8</sup> *See Streamline Prod. Sys., Inc. v. Streamline Mfg., Inc.*, 851 F.3d 440, 451 (5th Cir. 2017) (beginning the analysis of a trademark infringement claim for a registered mark with a distinctiveness inquiry); *Nola Spice Designs, LLC v. Haydel Enters., Inc.*, 783 F.3d 527, 537 (5th Cir. 2015) (same); *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 475 (5th Cir. 2008) (same for an unregistered mark).

<sup>9</sup> *See* 1 J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION § 3.4 (5th ed. 2017) [hereinafter MCCARTHY] (“While the issue of use as a trademark is similar to the issues of inherent distinctiveness and secondary meaning, it is a separate question.”).

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at issue in this case Viacom must establish both use and distinctiveness.<sup>10</sup> We first consider the use of The Krusty Krab mark. Whether Viacom actually uses The Krusty Krab as a source identifier is a question of fact.<sup>11</sup>

### III

While registration of a mark is “prima facie evidence of . . . the registrant’s ownership of the mark,”<sup>12</sup> ownership “is established by use, not by registration.”<sup>13</sup> An ownership right “accrues when goods bearing the mark are placed on the market.”<sup>14</sup> Viacom’s mark clearly appears on goods in the market, such as The Krusty Krab playsets and aquarium ornaments. The question in this case, however, is whether Viacom uses The Krusty Krab to indicate origin<sup>15</sup> because the purpose of trademark law is to “prevent[] competitors from copying ‘a source-identifying mark.’”<sup>16</sup>

Before we assess whether Viacom uses The Krusty Krab as a source identifier, we address a threshold question: Can specific elements from within a television show—as opposed to the title of the show itself—receive trademark protection? We conclude that they can. While this court has never explored this precise issue, we have affirmed a judgment against the junior use of Conan

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<sup>10</sup> See *Nextel*, 91 U.S.P.Q.2d at 1407 (holding that a chirping sound could not acquire secondary meaning unless it was used as a trademark).

<sup>11</sup> See *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 59 F.3d 902, 907 (5th Cir. 1995) (holding that there was no genuine dispute of material fact that a party had not used a phrase to identify its products); cf. *Rock & Roll Hall of Fame & Museum, Inc. v. Gentile Prods.*, 134 F.3d 749, 753-755 (6th Cir. 1998) (examining evidence on this question at the preliminary injunction stage).

<sup>12</sup> 15 U.S.C. § 1115(a).

<sup>13</sup> *Union Nat’l Bank of Tex., Laredo, Tex. v. Union Nat’l Bank of Tex., Austin, Tex.*, 909 F.2d 839, 842 (5th Cir. 1990).

<sup>14</sup> *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265 (5th Cir. 1975); see U.S. PATENT AND TRADEMARK OFFICE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 901 (21th ed. 2017) [hereinafter TRADEMARK MAN. OF EXAM. PROC.].

<sup>15</sup> See 15 U.S.C. § 1127 (stating that a trademark “indicate[s] the source of the goods”).

<sup>16</sup> *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 34 (2003) (quoting *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995)).

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the Barbarian—the title character of a comic book series—in a restaurant concept.<sup>17</sup> This holding suggests that trademark protection may be granted to certain characters, places, and elements of a broader entertainment entity. Additionally, other courts have unequivocally extended this protection to fictional elements of entertainment franchises. In *Warner Bros., Inc. v. Gay Toys, Inc.*,<sup>18</sup> the Second Circuit held that trademark protection may extend “to the specific ingredients of a successful T.V. series.”<sup>19</sup> The Second Circuit held in that case that the General Lee—an orange muscle car with a Confederate flag emblem that was “prominently featured” on the successful television series “The Dukes of Hazzard”—fell “within the ambit of Section 43(a)” of the Lanham Act.<sup>20</sup> Subsequently, the Seventh Circuit also affirmed an injunction barring the junior user from making a model of the “General Lee.”<sup>21</sup> The underlying purposes of trademark are to protect goodwill and “to protect consumers against confusion and monopoly,” and “to protect the investment of producers in their trade names to which goodwill may have accrued and which goodwill free-riders may attempt to appropriate by using the first producer’s mark, or one that is deceptively similar.”<sup>22</sup> Extending trademark protection to elements of television shows that serve as source identifiers can serve those purposes.

The success of “SpongeBob Square Pants” is not in dispute, but use within a popular television series does not necessarily mean that the mark is

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<sup>17</sup> *Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 148, 150 (5th Cir. 1985).

<sup>18</sup> 658 F.2d 76 (2d Cir. 1981).

<sup>19</sup> *Id.* at 78.

<sup>20</sup> *Id.* at 77-78.

<sup>21</sup> *See Processed Plastic Co. v. Warner Commc’ns, Inc.*, 675 F.2d 852 (7th Cir. 1982).

<sup>22</sup> *Union Nat’l Bank of Tex., Laredo, Tex. v. Union Nat’l Bank of Tex., Austin, Tex.*, 909 F.2d 839, 843-44 (5th Cir. 1990).

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used as a source identifier.<sup>23</sup> “The salient question” is whether The Krusty Krab mark, “as used, will be recognized *in itself* as an indication of origin for the particular product or service.”<sup>24</sup> If the mark “creates a separate and distinct commercial impression . . . [it] performs the trademark function of identifying the source.”<sup>25</sup> In evaluating whether elements of a television series are trademarks, the focus is on the role that the element plays within the show and not the overall success or recognition of the show itself. When an element only occasionally appears in a successful television series, the indication-of-origin requirement may not be met.<sup>26</sup>

For instance, in *Paramount Pictures Corp. v. Romulan Invasions*, Paramount (a subsidiary of Viacom) sought trademark protection on the Romulan mark, a fictional alien race in the “Star Trek” series.<sup>27</sup> The Romulan mark was featured in television episodes, movies, books, licensed plastic spaceship models and dolls, puzzles, games, and more.<sup>28</sup> The Trademark Trial and Appeal Board (T.T.A.B.) concluded that the mark was “only” used “from time to time” and held that Paramount “failed to establish any use of the term

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<sup>23</sup> See *Paramount Pictures Corp. v. Romulan Invasions*, 7 U.S.P.Q.2d 1897, 1900 (T.T.A.B. 1988) (holding that the term Romulan from “Star Trek” does not fulfill “the requirement that a mark identify and distinguish the goods or services”).

<sup>24</sup> *In re Morganroth*, 208 U.S.P.Q. 284, 287 (T.T.A.B. 1980) (emphasis added); see also 1 MCCARTHY § 3.4 (“The key question is whether, as actually used, the designation is likely to be recognized in and of itself as an indication of origin for this particular product or service.” (citing *Textron Inc. v. Cardinal Eng’g Corp.*, 164 U.S.P.Q. 397, 399 (T.T.A.B. 1969))); TRADEMARK MAN. OF EXAM. PROC. § 1301.02 (“It is the perception of the ordinary customer that determines whether the asserted mark functions as a service mark, not the applicant’s intent, hope, or expectation that it do so.”).

<sup>25</sup> *In re Chem. Dynamics, Inc.*, 839 F.2d 1569, 1571 (Fed. Cir. 1988); see also 1 MCCARTHY § 3.4 (citing *The Procter & Gamble Co. v. Keystone Auto. Warehouse, Inc.*, 191 U.S.P.Q. 468, 474 (T.T.A.B. 1976)).

<sup>26</sup> See *Romulan Invasions*, 7 U.S.P.Q.2d at 1899.

<sup>27</sup> *Id.* at 1897.

<sup>28</sup> *Id.*

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Romulan . . . as a mark to distinguish its services.”<sup>29</sup> Star Trek fans may vehemently disagree with this analysis as a factual matter. However, we cite this decision to illustrate the conceptual aspects of the law in this area.

When an element plays a more central role in a franchise, trademark protection is ordinarily granted. For example, the Southern District of New York held that the Daily Planet, the employer of Clark Kent in “Superman,” was a common law trademark because “[t]he totality of evidence demonstrates that the Daily Planet has over the years become inextricably woven into the fabric of the Superman story.”<sup>30</sup> Twenty-five years later, the Southern District of New York also held that Kryptonite—a registered trademark—was a protectable ingredient of the broader “Superman” franchise because it is “a staple of the Superman character and story,” the mark “is immediately recognized or associated with the character Superman,” and it “identif[ies] the entertainment and other goods and services created, distributed and/or licensed by or on behalf of DC Comics.”<sup>31</sup> Likewise, the Second and Seventh Circuits granted trademark protection to the General Lee from “The Dukes of Hazzard” because of its critical role in the television series.<sup>32</sup> The Fifth Circuit has upheld trademark protection for a cartoon character that was central to the comic strip.<sup>33</sup>

The Krusty Krab is analogous to protected marks like the Daily Planet, General Lee, and Conan the Barbarian. The mark is integral to “SpongeBob SquarePants,” as it appears in over 80% of episodes, plays a prominent role in

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<sup>29</sup> *Id.* at 1899-1900.

<sup>30</sup> *DC Comics, Inc. v. Powers*, 465 F. Supp. 843, 847 (S.D.N.Y. 1978).

<sup>31</sup> *DC Comics v. Kryptonite Corp.*, 336 F. Supp.2d 324, 332 (S.D.N.Y. 2004).

<sup>32</sup> *See Processed Plastic Co. v. Warner Commc’ns, Inc.*, 675 F.2d 852 (7th Cir. 1982); *Warner Bros, Inc. v. Gay Toys, Inc.*, 658 F.2d 76 (2d Cir. 1981).

<sup>33</sup> *See Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 150 (5th Cir. 1985) (the cartoon Conan the Barbarian).

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the SpongeBob films and musical, and is featured online, in video games, and on licensed merchandise. The Krusty Krab's central role in the multi-billion dollar SpongeBob franchise is strong evidence that it is recognized in itself as an indication of origin for Viacom's licensed goods and television services.

Viacom has extensively licensed The Krusty Krab mark. A "trade or service mark may be acquired through its use by controlled licensees."<sup>34</sup> Even if only the licensee uses the mark, "[o]wnership rights in a trademark or service mark can be acquired and maintained through the use of the mark by a controlled licensee."<sup>35</sup> The record verifies that The Krusty Krab appears on many consumer products including: reusable SpongeBob-themed stickers; multiple Krusty Krab playsets from brands like Lego; an aquarium ornament; a video game; and shirts, among other products. On most of those products, The Krusty Krab is featured prominently and contributes in identifying the good. This licensing regime has generated millions of dollars for Viacom and provides further evidence that Viacom uses The Krusty Krab as a source identifier and therefore owns the mark.

That the mark typically appears alongside the "SpongeBob SquarePants" trademark does not threaten its status as a trademark. Both the Federal Circuit and the T.T.A.B. have held that a "word mark does not lose its strength as a trademark when the manufacturer[']s mark] is identified along with the branded product."<sup>36</sup> For example, Pop-Tarts received trademark protection even though the "primary or house mark 'KELLOGG' always appears on the labels, packages, and advertising material" because Pop-Tarts was "likely to create a commercial impression separate and apart from

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<sup>34</sup> *Turner v. HMH Publ'g Co.*, 380 F.2d 224, 229 (5th Cir. 1967).

<sup>35</sup> 3 MCCARTHY § 18:46.

<sup>36</sup> *Bridgestone Ams. Tire Ops., LLC v. Fed. Corp.*, 673 F.3d 1330, 1336 (Fed. Cir. 2012); *Kellogg Co. v. Gen. Foods Corp.*, 166 U.S.P.Q. 281, 282-83 (T.T.A.B. 1970).

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‘KELLOGG.’”<sup>37</sup> Likewise, The Krusty Krab creates a distinct commercial impression signifying to consumers that products like Krusty Krab playsets or aquarium ornaments originate from the famous fictional restaurant that employs their beloved sea sponge character. The primary “SpongeBob SquarePants” mark does not hinder The Krusty Krab in performing the trademark function of identifying source.

Viacom’s ownership of the mark is not undermined by the word mark’s varying styles, fonts, and sizes on the licensed products. Other circuits have observed that “[c]onsistent and repetitive use of a designation as an indicator of source is the hallmark of a trademark.”<sup>38</sup> The Krusty Krab is a word mark—not a design mark—so the focus is whether the words themselves are consistently used as an indicator of source. While the title, font, and prominence of the mark are inconsistent, the words “Krusty Krab” are consistently used on the licensed goods and support Viacom’s ownership claim.

The Krusty Krab’s key role in “SpongeBob SquarePants” coupled with the consistent use of the mark on licensed products establishes ownership of the mark because of its immediate recognition as an identifier of the source for goods and services.

#### IV

While Viacom has established ownership of the mark through its use as a source identifier, Viacom must also prove that The Krusty Krab mark is

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<sup>37</sup> *Kellogg*, 166 U.S.P.Q. at 282-83.

<sup>38</sup> *Rock & Roll Hall of Fame v. Gentile Prods.*, 134 F.3d 749, 753-56 (6th Cir. 1998) (denying trademark protection on the architectural design of the building because the design was not consistently emphasized); *see also MicroStrategy Inc. v. Motorola, Inc.*, 245 F.3d 335, 342-43 (4th Cir. 2001) (holding that the phrase “Intelligence Everywhere” was not used as a mark in part because the word mark was used in “limited, sporadic, and inconsistent” ways).

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distinctive in order to establish that it is legally protectable.<sup>39</sup>

“[A] mark can be distinctive in one of two ways.”<sup>40</sup> “[A] mark is inherently distinctive if ‘[its] intrinsic nature serves to identify a particular source.’”<sup>41</sup> Even if a mark is not inherently distinctive, it can acquire distinctiveness “if it has developed secondary meaning.”<sup>42</sup> The district court held that Viacom failed to demonstrate that its mark is inherently distinctive, but that The Krusty Krab had acquired distinctiveness through secondary meaning. Because we agree that the mark has acquired distinctiveness through secondary meaning, we pretermitt consideration of whether the mark is inherently distinctive.

A mark develops secondary meaning “when, in the minds of the public, the primary significance of a [mark] is to identify the source of the product rather than the product itself.”<sup>43</sup> One commentator has explained that “[i]n determining what can qualify as a trademark, it is crucial that the designation in question perform the job of identifying and distinguishing the goods or

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<sup>39</sup> See 15 U.S.C. § 1127 (defining trademark as a word used “to identify and distinguish his or her goods”); *Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225, 237 (5th Cir. 2010) (“To be protectable, a mark must be distinctive.” (quoting *Am. Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 329 (5th Cir. 2008))); see also *Streamline Prod. Sys., Inc. v. Streamline Mfg., Inc.*, 851 F.3d 440, 451 (5th Cir. 2017) (undertaking a distinctiveness inquiry in the analysis of a trademark infringement claim for a registered mark); *Nola Spice Designs, LLC v. Haydel Enters., Inc.*, 783 F.3d 527, 537 (5th Cir. 2015) (same); *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 476 (5th Cir. 2008) (same for an unregistered mark).

<sup>40</sup> See *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 210-11 (2000).

<sup>41</sup> *Id.* at 210 (quoting *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992)) (alteration in original).

<sup>42</sup> *Id.* at 211.

<sup>43</sup> *Test Masters Educ. Servs., Inc. v. Robin Singh Educ. Servs., Inc.*, 799 F.3d 437, 445 (5th Cir. 2015) (quoting *Smack Apparel Co.*, 550 F.3d at 476) (alteration in original).



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services with which the symbol appears.”<sup>44</sup> To determine whether a mark has acquired secondary meaning, courts consider the following seven factors:

- (1) length and manner of use of the mark or trade dress, (2) volume of sales, (3) amount and manner of advertising, (4) nature of use of the mark or trade dress in newspapers and magazines, (5) consumer-survey evidence, (6) direct consumer testimony, and (7) the defendant's intent in copying the [mark].<sup>45</sup>

Several “factors in combination may show that” a mark has developed secondary meaning “even if each factor alone would not.”<sup>46</sup>

Whether a mark has acquired secondary meaning is a question of fact.<sup>47</sup> At summary judgment, this court considers whether IJR raised a fact question as to secondary meaning—i.e. whether consumers associate The Krusty Krab only with Viacom.<sup>48</sup> Viacom’s “burden of demonstrating secondary meaning ‘is substantial and requires a high degree of proof.’”<sup>49</sup> Nonetheless, summary judgment may be granted if the “record compels the conclusion that the movant is entitled to judgment as a matter of law.”<sup>50</sup>

The first factor—length and manner of use—supports Viacom. The Krusty Krab appeared in the pilot episode of “SpongeBob SquarePants” eighteen years ago. Over 80% of the episodes aired from 1999 through today have included The Krusty Krab, and it is a central element of the SpongeBob

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<sup>44</sup> 1 MCCARTHY § 3:1.

<sup>45</sup> *Test Masters*, 799 F.3d at 445 (quoting *Smack Apparel Co.*, 550 F.3d at 476) (alteration in original).

<sup>46</sup> *Id.* (quoting *Smack Apparel Co.*, 550 F.3d at 476).

<sup>47</sup> *Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225, 234 (5th Cir. 2010).

<sup>48</sup> *Test Masters*, 799 F.3d at 447 (stating that a court must determine whether a party “raised a dispute of fact as to whether consumers associate the mark with only its company”).

<sup>49</sup> *Nola Spice Designs, LLC v. Haydel Enters., Inc.*, 783 F.3d 527, 544 (5th Cir. 2015) (quoting *Test Masters Educ. Servs., Inc. v. Singh*, 428 F.3d 559, 567 (5th Cir. 2005)).

<sup>50</sup> *See Amazing Spaces*, 608 F.3d at 234 (quoting *Smack Apparel Co.*, 550 F.3d at 474) (affirming a grant of summary judgment on acquired distinctiveness while recognizing that distinctiveness is evaluated by a preponderance of the evidence).

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universe. The recurrent use of The Krusty Krab over the past eighteen years in a widely viewed television program is undisputed, as is the manner of use.

As for volume of sales, Viacom has earned millions on licensed products that display The Krusty Krab mark, and two feature films in the SpongeBob franchise—which prominently featured The Krusty Krab—grossed a combined \$470 million. This court has considered the sale of items grossing \$30,500 to be low volume,<sup>51</sup> but has affirmed a finding of secondary meaning on review of a summary judgment when sales totaled \$93 million.<sup>52</sup>

The relevant question with regard to factor three—the amount and manner of advertising—“is not the *extent* of the promotional efforts, but their *effectiveness* in altering the meaning of [the mark] to the consuming public.”<sup>53</sup> There have been numerous print and Internet advertisements for The Krusty Krab-licensed products, and \$197 million was spent in promotional expenditures for the two “SpongeBob SquarePants” feature films. The effectiveness of this advertising is evident from the success of product sales and the films. Though the effectiveness of the advertising as to The Krusty Krab mark, specifically, has not been directly proven, its depiction in advertisements is such that the public would recognize the mark as more than an artistic backdrop.

With respect to the nature and use of the mark in media—factor four—The Krusty Krab is often referenced by the press. The mark frequently appears on the “SpongeBob SquarePants” social media platforms and is

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<sup>51</sup> *Nola Spice Designs*, 783 F.3d at 544.

<sup>52</sup> *Smack Apparel*, 550 F.3d at 472, 478.

<sup>53</sup> *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 795 (5th Cir. 1983) (quoting *Aloe Creme Labs., Inc. v. Milsan, Inc.*, 423 F.2d 845, 850 (5th Cir. 1970)) (emphases in original and alteration added), *abrogated on other grounds by KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004).

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integrated into the SpongeBob website and mobile app. This evidence supports Viacom's assertion that its word mark has acquired secondary meaning.<sup>54</sup>

The record does not contain consumer-survey evidence as to whether The Krusty Krab has acquired secondary meaning, but "survey evidence is not required to establish secondary meaning."<sup>55</sup> There is no direct consumer testimony nor any consideration of IJR's intent in the distinctiveness inquiry. Therefore, there is no evidence pertaining to factors five and six. The evidence regarding IJR's intent in copying the mark is discussed in more detail below. That evidence is inconclusive.

IJR does not dispute the underlying facts but asserts that they merely establish that the public recognizes "SpongeBob SquarePants" as a distinct source of products; according to IJR, The Krusty Krab is just a cartoon restaurant. This is not a reasonable inference from the undisputed evidence. The record clearly shows that The Krusty Krab is a focal point in the "SpongeBob SquarePants" television series and films, The Krusty Krab has continually been depicted in the advertising and promotion of the franchise over the past eighteen years, and it is used in the sale of products. The factors lead inescapably to the conclusion that in the minds of consumers, The Krusty Krab identifies the source of products, which is Viacom, the creator of the "SpongeBob SquarePants" fictional universe and its inhabitants. Viacom's mark has acquired distinctiveness through secondary meaning as a matter of law.

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<sup>54</sup> See *Test Masters Educ. Servs., Inc. v. Robin Singh Educ. Servs., Inc.*, 799 F.3d 437, 446 (5th Cir. 2015).

<sup>55</sup> *Nola Spice Designs*, 783 F.3d at 546.

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## V

Viacom must also prove that IJR's use of The Krusty Krab creates a likelihood of confusion as to source, affiliation, or sponsorship.<sup>56</sup> It has met that burden.

To establish a likelihood of confusion, Viacom must show "a probability of confusion, which is more than a mere possibility of confusion."<sup>57</sup> Word association with Viacom's The Krusty Krab is insufficient to establish a probable likelihood of confusion, and the court "must 'consider the marks in the context that a customer perceives them in the marketplace.'"<sup>58</sup> To assess whether use of a mark creates a likelihood of confusion as to affiliation, sponsorship, or source, this court considers the so-called "digits of confusion."<sup>59</sup> The digits form a "flexible and nonexhaustive list"<sup>60</sup> that includes the following seven factors:

(1) the type of mark allegedly infringed; (2) the similarity between the two marks; (3) the similarity of the products or services; (4) the identity of retail outlets and purchasers; (5) the identity of the advertising media used; (6) the defendant's intent; and (7) any evidence of actual confusion.<sup>61</sup>

At times, our court has listed eight factors, the additional one being "the degree of care exercised by potential purchasers."<sup>62</sup> However, neither of the parties in

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<sup>56</sup> See 15 U.S.C. § 1125(a)(1).

<sup>57</sup> *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 193 (5th Cir. 1998).

<sup>58</sup> *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 485 (5th Cir. 2004) (quoting *Elvis Presley*, 141 F.3d at 197).

<sup>59</sup> *Bd. of Supervisors for La. State Univ. Agric. and Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 478 (5th Cir. 2008) (quoting *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 664 (5th Cir. 2000)).

<sup>60</sup> *House of Vacuums*, 381 F.3d at 485.

<sup>61</sup> *Id.* at 484-85; see also *Elvis Presley*, 141 F.3d at 194; *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 259 (5th Cir. 1980).

<sup>62</sup> *Streamline Prod. Sys., Inc. v. Streamline Mfg., Inc.*, 851 F.3d 440, 453 (5th Cir. 2017); accord *Am. Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 329 (5th Cir. 2008).

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the present case, nor the district court, has discussed that factor. In any event, “[n]o single factor is dispositive, and a finding of a likelihood of confusion need not be supported by a majority of the factors.”<sup>63</sup>

Likelihood of confusion is a question of fact.<sup>64</sup> However, “summary judgment is proper if the ‘record compels the conclusion that the movant is entitled to judgment as a matter of law.’”<sup>65</sup> The district court held “that all of the factors support a likelihood of confusion” and ruled in Viacom’s favor. Because all inferences must be made in the non-movant’s favor at summary judgment,<sup>66</sup> the district court erred in finding that *every* digit of confusion weighs in Viacom’s favor. Nonetheless, Viacom has established that as a matter of law there is a likelihood of confusion between the two marks.

Context is critical to a likelihood-of-confusion analysis, and we “must consider the application of each digit in light of the specific circumstances of the case; otherwise, we risk inadvertently lowering the standard of confusion.”<sup>67</sup> Because of the posture of this case, context is limited as IJR has not yet opened its restaurant. However, IJR has filed an intent-to-use trademark application for the name “The Krusty Krab” in restaurant services. It has also taken steps towards opening the restaurant such as leasing property, procuring equipment, purchasing domain names, and developing a comprehensive business plan. This court must not divine the theme and details of the restaurant, but the record contains sufficient context to conduct a likelihood-of-confusion analysis.

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<sup>63</sup> *Smack Apparel*, 550 F.3d at 478.

<sup>64</sup> *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 227 (5th Cir. 2009).

<sup>65</sup> *Id.* at 227 (quoting *Smack Apparel*, 550 F.3d at 474).

<sup>66</sup> *Id.* at 226.

<sup>67</sup> *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 485 (5th Cir. 2004).

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“The first digit, the type of mark, refers to the strength of the mark.”<sup>68</sup> In evaluating the strength of The Krusty Krab mark, the focus is on Viacom’s mark.<sup>69</sup> The more distinctive a mark, the stronger the mark.<sup>70</sup> Strong marks are entitled to more protection because there is a greater likelihood “that consumers will confuse the junior user’s use with that of the senior user.”<sup>71</sup> Viacom’s mark is strong because it has acquired distinctiveness through secondary meaning.<sup>72</sup> Therefore the first digit weighs in favor of a likelihood of confusion.

The second digit is the similarity of the marks. Assessing the similarity of the marks “requires consideration of the marks’ appearance, sound, and meaning.”<sup>73</sup> “Even if two marks are distinguishable, we ask whether, under the circumstances of use, the marks are similar enough that a reasonable person could believe the two products have a common origin or association.”<sup>74</sup> Viacom’s The Krusty Krab is a word mark, and IJR’s mark has identical spelling and pronunciation, including the unconventional use of K’s instead of C’s. While marks can share a key word and still be “stylistically and typographically distinguishable” so as to produce different commercial impressions,<sup>75</sup> IJR’s mark is verbatim the same and there is no genuine issue

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<sup>68</sup> *Smack Apparel*, 550 F.3d at 478-79.

<sup>69</sup> *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 201 (5th Cir. 1998) (“In looking at the strength of the mark, the focus is the senior user’s mark.”).

<sup>70</sup> *Streamline Prod. Sys., Inc. v. Streamline Mfg., Inc.*, 851 F.3d 440, 454 (5th Cir. 2017).

<sup>71</sup> *Elvis Presley*, 141 F.3d at 201.

<sup>72</sup> See *supra* Part IV; see also *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 211 (2000) (holding that a mark is distinctive “if it has developed secondary meaning”); *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 227 (5th Cir. 2009) (suggesting that factor one supports trademark protection if the mark had acquired secondary meaning).

<sup>73</sup> *Streamline*, 851 F.3d at 454 (quoting *Smack Apparel*, 550 F.3d at 479).

<sup>74</sup> *Id.* (quoting *Xtreme Lashes*, 576 F.3d at 228).

<sup>75</sup> *Amstar Corp. v. Domino’s Pizza, Inc.*, 615 F.2d 252, 260-61 (5th Cir. 1980) (Domino’s Pizza and Domino’s Sugar).

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of material fact with respect to this digit of confusion. Logos for the two marks may differ, but the words themselves are indistinguishable and would likely confuse consumers as to the source, affiliation or sponsorship of IJR's The Krusty Krab restaurant.

The third digit in the likelihood of confusion analysis is the similarity of the products or services. The more similar the products and services, the greater the likelihood of confusion.<sup>76</sup> Viacom's The Krusty Krab has a distinct theme as a fictional hamburger restaurant, whereas IJR has not fully developed a theme for its planned seafood restaurant. Existing context suggests that the restaurants will have little thematic overlap. For example, IJR's business plan never references SpongeBob, and IJR's sample menu serves po-boys and boiled seafood, not fast food hamburgers. While there is little evidence of thematic overlap between the restaurants, IJR nevertheless plans to open a restaurant, and given the success of SpongeBob, that indicates a likelihood of confusion.

Furthermore, "[t]he danger of affiliation or sponsorship confusion increases when the junior user's services are in a market that is one into which the senior user would naturally expand."<sup>77</sup> In *Conan Properties, Inc. v. Conans Pizza, Inc.*, this court recognized the logical extension of fictional characters to restaurants, explaining that "today's consumers expect [cartoon character] endorsements and act favorably toward them" in the restaurant setting.<sup>78</sup> Here, both marks already identify restaurants. Furthermore Viacom could naturally develop a real The Krusty Krab restaurant based on the fictional eatery, as its subsidiary did when it licensed Bubba Gump Shrimp Co., a

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<sup>76</sup> *Streamline*, 851 F.3d at 454-55 (5th Cir. 2017) (quoting *Xtreme Lashes*, 576 F.3d at 229).

<sup>77</sup> *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 202 (5th Cir. 1998).

<sup>78</sup> 752 F.2d 145, 150 (5th Cir. 1985).

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fictional business in the movie “Forrest Gump,” to create a chain of real seafood restaurants. A reasonable jury would find that factor three favors a likelihood of confusion.

The fourth digit is the identity of retail outlets and purchasers. The greater the overlap between retail outlets and purchasers, the greater the likelihood of confusion.<sup>79</sup> IJR does not yet have a retail outlet or customers, but its business plan and Ramos’s testimony provide context. IJR plans to open restaurants in California and Texas, and it intends to target “the general public,” particularly “families, singles, and students . . . as well as the area’s work force.” At this general level of abstraction, Viacom also targets the general public, including residents of California and Texas. Based on this broad overlap, the district court found that factor four weighed in Viacom’s favor. However, there are substantial differences in the retail outlets and the predominant purchasers that mitigate the possibility of confusion.

The retail outlets have little overlap, as Viacom presumably targets television viewers, toy stores, and online retailers, whereas IJR’s services will only be available in brick-and-mortar restaurants. This court previously held that when a senior user distributes primarily through grocery stores and a junior user distributes exclusively through fast food outlets, there are basic differences in modes of distribution even if the senior user also distributes some of its product through fast food outlets.<sup>80</sup> Likewise, Viacom and IJR would have different retail outlets even if there were marginal overlap.

There is some overlap in purchasers—IJR targets families, two-thirds of SpongeBob viewers are children, and one-third of viewers are technically

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<sup>79</sup> *Streamline*, 851 F.3d at 455 (“The smaller the overlap between the retail outlets for and the predominant consumers of [plaintiff’s] and [defendant’s] goods, the smaller the possibility of confusion.”).

<sup>80</sup> *Domino’s Pizza*, 615 F.2d at 262.



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adults—but the core consumers of each mark are dissimilar. Purchaser identity is similar, for example, when the competing marks both target trained cosmetologists<sup>81</sup> or drillers of natural gas.<sup>82</sup> By contrast, substantial dissimilarities existed when the junior user’s fast-food pizza patrons were “primarily young (85.6% under 35 years of age), single (61%) males (63.3%),” while the senior user’s purchasers of sugar in grocery stores were “predominately middle-aged housewives.”<sup>83</sup> There is no empirical data in the present case, and it is not clear how much the identity of consumers and purchasers would overlap. SpongeBob predominately targets children and young adults through mostly digital channels, whereas IJR’s retail outlets would be physical restaurants. However, it is reasonable to infer that some children who are SpongeBob fans would influence their parents’ or caretakers’ decision to eat at a Krusty Krab restaurant, and that adult SpongeBob fans might well dine at a Krusty Krab restaurant, at least once, due to the name. But the extent of the overlap between purchasers cannot be gauged adequately on the record before us.

The fifth digit of confusion is the identity of advertising media. “The greater the similarity in the [advertising] campaigns, the greater the likelihood of confusion.”<sup>84</sup> Ramos has testified, and IJR’s business plan confirms, that IJR will advertise through traditional media such as television and print, as well as online media including social networks and “Google ads.” Viacom

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<sup>81</sup> *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 229 (5th Cir. 2009).

<sup>82</sup> *See Streamline*, 851 F.3d at 455 (holding that because the equipment could eventually end up in the same customers hands, the digit of confusion moved from against likelihood of confusion to neutral).

<sup>83</sup> *Domino’s Pizza*, 615 F.2d at 262.

<sup>84</sup> *Streamline*, 851 F.3d at 455 (quoting *Exxon Corp. v. Tex. Motor Exch. of Hous., Inc.*, 628 F.2d 500, 506 (5th Cir. 1980)) (emphasis in original).

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advertises “SpongeBob SquarePants” on television—and through it The Krusty Krab mark—and it also promotes the mark online.

This court has held that when “[b]oth companies use print advertisements, direct mailings, and Internet promotion” it “supports an inference that the parties use similar advertising and marketing channels.”<sup>85</sup> On the other hand, when one mark advertises nationally and the other mark advertises locally in a specialized manner, there are significant differences between the advertising media used.<sup>86</sup> Absent any existing advertising by IJR, it is difficult to assess the similarity between the campaigns. We have held that this digit was “minimally probative” when a defendant did not advertise and the record “was unable to provide much information about these ads.”<sup>87</sup> Likewise, while there is substantial overlap in the abstract, without specific advertising content, digit five does not weigh in favor of a likelihood of confusion.

The sixth digit is the defendant’s intent. “Although not necessary to a finding of likelihood of confusion, a defendant’s intent to confuse may alone be sufficient to justify an inference that there is a likelihood of confusion.”<sup>88</sup> If there is no evidence of intent to confuse, then this factor is neutral.<sup>89</sup> The relevant inquiry is whether IJR intended to derive benefits from Viacom’s reputation by using The Krusty Krab mark.<sup>90</sup> Evidence that a defendant

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<sup>85</sup> *Xtreme Lashes*, 576 F.3d at 229.

<sup>86</sup> *Domino’s Pizza*, 615 F.2d at 262.

<sup>87</sup> *Bd. of Supervisors for La. State Univ. Agric. and Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 481 (5th Cir. 2008).

<sup>88</sup> *Streamline*, 851 F.3d at 455 (quoting *Smack Apparel*, 550 F.3d at 481).

<sup>89</sup> *Xtreme Lashes*, 576 F.3d at 229; *see also Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 203 (5th Cir. 1998) (“If the defendant acted in good faith, then this digit of confusion becomes a nonfactor in the likelihood-of-confusion analysis, rather than weighing in favor of a likelihood of confusion.”). *But cf. Streamline*, 851 F.3d at 456-57 (holding that because there was no intent to confuse, “this digit weighs against finding a likelihood of confusion”).

<sup>90</sup> *Streamline*, 851 F.3d at 455.

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intends to “pass off” its product as that of another can be found through imitation of packaging, similar distribution methods, and more.<sup>91</sup>

The district court acknowledged that it was “not clear” whether Ramos intended to derive benefits from Viacom’s reputation. Nonetheless, it held that IJR acted in bad faith because Murillo associated the phrase The Krusty Krab with “SpongeBob SquarePants” and Ramos was aware of Viacom’s use of the mark before he submitted his trademark application. Murillo’s word association, without more, does not establish bad faith at summary judgment. Furthermore, while some courts would infer that Ramos’s selection of a mark with knowledge of another’s use is a signal of intent,<sup>92</sup> this court has held that, “‘mere awareness’ of the senior user’s mark does not ‘establish[] . . . bad intent.’”<sup>93</sup> Also, Murillo averred that he never mentioned SpongeBob during his discussions with Ramos, and IJR asserted that the original Crusted Crab name was created to reference seafood with a crust on it and that the spelling modification was a stylistic decision.

While a jury may disbelieve IJR, at the summary judgment stage there is a genuine issue of material fact as to whether IJR intended to derive benefits from Viacom’s The Krusty Krab. IJR asserts that it spontaneously developed its name, and this court has held that organic creation of a mark shows lack of intent and does not support a likelihood of confusion.<sup>94</sup> IJR utilized only one

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<sup>91</sup> *Domino’s Pizza*, 615 F.2d at 263.

<sup>92</sup> *See, e.g., Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149 (9th Cir. 1963).

<sup>93</sup> *Streamline*, 851 F.3d at 456 (quoting *Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 150 (5th Cir. 1985)) (alterations in original); *see also* 4 MCCARTHY § 23:115 (citing cases from the Second, Sixth, Seventh, Tenth, and Federal Circuits) (“[M]ere knowledge or awareness of the senior user’s mark is not the same as an intent to confuse customers.”).

<sup>94</sup> *Streamline*, 851 F.3d at 456 (noting that when the junior use chose its name, it was unaware of the senior user’s existence); *Domino’s Pizza*, 615 F.2d at 263 (holding that there was no evidence of intent because even though the junior user was aware of Domino sugar, he was simply shortening the prior name of the restaurant).

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element of the show—The Krusty Krab name—a name that Viacom did not register. These facts are more favorable to IJR than to the *Conans Pizza* junior user, but even when there was a “pervasive, inescapable aura of CONAN THE BARBARIAN,”<sup>95</sup> this court held that “sufficient doubt exists regarding whether that use was designed to capitalize on [plaintiff’s] goodwill.”<sup>96</sup> At summary judgment, this court must “disregard all evidence favorable to the moving party that the jury is not required to believe,”<sup>97</sup> and “construe all the evidence and reasonable inferences deduced therefrom in a light most favorable to [IJR].”<sup>98</sup> The district court erred in inferring bad intent, as evidence of IJR’s malevolence is circumstantial. Accordingly, this digit does not support a finding of a likelihood of confusion.

The seventh digit is evidence of actual confusion. This is the “best evidence of a likelihood of confusion.”<sup>99</sup> Even if initial consumer confusion is quickly dispelled, this initial misunderstanding is evidence of confusion.<sup>100</sup> “To show actual confusion, a plaintiff may rely on anecdotal instances of consumer confusion or consumer surveys.”<sup>101</sup> Viacom commissioned Dr. Blair to perform a consumer survey, and it found that 30% of respondents indicated that a restaurant named The Krusty Krab was “operated by, affiliated or connected with, or approved or sponsored by Viacom” and that 35% of respondents associated such a restaurant with Viacom. There is also anecdotal evidence of

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<sup>95</sup> *Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 150 (5th Cir. 1985).

<sup>96</sup> *Id.* at 151.

<sup>97</sup> *Moore v. Willis Indep. Sch. Dist.*, 233 F.3d 871, 874 (5th Cir. 2000).

<sup>98</sup> *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 226 (5th Cir. 2009) (quoting *Int’l Shortstop, Inc. v. Rally’s Inc.*, 939 F.2d 1257, 1260 (5th Cir. 1991)).

<sup>99</sup> *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 203-04 (5th Cir. 1998) (quoting *Domino’s Pizza*, 615 F.2d at 263).

<sup>100</sup> *Id.* at 204.

<sup>101</sup> *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 486 (5th Cir. 2004) (citations omitted).

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confusion: Ivan Murillo admitted that The Krusty Krab calls to mind “SpongeBob SquarePants,” and an IJR investor mentioned SpongeBob “out of the blue” while discussing the restaurant.

The district court admitted Dr. Blair’s report over IJR’s objections—which this court reviews for abuse of discretion<sup>102</sup>—and held that the survey results were “sufficient” to weigh in favor of a likelihood of confusion. Consumer surveys may evidence confusion at levels less than 30%.<sup>103</sup> However, when survey results are “substantially defective,” confusion levels of 57% and 71% are insufficient to evidence actual confusion.<sup>104</sup> Therefore, we must consider whether Dr. Blair’s survey was substantially defective.

“Usually, methodological flaws in a survey bear on the weight the survey should receive, not the survey’s admissibility.”<sup>105</sup> However, “a survey can be ‘so badly flawed that it cannot be used to demonstrate . . . the likelihood of consumer confusion.’”<sup>106</sup> This court has concluded that when participants were non-representative and questioning procedures were improper, the surveys were so seriously flawed that no reasonable jury could consider them as evidence of confusion.<sup>107</sup> This case presents no such representativeness

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<sup>102</sup> *Moore v. Ashland Chem. Inc.*, 151 F.3d 269, 274 (5th Cir. 1998) (en banc) (citing *Gen. Elec. Co. v. Joiner*, 522 U.S. 136 (1997); see also *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993)).

<sup>103</sup> *Exxon Corp. v. Tex. Motor Exch. of Hous., Inc.*, 628 F.2d 500, 507 (5th Cir. 1980) (finding that 15% and 23% levels of confusion are “strong evidence indicating a likelihood of confusion”).

<sup>104</sup> *Domino’s Pizza*, 615 F.2d at 263 (dismissing a survey that found that 71% percent of participants thought that a company named Domino’s Pizza, if it made other products, would make sugar); see *House of Vacuums*, 381 F.3d at 488 (dismissing a survey in which 57% of participants said they assumed an affiliation or association between the two marks).

<sup>105</sup> *House of Vacuums*, 381 F.3d at 488.

<sup>106</sup> *Id.* at 488 (quoting *Universal City Studios, Inc. v. Nintendo Co., Ltd.*, 746 F.2d 112, 118 (2d Cir. 1984)).

<sup>107</sup> See *id.* at 487-88 (concluding the survey was flawed because it suggested a connection between the marks and it only surveyed purchasers of the plaintiff’s product bearing the mark); *Domino’s Pizza*, 615 F.2d at 264 (asking overly open-ended questions such

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concerns. However, parts of the survey resembled a word-association test. Dr. Blair utilized the widely accepted *Eveready* format when conducting his survey.<sup>108</sup> But the survey asked if “THE KRUSTY KRAB restaurant [is] affiliated or connected with any other company or organization.” This invites word association, and “a mere word-association test is entitled to little weight.”<sup>109</sup> Yet these methodological flaws affect only the weight the survey should receive; they do not rise to the level of a substantial defect, and the district court did not abuse its discretion in admitting Dr. Blair’s report.

This court has “set a low bar . . . stating that a plaintiff need provide ‘very little proof of actual confusion . . . to prove likelihood of confusion.’”<sup>110</sup> Construing all evidence in IJR’s favor, Blair’s survey has probative value and there is anecdotal evidence of actual confusion. We therefore conclude that this digit weighs in favor of a likelihood of confusion.

The record shows that there is no genuine issue of material fact as to likelihood of confusion. The digits of confusion—particularly the strength of Viacom’s mark, the identical spelling and pronunciation of the marks, both marks’ identification of restaurants, and evidence of actual confusion—dictate that IJR’s use of the mark infringes on Viacom’s trademark. By creating a connection in the consumer’s mind between IJR’s restaurant-in-development

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as whether Domino’s Pizza brought anything else to mind and surveying only the demographic that purchased the plaintiff’s products bearing the mark).

<sup>108</sup> 6 MCCARTHY § 32:174 (noting that the format accepted in *Union Carbide Corp. v. Ever-Ready, Inc.*, 531 F.2d 366 (7th Cir. 1976) has “become a standard and widely accepted format to prove the likelihood or non-likelihood of confusion”).

<sup>109</sup> *Domino’s Pizza*, 615 F.2d at 264 (quoting *Holiday Inns, Inc. v. Holiday Out in Am.*, 481 F.2d 445, 448 (5th Cir. 1973)); *see also* 4 MCCARTHY § 23:9 (“‘Confusion’ means more than that the junior user’s mark merely ‘calls to mind’ the senior user’s mark.”).

<sup>110</sup> *Streamline Prod. Sys. Inc. v. Streamline Mfg., Inc.*, 851 F.3d 440, 457 (5th Cir. 2017) (quoting *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 229 (5th Cir. 2009)).

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and The Krusty Krab from “SpongeBob SquarePants,” there is an impermissible likelihood of confusion as to source, affiliation, or sponsorship.

While this holding does not grant trademark protection to Viacom in every context, third parties cannot appropriate the goodwill and reputation of The Krusty Krab by naming a restaurant The Krusty Krab absent a showing that the restaurant was developed in a context sufficient to avoid any likelihood of consumer confusion. This case squarely falls within the protection of the Lanham Act and consumers would affiliate Viacom’s legally protectable The Krusty Krab mark with IJR’s seafood restaurant by the same name.

\* \* \*

For the foregoing reasons, we AFFIRM the judgment of the district court.

**BILL OF COSTS**

**NOTE: The Bill of Costs is due in this office *within 14 days from the date of the opinion, See FED. R. APP. P. & 5<sup>TH</sup> CIR. R. 39.* Untimely bills of costs must be accompanied by a separate motion to file out of time, which the court may deny.**

\_\_\_\_\_ v. \_\_\_\_\_ No. \_\_\_\_\_

The Clerk is requested to tax the following costs against: \_\_\_\_\_

COSTS TAXABLE UNDER Fed. R. App. P. & 5 <sup>th</sup> Cir. R. 39	REQUESTED				ALLOWED (If different from amount requested)			
	No. of Copies	Pages Per Copy	Cost per Page*	Total Cost	No. of Documents	Pages per Document	Cost per Page*	Total Cost
Docket Fee (\$500.00)								
Appendix or Record Excerpts								
Appellant's Brief								
Appellee's Brief								
Appellant's Reply Brief								
Other:								
Total \$ _____					Costs are taxed in the amount of \$ _____			

Costs are hereby taxed in the amount of \$ \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

LYLE W. CAYCE, CLERK

State of \_\_\_\_\_  
 County of \_\_\_\_\_

By \_\_\_\_\_  
 Deputy Clerk

I \_\_\_\_\_, do hereby swear under penalty of perjury that the services for which fees have been charged were incurred in this action and that the services for which fees have been charged were actually and necessarily performed. A copy of this Bill of Costs was this day mailed to opposing counsel, with postage fully prepaid thereon. This \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
 (Signature)



**FIFTH CIRCUIT RULE 39**

**39.1 Taxable Rates.** *The cost of reproducing necessary copies of the brief, appendices, or record excerpts shall be taxed at a rate not higher than \$0.15 per page, including cover, index, and internal pages, for any for of reproduction costs. The cost of the binding required by 5<sup>th</sup> CIR. R. 32.2.3 that mandates that briefs must lie reasonably flat when open shall be a taxable cost but not limited to the foregoing rate. This rate is intended to approximate the current cost of the most economical acceptable method of reproduction generally available; and the clerk shall, at reasonable intervals, examine and review it to reflect current rates. Taxable costs will be authorized for up to 15 copies for a brief and 10 copies of an appendix or record excerpts, unless the clerk gives advance approval for additional copies.*

**39.2 Nonrecovery of Mailing and Commercial Delivery Service Costs.** *Mailing and commercial delivery fees incurred in transmitting briefs are not recoverable as taxable costs.*

**39.3 Time for Filing Bills of Costs.** *The clerk must receive bills of costs and any objections within the times set forth in FED. R. APP. P. 39(D). See 5<sup>th</sup> CIR. R. 26.1.*

**FED. R. APP. P. 39. COSTS**

**(a) Against Whom Assessed.** The following rules apply unless the law provides or the court orders otherwise;

- (1) if an appeal is dismissed, costs are taxed against the appellant, unless the parties agree otherwise;
- (2) if a judgment is affirmed, costs are taxed against the appellant;
- (3) if a judgment is reversed, costs are taxed against the appellee;
- (4) if a judgment is affirmed in part, reversed in part, modified, or vacated, costs are taxed only as the court orders.

**(b) Costs For and Against the United States.** Costs for or against the United States, its agency or officer will be assessed under Rule 39(a) only if authorized by law.

©) **Costs of Copies** Each court of appeals must, by local rule, fix the maximum rate for taxing the cost of producing necessary copies of a brief or appendix, or copies of records authorized by rule 30(f). The rate must not exceed that generally charged for such work in the area where the clerk's office is located and should encourage economical methods of copying.

**(d) Bill of costs: Objections; Insertion in Mandate.**

- (1) A party who wants costs taxed must – within 14 days after entry of judgment – file with the circuit clerk, with proof of service, an itemized and verified bill of costs.
- (2) Objections must be filed within 14 days after service of the bill of costs, unless the court extends the time.
- (3) The clerk must prepare and certify an itemized statement of costs for insertion in the mandate, but issuance of the mandate must not be delayed for taxing costs. If the mandate issues before costs are finally determined, the district clerk must – upon the circuit clerk's request – add the statement of costs, or any amendment of it, to the mandate.

**(e) Costs of Appeal Taxable in the District Court.** The following costs on appeal are taxable in the district court for the benefit of the party entitled to costs under this rule:

- (1) the preparation and transmission of the record;
- (2) the reporter's transcript, if needed to determine the appeal;
- (3) premiums paid for a supersedeas bond or other bond to preserve rights pending appeal; and
- (4) the fee for filing the notice of appeal.

*United States Court of Appeals*

FIFTH CIRCUIT  
OFFICE OF THE CLERK

LYLE W. CAYCE  
CLERK

TEL. 504-310-7700  
600 S. MAESTRI PLACE  
NEW ORLEANS, LA 70130

May 22, 2018

MEMORANDUM TO COUNSEL OR PARTIES LISTED BELOW

Regarding: Fifth Circuit Statement on Petitions for Rehearing  
or Rehearing En Banc

No. 17-20334 Viacom International, Inc. v. IJR Capital  
Investments L.L.C.  
USDC No. 4:16-CV-257

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Enclosed is a copy of the court's decision. The court has entered judgment under FED. R. APP. P. 36. (However, the opinion may yet contain typographical or printing errors which are subject to correction.)

FED. R. APP. P. 39 through 41, and 5TH Cir. R.s 35, 39, and 41 govern costs, rehearings, and mandates. **5TH Cir. R.s 35 and 40 require you to attach to your petition for panel rehearing or rehearing en banc an unmarked copy of the court's opinion or order.** Please read carefully the Internal Operating Procedures (IOP's) following FED. R. APP. P. 40 and 5TH CIR. R. 35 for a discussion of when a rehearing may be appropriate, the legal standards applied and sanctions which may be imposed if you make a nonmeritorious petition for rehearing en banc.

Direct Criminal Appeals. 5TH CIR. R. 41 provides that a motion for a stay of mandate under FED. R. APP. P. 41 will not be granted simply upon request. The petition must set forth good cause for a stay or clearly demonstrate that a substantial question will be presented to the Supreme Court. Otherwise, this court may deny the motion and issue the mandate immediately.

Pro Se Cases. If you were unsuccessful in the district court and/or on appeal, and are considering filing a petition for certiorari in the United States Supreme Court, you do not need to file a motion for stay of mandate under FED. R. APP. P. 41. The issuance of the mandate does not affect the time, or your right, to file with the Supreme Court.

Court Appointed Counsel. Court appointed counsel is responsible for filing petition(s) for rehearing(s) (panel and/or en banc) and writ(s) of certiorari to the U.S. Supreme Court, unless relieved of your obligation by court order. If it is your intention to file a motion to withdraw as counsel, you should notify your client promptly, **and advise them of the time limits for filing for rehearing and certiorari.** Additionally, you MUST confirm that this information was given to your client, within the body of your motion to withdraw as counsel.

The judgment entered provides that defendant-appellant pay to plaintiff-appellee the costs on appeal.

Sincerely,

LYLE W. CAYCE, Clerk

*Erica Benoit*

By: \_\_\_\_\_  
Erica A. Benoit, Deputy Clerk

Enclosure(s)

Mr. Stephen Paul Meleen  
Mr. Christopher F. Schaefer  
Mr. Tyson David Smith  
Ms. Karen Bryant Tripp

**United States Court of Appeals  
for the Federal Circuit**

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**BRUCE S. SCHLAFLY, PHYLLIS SCHLAFLY  
REVOCABLE TRUST, SUCCESSOR-IN-INTEREST  
TO PHYLLIS SCHLAFLY,**  
*Appellants*

v.

**SAINT LOUIS BREWERY, LLC,**  
*Appellee*

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2017-1468

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Appeal from the United States Patent and Trademark  
Office, Trademark Trial and Appeal Board in No.  
91207224, 91207225.

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Decided: November 26, 2018

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ANDREW SCHLAFLY, Far Hills, NJ, argued for appel-  
lants.

MARK R. SOWERS, The Sowers Law Firm, LLC, St.  
Louis, MO, argued for appellee.

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Before NEWMAN, MAYER, and STOLL, *Circuit Judges*.  
NEWMAN, *Circuit Judge*.

The Saint Louis Brewery (“SLB”) is a craft brewery that was founded in 1989 by Thomas Schlafly and Daniel Kopman in St. Louis, Missouri. The brewery began selling beer with the SCHLAFLY logo in 1991, and asserts that it “has continuously sold beer under its SCHLAFLY trademark” ever since. Appellee’s Br. 2. In 2011 SLB applied for trademark registration for the word mark “SCHLAFLY” for use with various types of beer. The application drew opposition from two relatives of Thomas Schlafly (“the Opposers”): Phyllis Schlafly, Thomas’s aunt, and Bruce Schlafly. The Trademark Trial and Appeal Board (“TTAB” or “the Board”) denied the opposition.

The Opposers appeal, arguing that the TTAB did not recognize that the mark was “primarily merely a surname,” and that the TTAB improperly accepted that the mark has acquired secondary meaning although the applicant did not provide survey evidence. The Opposers also claim violation of their First Amendment, Fifth Amendment, and Due Process rights and protections.

We conclude that the mark “SCHLAFLY” for beer meets the requirements for registration, and affirm the decision of the TTAB.

## BACKGROUND

### A

#### *The St. Louis Brewery*

SLB states that it sells sixty types of beer, all with the SCHLAFLY mark, in fifteen states and the District of Columbia, through thirty wholesalers, 14,000 retail locations, and several national restaurant chains. Appellee’s Br. 4–6. From 2009 to 2014, SLB sold more than seventy-five million units of SCHLAFLY beer, not including sales made at its restaurants; this included 56.3 million bottles and cans and 18.5 million draft servings of SCHLAFLY beer. Appellee’s Br. 6.

SLB states that it has made substantial investments in marketing the SCHLAFLY brand, and that all labels for SCHLAFLY beer prominently feature the SCHLAFLY mark. It claims that it has spent \$1.1 million in advertising over the last five years and has featured the SCHLAFLY mark in radio, print publications, billboards, social media, and at over 500 events. Appellee's Br. 7. SCHLAFLY beer has been mentioned in print media, including USA Today, J.A. 347–52, The Atlantic, J.A. 369–70, The Washington Post, J.A. 375–77, and The Wall Street Journal, J.A. 372–73.

SLB already has trademark registrations for two other logo marks that include the SCHLAFLY name. The application here seeks to register the SCHLAFLY word mark in standard character format for “[b]eer, ale and lager; [b]eer, ale and porter; [b]eer, ale, lager, stout and porter; [b]eers; [b]lack beer; [b]rewed malt-based alcoholic beverage in the nature of a beer; [and] [c]offee-flavored beer.” J.A. 456. To support its application, SLB submitted a Section 2(f) declaration, stating that the SCHLAFLY mark had acquired distinctiveness due to substantially exclusive and continuous use with its goods for at least five years, immediately prior to the submission of the application. J.A. 457.

## B

### *The Opposers*

The Opposers filed separate oppositions to the registration, and the oppositions were consolidated by the Board and presented on the same record and briefs.

Opposer Phyllis Schlafly, now deceased, was a well-known activist who lived in Missouri. Her brief refers to her as a “conservative icon,” and it is not disputed that she was a known public figure. The Opposers argue that, due to Phyllis's role in political and public discourse, “the surname Schlafly is primarily associated in the minds of

the public with Phyllis Schlafly and the traditional values that she represented.” Appellants’ Br. 5.

Opposer Dr. Bruce Schlafly is a physician in Sappington, Missouri, and has used his name in his medical practice since 1986. Appellants’ Br. 7–8. The Opposers argue that, if granted, the SCHLAFLY mark will have “[a] negative connotation due to complications with . . . [d]runk driving [and] intoxication leading to injuries.” J.A. 45 (Tr. 15:10–14).

## C

### *The Board Decision*

The TTAB ruled in favor of SLB and accordingly entitled the SCHLAFLY mark to registration on the Principal Register.<sup>1</sup> The allowance was on the basis of acquired distinctiveness under Section 2(f), the Board found that the mark had acquired secondary meaning. The Board explained that it need not decide whether the mark was primarily a surname, because the mark had acquired distinctiveness. The Board relied on the long continuous use of the mark, the geographic scope of use of the mark, the variety of products with the mark in commerce, the prominent placement of the mark on SLB’s products, the large sales volume of SCHLAFLY beer, the marketing types and expenditures of SLB, the total revenue for SCHLAFLY marked products, SLB’s significant ranking among craft brewers in the United States, the awards won by SCHLAFLY beer, and media and other reports on SCHLAFLY beer products. TTAB Op. at \*5–8.

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<sup>1</sup> *Dr. Bruce Schlafly v. Saint Louis Brewery*, Opposition No. 91207224, 2016 WL 4474865 (T.T.A.B. Aug. 2, 2016) (“TTAB Op.”).

The Board stated that it “need not address whether Applicant’s mark actually *is* primarily merely a surname because, even if it is, the Trademark Act explicitly provides that such a mark may be registered if it has acquired distinctiveness.” TTAB Op. at \*4 (citing 15 U.S.C. § 1052(f)). It further stated, “[i]nasmuch as there is no evidence of market proximity between Applicant and the activities of Phyllis Schlafly, there is no reason to believe that those activities have interfered with the ability of customers to associate Applicant’s mark with Applicant’s goods.” *Id.* at \*9.

The Board rejected the Opposers’ argument that SLB was required to submit consumer surveys as evidence of secondary meaning. *Id.* at \*8. The Board found the evidence presented sufficient to show that the mark had acquired distinctiveness in commerce, stating that the Board could not “escape the conclusion that Applicant’s mark and goods have developed market recognition among a segment of the relevant public.” *Id.* The Board then concluded that the applicant had established “a substantial business and has vigorously promoted its beer under the mark SCHLAFLY in such a way as to have created, among its customers, an association between its mark and its goods.” *Id.* at \*9.

After the TTAB decision, the Opposers requested reconsideration on the ground that it was improper to permit registration based on acquired distinctiveness without a survey showing secondary meaning. The Board denied reconsideration, stating that there was more than enough evidence to support a finding of secondary meaning, and, “[t]o be blunt, this was not a ‘close call.’” Opinion on Request for Reconsideration, Opposition No. 91207225, at \*3.

## DISCUSSION

The question of acquired distinctiveness of a mark is a question of fact, and the Boards findings are reviewed for



support by substantial evidence. *See Hoover Co. v. Royal Appliance Mfg. Co.*, 238 F.3d 1357, 1360 (Fed. Cir. 2001); *In re La. Fish Fry Prods., Ltd.*, 797 F.3d 1332, 1335 (Fed. Cir. 2015). [W]e determine whether, on the entirety of the record, there was substantial evidence to support the determination,” *In re Hotels.com, LP*, 573 F.3d 1300, 1302 (Fed. Cir. 2007), which requires “such relevant evidence as a reasonable mind might accept as adequate to support a conclusion,” *Consol. Edison Co. of N.Y. v. N.L.R.B.*, 305 U.S. 197, 229, 59 S.Ct. 206 (1938).

The question of whether the Board applied the correct legal standard to the facts is a question of law. *Princeton Vanguard, LLC v. Frito-Lay N. Am., Inc.*, 786 F.3d 960, 964 (Fed. Cir. 2015) (citing *In re Dial–A–Mattress Operating Corp.*, 240 F.3d 1341, 1345 (Fed. Cir. 2001)). We review the Board’s legal determinations de novo and without deference. *Hewlett-Packard Co. v. Packard Press, Inc.*, 281 F.3d 1261, 1265 (Fed. Cir. 2002).

## I

### *Acquired Distinctiveness of the Schlafly Mark*

The Lanham Act in Section 2(f) permits registration of marks that have acquired distinctiveness by use in commerce. The statute provides, “[e]xcept as expressly excluded in subsections (a), (b), (c), (d), (e)(3), and (e)(5) of this section, nothing in this chapter shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant’s goods in commerce.” 15 U.S.C. § 1052(f). After reviewing SLB’s evidence, the Board concluded that SLB had presented more than sufficient evidence to show that the SCHLAFLY mark had acquired distinctiveness.

The statute also states that “[t]he Director may accept as prima facie evidence that the mark has become distinctive, as used on or in connection with the applicant’s goods in commerce, proof of substantially exclusive and

continuous use thereof as a mark by the applicant in commerce for the five years before the date on which the claim of distinctiveness is made.” *Id.* Section 2.41 of Title 37 of the Code of Federal Regulations in relevant part, provides that the following types of evidence may be considered to show secondary meaning:

**(1) *Ownership of prior registration(s).*** In appropriate cases, ownership of one or more active prior registrations on the Principal Register or under the Trademark Act of 1905 of the same mark may be accepted as prima facie evidence of distinctiveness if the goods or services are sufficiently similar to the goods or services in the application; however, further evidence may be required.

**(2) *Five years substantially exclusive and continuous use in commerce.*** In appropriate cases, if a trademark or service mark is said to have become distinctive of the applicant’s goods or services by reason of the applicant’s substantially exclusive and continuous use of the mark in commerce for the five years before the date on which the claim of distinctiveness is made, a showing by way of verified statements in the application may be accepted as prima facie evidence of distinctiveness; however, further evidence may be required.

**(3) *Other evidence.*** In appropriate cases, where the applicant claims that a mark has become distinctive in commerce of the applicant’s goods or services, the applicant may, in support of registrability, submit with the application, or in response to a request for evidence or to a refusal to register, verified statements, depositions, or other appropriate evidence showing duration, extent, and nature of the use in commerce and advertising expenditures in connection therewith (identi-

fyng types of media and attaching typical advertisements), and verified statements, letters or statements from the trade or public, or both, or other appropriate evidence of distinctiveness.

37 C.F.R. § 2.41(a).

SLB presented all three types of evidence to the Board, and the Board evaluated fifteen different forms of evidence in reaching its conclusion. These included evidence of the commercial success of SCHLAFLY-branded beer through sales at restaurants and large retailers, evidence of sales of over seventy-five million servings of SCHLAFLY-branded beer between 2009 and 2014, and media coverage in local and national media outlets, including USA Today, The Washington Post, and The Wall Street Journal. Appellee's Br. 28–31. In addition, SLB demonstrated more than twenty-five years of continuous use of the SCHLAFLY mark. The Board also found direct evidence, in the form of press notices which were “direct evidence of third-party perceptions of the mark.” Opinion on Request for Reconsideration at \*3 (J.A. 3). The Board and courts have recognized that both direct and circumstantial evidence may show secondary meaning. *See Yamaha Intern. Corp. v. Hoshino Gakki Co., Ltd.*, 840 F.2d 1572, 1583, (Fed. Cir. 1988) (“[A]bsence of consumer surveys need not preclude a finding of acquired distinctiveness. . . . To prove distinctiveness under 15 U.S.C. § 1052(f), applicants may submit any appropriate evidence tending to show that the mark distinguishes [applicant's] goods.”) (internal quotation marks omitted).<sup>2</sup>

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<sup>2</sup> *See also Herman Miller, Inc. v. Palazzetti Imports and Exports, Inc.*, 270 F.3d 298, 315, (6th Cir. 2001) (“[C]onsumer surveys, while helpful, are not a prerequi-

The Opposers argue that SCHLAFLY is significant to the public primarily as the surname of Phyllis Schlafly. Citing *In re Etablissements Darty et Fils*, 759 F.2d 15, 17 (Fed. Cir. 1985), the Opposers urge the court to adopt a new test that they call a “change in significance” test, whereby a surname cannot be registered as a trademark without showing a change in significance to the public, from a surname to an identifying mark for specified goods. Appellants’ Br. 12–13. In *Darty et Fils*, however, even though, the primary question was whether “Darty” was primarily merely a surname, the Board had correctly held that the Opposers’ “provides no support for their contention.” Opinion on Request for Reconsideration at \*2 (J.A. 2). Here, in contrast, the examiner and the Board found that the SCHLAFLY mark had acquired secondary meaning for use with beer products.

The Opposers further argue that the Board refused to determine whether the mark was “primarily merely a surname,” pointing out that Section 1052(e)(4) prohibits the registration of marks that are primarily merely a surname. The Board, however, correctly stated that the trademark statute provides that words that are primarily merely a surname can be registered trademarks if they have acquired secondary meaning in trademark use. Section 1052 of Title 15 of the United States Code, in relevant part provides: “[e]xcept as expressly excluded in subsections (a), (b), (c), (d), (e)(3), and (e)(5) of this section, nothing in this chapter shall prevent the registration of a mark used by the applicant which has become distinctive

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site to establishing secondary meaning.”); see 2 McCarthy on Trademarks and Unfair Competition § 15:30 (“Survey data is direct evidence of secondary meaning. But survey evidence is not required. Secondary meaning can be, and most often is, proven by circumstantial evidence.”).

of the applicant's goods in commerce." 15 U.S.C. § 1052(f).<sup>3</sup> The statutory interpretive canon of *expressio unius est exclusio alterius*, provides that "expressing one item of [an] associated group or series excludes another left unmentioned." *N.L.R.B. v. SW Gen., Inc.*, 137 S.Ct. 929, 933 (2017)(quoting *Chevron U.S.A. Inc. v. Echazabal*, 536 U.S. 73, 80 (2002)).

No law or precedent suggests that surnames cannot be registered as trademarks if they have acquired distinctiveness in trademark use. Because the Board found that the SCHLAFLY mark for beers had acquired secondary meaning, Section 1052(e)(4) did not bar the registration.

## II

### *The Constitutional Claims*

The Opposers argue that the registration violates the First and Fifth Amendments of the Constitution. As to the First Amendment claim, the Opposers do not adequately explain how registration improperly impinges on their First Amendment rights. The Fifth Amendment claim likewise fails, as trademark registration is not a taking for government use. *See Acceptance Ins. Cos., Inc. v. United States*, 583 F.3d 849, 854 (Fed. Cir. 2009) (explaining that the court must first "determine[] whether the claimant has identified a cognizable Fifth Amendment

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<sup>3</sup> *See Barnhart v. Peabody Coal Co.*, 537 U.S. 149, 168 (2003)("[T]he canon *expressio unius est exclusio alterius* does not apply to every statutory listing or grouping; it has force only when the items expressed are members of an 'associated group or series,' justifying the inference that items not mentioned were excluded by deliberate choice, not inadvertence." (quoting *United States v. Vonn*, 535 U.S. 55, 65, 122 S.Ct. 1043 (2002))).

property interest that is asserted to be the subject of the taking”).

The Opposers also claim that their Due Process rights were violated when the Board recognized secondary meaning in the SCHLAFLY mark without proof of a change in public perception. However, the trademark opposition procedure, of which they have availed themselves, provides appropriate process of law.

#### **CONCLUSION**

The decision of the Trademark Trial and Appeal Board is affirmed.

**AFFIRMED**

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

USDC SDNY  
DOCUMENT  
ELECTRONICALLY FILED  
DOC #:  
DATE FILED: SEP 30 2018

Beyoncé Giselle Knowles-Carter, et al.,

Plaintiff,

—v—

Feyonce, Inc. et al.,

Defendants.

16-CV-2532 (AJN)

MEMORANDUM OPINION  
AND ORDER

ALISON J. NATHAN, District Judge:

Plaintiffs Beyoncé Giselle Knowles-Carter and BGK Trademark Holdings, LLC bring this action against Feyoncé Inc., Lee Lee, and individual Defendants Andre Maurice and Leanna Lopez, alleging trademark infringement and dilution, unfair competition, and unjust enrichment associated with the sale of merchandise using the brand name “Feyoncé,” which Defendants market to the engaged to be married—i.e., fiancés. Before the Court is Plaintiffs’ motion for partial summary judgment and entry of a permanent injunction against Defendants Andre Maurice and Leana Lopez.

There can be no dispute that in marketing to fiancé purchasers, defendants chose the formation “FEYONCÉ” in order to capitalize off of the exceedingly famous BEYONCÉ mark. But that alone does not establish likelihood of confusion. Rather, a critical question is whether a rational consumer would mistakenly believe FEYONCÉ products are sponsored by or affiliated with BEYONCÉ products. A rational jury might or might not conclude that the pun here is sufficient to dispel any confusion among the purchasing public. Thus, there is a genuine dispute of material fact that requires denial of the motion for summary judgment.

## I. Background

### A. Factual Background

The following facts are undisputed except where specifically noted.<sup>1</sup> Plaintiff Beyoncé Knowles-Carter (“Beyoncé”) is a world-renowned music artist who is among the best known figures in entertainment. As such, the Court need not recount the details of her celebrity here. Plaintiff BGK Trademark Holdings, LLC (“BGK”), is the owner of the federally registered trademark BEYONCÉ, which was entered on the Principal Register of the United States Patent and Trademark office (“USPTO”) on August 31, 2004, as Registration No. 2,879,852. Putnam Decl., Ex. 2 at 12.<sup>2</sup> The registration includes Class 25: “Clothing: namely – shirts, sweaters, blouses, jackets, slacks, hats and caps.” *Id.* Plaintiffs’ mark was first used in commerce June 24, 2003, and it has remained in continuous use since its registration. *Id.*, Ex. 1 at 3; Vargas Decl. ¶ 5. Products that feature the BEYONCÉ mark are sold on the website <shop.beyonceshop.com.> Vargas Decl. ¶ 5. Among these products are clothing items such as T-shirts and sweatshirts, which retail for approximately \$35.00 to \$70.00. *Id.* ¶ 9.

Defendants Andre Maurice and Leana Lopez operate a business that sells clothing and apparel with the mark FEYONCÉ and certain phrases from Beyoncé’s well known songs. Putnam Decl., Ex. 23 at 2. On November 25, 2015, Defendant Maurice applied to register the FEYONCÉ mark with the USPTO. *Id.*, Ex. 6. On November 30, 2015, Maurice applied to

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<sup>1</sup> Plaintiffs have duly submitted a Rule 56.1 Statement setting forth in numbered paragraphs the material facts they contend are undisputed. Dkt. No. 88. As Plaintiffs point out, Defendants have failed to submit a statement “responding to each numbered paragraph in the statement of the moving party,” as required by Local Rule 56.1(b). *See* Def. Reply at 2-3. As a result, the Court deems the contentions made in Plaintiffs’ Rule 56.1 statement to be admitted to the extent they are otherwise supported by evidence in the record. *See Wali v. One Source Co.*, 678 F. Supp. 2d 170, 178 (S.D.N.Y. 2009) (“*Pro se* litigants are...not excused from meeting the requirements of Local Rule 56.1.”). Nonetheless, the Court exercises its discretion to scrutinize the evidence for any material, disputed issues of fact present in the record. *See id.*; *Holtz v. Rockefeller & Co., Inc.*, 258 F.3d 62, 73 (2d Cir. 2001).

<sup>2</sup> The Court takes judicial notice of the trademark registrations and other publicly available USPTO record to the extent that they are relevant in deciding this motion. *See Island Software and Computer Service, Inc. v. Microsoft Corp.*, 413 F.3d 257, 261 (2d Cir. 2005).



register an almost identical mark without the accent over the final E (FEYONCE). *Id.*, Ex. 7. Both applications included registration for use in clothing and apparel. *Id.*, Ex 6, 7. Defendants began using the FEYONCÉ mark in commerce in 2016. *Id.*, Ex 22 at 5. On March 22, 2016, the USPTO informed Defendants that it was refusing both applications for several reasons, including because it determined that the marks were confusingly similar to the registered mark BEYONCÉ. *Id.*, Ex. 8, 9. On April 29, 2016, Defendants Maurice and Lopez incorporated their business, Feyonce Inc., and on July 13, 2016, submitted an additional trademark application, this time for the mark “Feyonce Inc.” *Id.*, Ex. 21. Defendant Maurice subsequently responded to the USPTO’s refusal to register FEYONCE, arguing that the mark is not confusingly similar to BEYONCÉ. *Id.*, Ex. 10. On October 31, 2016, the USPTO again refused to register the mark, finding Defendant Maurice’s argument “unpersuasive,” and suspending the application. *Id.*, Ex. 11.

After beginning to use the mark FEYONCÉ in commerce in at least March of 2016, Defendants sold clothing items on <feyonceshop.com> until at least October 26, 2016. *Id.*, Ex. 25. From at least January 15, 2017 through May 15, 2017, Defendants sold similar items on Etsy.com through a shop called “FeyonceShop.” *Id.*, Ex. 26. On November 17, 2017, Defendants represented to the Court that they had stopped selling FEYONCÉ products, but that they continued to own the domain name <feyonceshop.com> and the email address feyonceinc@yahoo.com. Dkt. No. 96.

## **B. Procedural Background**

On February 22, 2015, counsel for Plaintiffs’ sent a cease and desist letter to Defendant Maurice demanding that Defendants stop using the FEYONCÉ mark, abandon their trademark applications, and transfer the domain name <feyonceshop.com> to Plaintiffs. Putnam Decl, Ex.

14. Not receiving a response, on April 5, 2016, Plaintiffs filed a complaint against Defendants Maurice and Lopez, in addition to Lee Lee and Feyonce, Inc., asserting causes of action for Federal Trademark Infringement, in violation of 15 U.S.C. § 1114; Federal Unfair Competition, in violation of 15 U.S.C. § 1125(a); Federal Trademark Dilution, in violation of 15 U.S.C. 1125(c); Deceptive Acts and Practices, in violation of New York General Business Law § 349; Trademark Dilution, in violation of New York General Business Law § 360-L; common law unfair competition; and unjust enrichment. Dkt. No. 1. As relief, Plaintiffs request (1) an injunction enjoining Defendants from using the FEYONCÉ mark and requiring the transfer of the domain name <feyonceshop.com> to Plaintiffs; (2) compensatory, statutory, and exemplary damages; (3) an accounting of Defendants' gains and profits; and (4) costs and attorneys' fees. *Id.* at 23-25.

On July 14, 2016, Defendants Maurice and Lopez, who are representing themselves pro se, filed an answer to the complaint. Dkt. No. 33. Corporate defendant Feyonce, Inc. failed to secure counsel, and the Clerk of the Court issued a certificate of default against the corporation for failing to appear. Dkt. No. 42. Plaintiffs thereafter moved for default judgment against Feyonce, Inc. Dkt. No. 55. The Court denied the motion without prejudice while the case against the individual defendants proceeds. Dkt. No. 84. The Court also denied Defendants' motion to dismiss for lack of venue or, alternatively, to transfer the case to the Western District of Texas. *Id.*

Now before the Court is Plaintiffs' motion for summary judgment on their claims for federal trademark infringement, federal and New York unfair competition, and federal and New York trademark dilution, and for the entry of a permanent injunction against individual Defendants Maurice and Lopez. Plaintiffs filed the instant motion and accompanying exhibits on

November 3, 2017. Dkt. No. 87. Defendants Maurice and Lopez filed an opposition on November 17, 2017, Dkt. No. 96, and Plaintiffs filed their reply on November 27, 2017, Dkt. No. 97.

## II. Legal Standard

A court may not grant a motion for summary judgment unless all of the submissions taken together “show[ ] that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a). A fact is “material” if it “might affect the outcome of the suit under the governing law,” and is genuinely in dispute if “the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” *Roe v. City of Waterbury*, 542 F.3d 31, 35 (2d Cir. 2008) (quoting *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986)). “Summary judgment is appropriate when ‘the record taken as a whole could not lead a rational trier of fact to find for the non-moving party.’” *Smith v. County of Suffolk*, 776 F.3d 114, 121 (2d Cir. 2015) (quoting *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986)). “[I]n making that determination, the court is to draw all factual inferences in favor of the party against whom summary judgment is sought, viewing the factual assertions in materials such as affidavits, exhibits, and depositions in the light most favorable to the party opposing the motion.” *Rodriguez v. City of New York*, 72 F.3d 1051, 1061 (2d Cir. 1995). However, “[w]hen opposing parties tell two different stories, one of which is blatantly contradicted by the record, so that no reasonable jury could believe it, a court should not adopt that version of the facts for purposes of ruling on a motion for summary judgment.” *Scott v. Harris*, 550 U.S. 372, 380 (2007).

In seeking summary judgment, the initial “burden is upon the moving party to demonstrate that no genuine issue respecting any material fact exists.” *Gallo v. Prudential*

*Residential Servs.*, 22 F.3d 1219, 1223 (2d Cir. 1994). If the non-moving party would bear the burden of proof at trial, “the burden on the moving party may be discharged by ‘showing’ – that is, pointing out to the district court – that there is an absence of evidence to support the nonmoving party’s case.” *Celotex Corp. v. Catrett*, 477 U.S. 317, 325 (1986). If the movant “demonstrates ‘the absence of a genuine issue of material fact,’ the opposing party must come forward with specific evidence demonstrating the existence of a genuine dispute of material fact” to survive summary judgment. *Brown v. Eli Lilly & Co.*, 654 F.3d 347, 358 (2d Cir. 2011) (citation omitted) (quoting *Celotex Corp.*, 477 U.S. at 323).

### **III. Discussion**

#### **A. Federal Trademark Infringement**

To prove trademark infringement under 15 U.S.C. § 1114, a plaintiff must satisfy a two-prong inquiry: first, the plaintiff must show that its mark is entitled to protection; and second, the plaintiff must show that “defendant’s use of the mark is likely to cause consumers confusion as to the origin or sponsorship of the defendant’s goods.” *Virgin Enterprises Ltd. v. Nawab*, 335 F.3d 141, 146 (2d Cir. 2003) (citing *Gruner + Jahr USA Publ'g v. Meredith Corp.*, 991 F.2d 1072, 1074 (2d Cir. 1993)). With respect to the first prong, a certificate of registration with the USPTO constitutes prima facie evidence that the mark is protectable. *See Guthrie Healthcare System v. ContextMedia, Inc.*, 826 F.3d 27, 37 (2d Cir. 2016). Furthermore, when a registered mark has been in continuous use for five consecutive years following the registration, the right to that mark is considered “incontestable” so long as there are no ongoing proceedings, proper filings have been made with the USPTO, and the mark is not generic. *See* 15 U.S.C. 1065. The parties in this case do not dispute that Plaintiffs’ BEYONCÉ mark is registered with the USPTO and has been in continual use for over five consecutive years. Plaintiffs’ mark is therefore

protectable as a matter of law.

Whether the Court may grant summary judgment in favor of the Plaintiffs for federal trademark infringement thus turns on the second prong. In other words, summary judgment may be appropriate if, considering the record as a whole, “the undisputed evidence would lead to only one conclusion as to whether confusion is likely.” *See Cadbury Beverages, Inc. v. Cott Corp.*, 73 F.3d 474, 478 (2d Cir. 1996). “Normally, the likelihood of confusion is a factual question, centering on the probable reactions of prospective purchasers of the parties’ goods.” *Pirone v. MacMillan, Inc.*, 894 F.2d 579, 584 (2d Cir. 1990). To assess the likelihood of confusion between the two marks, the Court looks to the factors articulated in *Polaroid Corp. v. Polaroid Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (considering the strength of the senior mark, the similarity of the marks, the proximity of the products in the marketplace, the likelihood that the owner of the senior mark will bridge the gap, actual confusion, the presence of bad faith on the part of the defendant, the quality of the defendant’s products, and consumer sophistication). “If a factual inference must be drawn to arrive at a particular finding on a *Polaroid* factor, and if a reasonable trier of fact could reach a different conclusion, the district court may not properly resolve that issue on summary judgment.” *Patsy’s Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 215 (2d Cir. 2003). In weighing the factors, the Court must not lose sight of the inquiry’s touchstone: whether or not it is likely “that an appreciable number of ordinarily prudent purchasers would be confused as to the source of the goods which they are purchasing or in distinguishing one product from another.” *Miller Brewing Co. v. Carling O’Keefe Breweries of Canada, Ltd.*, 452 F. Supp. 429, 444 (W.D.N.Y. 1978) (citing *Avon Shoe Co. v. David Crystal, Inc.*, 279 F.2d 607, 612 (2d Cir. 1960)).

For the reasons that follow, the Court concludes that there is a triable issue of fact as to

whether the similarity between the marks is likely to cause confusion.<sup>3</sup> The degree of similarity between the marks is “a key factor in determining likelihood of confusion.” *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 454 F.3d 108, 117 (2d Cir. 2006). “The question is not merely how many points of similarity the marks share, but whether they create the same general overall impression.” *Am. Auto. Ass’n v. AA Auto. Club of Queens, Inc.*, No. 97CV1180, 1999 WL 97918, at \*5 (E.D.N.Y. Feb. 8, 1999) (citing *Bristol–Myers Squibb Co. v. McNeil–P.P.C., Inc.*, 973 F.2d 1033, 1046 (2d Cir. 1992)). Indeed, “even close similarity between two marks is not dispositive of the issue of likelihood of confusion.” *Savin Corp. v. Savin Grp.*, 391 F.3d 439, 458 (2d Cir. 2004). Nor is the prong satisfied if the similarity merely results in an association between the products in a consumer’s mind, as opposed to confusion regarding the source, sponsorship, or affiliation of the products. *See Application of Ferrero*, 479 F.2d 1395, 1397 (C.C.P.A. 1973) (“The fact that one mark may bring another mark to mind does not in itself establish likelihood of confusion as to source. The very fact of calling to mind may indicate that the mind is distinguishing, rather than being confused by, two marks.”) (internal citation omitted); *see also Schieffelin & Co. v. Jack Co. of Boca, Inc.*, 850 F. Supp. 232, 248 (S.D.N.Y. 1994) (noting that “to parody a mark, it is necessary to copy at least enough of the original to call it to the mind of people viewing the parody”).

Here, the marks are certainly extremely similar in text, font, and pronunciation. *See Pfizer v. Y2K Shipping & Trading, Inc.*, No. 00CV 5304, 2004 WL 896952, at \*5 (E.D.N.Y. 2004) (In assessing similarity, “courts analyze the similarity in pronunciation and appearance of

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<sup>3</sup> The Court acknowledges that the USPTO has refused to register the FEYONCÉ mark due to a likelihood of confusion with the BEYONCÉ mark. While such refusals are entitled to substantial weight in assessing likelihood of confusion for purposes of trademark infringement, they are “not conclusive.” *See Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 569 (2d Cir. 1971).

each and the manner in which they are presented to consumers.”). The difference between the two is the first letter, which in other cases was not enough to save an allegedly infringing junior mark from a finding of likelihood of confusion as a matter of law. *See id.* However, this does not end the Court’s inquiry. By replacing the “B” with an “F,” Defendants have created a mark that sounds like “fiancé,” i.e., a person who is engaged to be married. As a result, FEYONCÉ is a play on words,<sup>4</sup> which could dispel consumer confusion that might otherwise arise due to its facial similarity to the BEYONCÉ mark. *See Tommy Hilfiger Licensing, Inc. v. Nature Labs, LLC*, 221 F. Supp. 2d 410, 417 (“If the difference is...such to convey to the ordinary viewer that this is a joke, not the real thing, then confusion as to source, sponsorship, affiliation or connection is unlikely.”).

Plaintiffs rely on *Pfizer*, a case in which the court did find that there was a likelihood of confusion between two similar marks as a matter of law. *Pfizer*, 2004 WL 896952, at \*4 (The similarity in sound and spelling between “VIAGRA” and “TRIAGRA” “is likely to lead consumers to believe that Defendants’ product is affiliated with that of Plaintiff.”). However, that case is distinguishable from the case at hand. In *Pfizer*, the substitution of the letters “TR” for “V” did not result in a new word with a different connotation than “VIAGRA,” since “TRIAGRA” (or another word with the same sound) has no dictionary definition. Instead, the instant case is more readily analogized to *Nike*, 6 F.3d 1225. In *Nike*, the Seventh Circuit

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<sup>4</sup> The Court is unprepared to conclude that Feyoncé rises to the level of parody, as there is no evidence in the record to suggest that Defendants intended their products to convey a message about or critique of Beyoncé. *See Harley–Davidson, Inc. v. Grottanelli*, 164 F.3d 806, 813 (2d Cir. 1999) (requiring that a trademark parody make some comment on the original work to qualify as parody). However, “even without recourse to the First Amendment,” a pun may still be “relevant to the extent that the joke is clear enough to result in no confusion under the statutory likelihood of confusion analysis.” *Tommy Hilfiger*, 221 F. Supp. 2d at 416; *see also Nike Inc. v. Just Did It Enterprises*, 6 F.3d 1225, 1228 (7th Cir. 1993) (Under the Lanham Act, “parody is not an affirmative defense but an additional factor in the analysis.”). Thus, even a pun on an existing mark that does not contain an expressive message may avoid infringing if it is adequately distinguishable from the existing mark by virtue of the pun. *See Tommy Hilfiger*, 221 F. Supp. 2d at 416.

reversed the lower court's entry of summary judgment for trademark infringement in favor of the well-known brand. *Id.* The allegedly infringing products were t-shirts and sweatshirts displaying the word "MIKE" and a "swoosh" logo identical to the one made famous by Nike. *Id.* at 1227. The lower court there "concluded as a matter of law that MIKE and NIKE were too similar and likely to confuse consumers" because the marks were virtually identical. *Id.* In reversing, the Seventh Circuit reasoned that a jury could find that consumers "making the decision to purchase or not to purchase" MIKE products might not be "confused...into thinking that they were a Nike product." *Id.* at 1299-30. Defendant in that case went so far as to admit that his products may be confused for Nike products "from across the room," but the court found that there was a triable issue as to whether "any initial confusion ends with a closer look, when the observer 'gets it.'" *Id.* Whether observers found the Nike/Mike pun amusing was also irrelevant—the "ultimate question" was whether the pun was sufficient to dispel confusion among the consuming public. *Id.* at 1228.

Like in *Nike*, in this case, because of the additional connotation of "fiancé," allowing all inference in favor of the non-moving party, a reasonable jury may conclude that consumers looking for BEYONCÉ products are unlikely to select a FEYONCÉ product inadvertently. *See also Tommy Hilfiger*, 221 F. Supp. 2d at 421 (granting alleged infringer's motion for summary judgment because the junior mark was a readily perceived pun unlikely to cause confusion); *Schieffelin*, 850 F. Supp. at 235 ("[W]hether [a] parody would be sufficiently strong to overcome the potential for consumer confusion was an issue of fact to be decided at trial."). Evidence in the record indicates that many purchasers of FEYONCÉ products are, in fact, engaged, just as many MIKE product purchasers were named Mike. *Nike*, 6 F.3d at 1230. Viewed in the light most favorable to Defendants, this evidence suggests that consumers are understanding the pun,



rather than confusing the brands. A rational trier of fact could nonetheless determine that consumers might mistakenly believe FEYONCÉ products are sponsored by or affiliated with BEYONCÉ products, but the Court cannot conclude that the marks are confusingly similar as a matter of law.

Because the Court is unconvinced as to similarity, it is also unprepared to conclude as a matter of law that Defendants acted in bad faith. *Cf. Pfizer*, 2004 WL 896952, at \*5 (“Bad faith... is established where there is evidence of actual knowledge of the senior user’s mark and the marks are so similar that it seems clear that deliberate copying has occurred.”) (internal quotation marks omitted). While Defendants clearly selected their mark because of its association with Plaintiffs’ mark, it is not at all clear that they hoped to capitalize on “confusion between” the products. *See Flat Rate Movers v. FlatRate Moving & Storage, Inc.*, 104 F. Supp. 3d 371, 380 (S.D.N.Y. 2015); *see also Tommy Hilfiger*, 221 F. Supp. 2d at 419 (“In one sense a parody is an attempt to derive benefit from the reputation of the owner of the mark... The benefit to the one making the parody, however, arises from the humorous association, not from public confusion as to the source of the marks.”) (quoting *Jordache Enters., Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1486 (10th Cir. 1987). Indeed, by choosing a mark that sounds identical to fiancé, Defendants may have purposefully differentiated their products by eliciting a mental association with a word that has a dictionary definition unrelated to Beyoncé. *See id.* ([I]n the case of parody, the intent is not necessarily to confuse the public but rather to amuse.”) (internal quotation marks omitted).

Of course, several of the *Polaroid* factors weigh in favor of a finding of likelihood of confusion. First, Plaintiff’s mark is strong. *See Cadbury*, 73 F.3d at 479 (“[W]hen a mark is registered and fanciful,” meaning it lacks a dictionary definition, “the plaintiff has met its burden

on the question of strength.”) (internal quotation marks omitted). Second, both lines of products include apparel sold online, and are therefore in close proximity in commerce. *See Lang v. Ret. Living Publ’g Co.*, 949 F.2d 576, 582 (2d Cir. 1991) (“To the extent goods...serve the same purpose [and] fall within the same general class...the use of similar designations is more likely to cause confusion.”). Because the parties travel in the same channels of commerce, the bridging the gap factor leans in the same direction. *See Star Indus. v. Bacardi & Co. Ltd.*, 412 F.3d 373, 387 (2d Cir. 2005) (noting that where the parties’ products “are already in competitive proximity, there is really no gap to bridge”). Third, it is unlikely that consumers of the apparel, which is not particularly expensive, are sophisticated. *See Phillips-Van Heusen Corp. v. Calvin Clothing Co., Inc.*, 444 F. Supp. 2d 250, 257 (S.D.N.Y. 2006) (“[T]he average clothing customer is not particularly sophisticated.”). Nonetheless, the core of the inquiry is whether ordinary purchasers would have difficulty distinguishing the products or ascertaining whether the junior product is affiliated with or sponsored by the senior mark’s owner, and the Court cannot conclude as a matter of law that this type of confusion is likely.

### **B. Unfair Competition**

To succeed on a claim for unfair competition under 15 U.S.C. 1125, a plaintiff must prove both that it has a mark that is entitled to protection and that the defendant’s mark would likely cause confusion as to the origin of the defendant’s goods or the sponsorship of those goods. *See Legends Are Forever, Inc. v. Nike, Inc.*, 58 F. Supp. 3d 197, 205-06 (N.D.N.Y. 2014). This two-pronged inquiry mirrors the test for trademark infringement under 15 U.S.C. 1114. *Id.* at 205. To establish unfair competition under New York common law, too, a plaintiff must show that defendant’s use results in a likelihood of confusion between the two marks at issue. *See ESPN, Inc. v. Quiksilver, Inc.*, 586 F. Supp. 2d 219, 230 (S.D.N.Y. 2008). Because

the Court concludes that a triable issue of fact exists with regard to the likelihood of confusion, as discussed *supra*, Plaintiffs' motion for summary judgment on their unfair competition claims is denied.

### **C. Trademark Dilution**

#### **1. Federal Trademark Dilution**

The owner of a famous mark can succeed on a claim of trademark dilution under federal law against an individual or entity who “commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.” 15 U.S.C. § 1125(c)(1). Dilution by blurring is defined as the “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” 15 U.S.C. § 1125(c)(2)(C). In evaluating whether a mark is likely to cause dilution by blurring, courts may consider all relevant factors, including the following: (1) the degree of similarity between the marks; (2) the degree of distinctiveness of the famous mark; (3) the extent to which the owner of the famous mark is engaging in exclusive use of the mark; (4) the degree of recognition of the famous mark; (5) whether the use of the junior mark intended to create an association with the famous mark; (6) any actual association between the mark and the famous mark. 15 U.S.C. § (c)(2)(B). The analysis “must ultimately focus on whether an association, arising from the similarity between the subject marks, impairs the distinctiveness of the famous mark—that is, the ability of the famous mark to serve as a unique identifier.” *Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.*, 156 F. Supp. 3d 425, 434 (S.D.N.Y. 2016) (citing *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 736 F.3d 198, 204 (2d Cir. 2013) (internal quotation marks omitted).

As previously discussed, Plaintiffs' mark is famous and distinctive. In addition, there is no dispute that Defendants use the FEYONCÉ mark in commerce, and that the BEYONCÉ mark's fame predates the Defendants' first sale of a FEYONCÉ product. The question, then, is whether Plaintiffs can establish likelihood of dilution as a matter of law. Several of the factors certainly lean in this direction: Plaintiffs are engaging in exclusive use of the famous mark, which is highly recognizable, it seems clear on the face of the record that Defendants sought to associate their mark with Plaintiffs', and Plaintiffs' have presented evidence that consumers do indeed associate the FEYONCÉ mark with BEYONCÉ. Even when such association was intended, when a defendant does so "imperfectly, so as to convey the simultaneous message that it was not in fact a source" of the famous mark's products, the risk of blurring may be minimal. *See Louis Vuitton Malletier, S.A. v. HauteDiggity Dog, LLC*, 507 F.3d 252, 268 (4th Cir. 2007). The "operative question is whether the *kind* of association [Defendants] creat[e] here is likely to impair the distinctiveness of [Plaintiffs'] marks." *My Other Bag*, 156 F. Supp. 3d at 439. Defendants' mark could be considered a pun—it is clearly a reference to Plaintiff Beyoncé, but it is just as clearly a signifier of a specific relationship status. A reasonable factfinder may determine that, given the similarity between the two marks, Defendants' use of FEYONCÉ impairs the distinctiveness and selling power of the BEYONCÉ mark. However, because Defendants' have not merely co-opted the BEYONCÉ mark, but rather repurposed it in a way that can be distinguished from the original, a reasonable factfinder could also conclude that there is little risk of dilution. *Cf. Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 506 (2d Cir. 1996) (noting that parody tends to increase rather than undermine the public identification of a famous mark). Because the outcome is not compelled as a matter of law, the Court denies Plaintiffs' motion for summary judgment on their federal trademark dilution claim.

## 2. New York Trademark Dilution

To prevail on a claim for trademark dilution under New York General Business Law § 360-1, a plaintiff “must prove (1) that the trademark is truly distinctive or has acquired secondary meaning, and (2) a likelihood of dilution either as a result of ‘blurring’ or ‘tarnishment.’” *U-Neek, Inc. v. Wal-mart Stores, Inc.*, 147 F. Supp. 2d 158, 175 (S.D.N.Y. 2001) (citing *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39, 42 (2d Cir. 1994)). Plaintiffs’ mark is registered and incontestable, and Plaintiffs have therefore established a rebuttable presumption of distinctiveness as a matter of law. See *Johnson & Johnson Consumer Companies, Inc. v. Aini*, 540 F. Supp. 2d 374, 301 (“[W]hen the USPTO registers a mark without requiring proof of a secondary meaning, a presumption arises that the mark is more than merely descriptive but is, rather, inherently distinctive.”). Defendants point to nothing that would rebut this presumption.

However, summary judgment is inappropriate because there remain factual questions that bear on the second prong: likeliness of dilution. As with federal law, under New York law “[d]ilution by ‘blurring’ may occur where the defendant uses or modifies that plaintiff’s trademark to identify the defendants’ goods and services, raising the possibility that the mark will lose its ability to serve as a unique identifier of the plaintiff’s product.” *U-Neek*, 147 F. Supp. 2d at 175.<sup>5</sup> New York courts consider six factors when determining if blurring is likely: “(1) similarity of the marks, (2) similarity of the products covered by the marks, (3) sophistication of consumers, (4) predatory intent, (5) renown of the senior mark, (6) renown of the junior mark.” *Mead Data Cent., Inc. v. Toyota Motor Sales, Inc.*, 875 F.2d 1026, 1035 (2d

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<sup>5</sup> Dilution by tarnishment occurs when a mark is either “linked to products of shoddy quality” or “portrayed in an unwholesome or unsavory context” such that “the trademark’s reputation and commercial value might be diminished.” *L & L Wings*, 676 F. Supp. 2d at 190. Plaintiffs argue that they are entitled to summary judgment because they have established dilution by blurring, rather than by tarnishment, and therefore the Court does not reach the issue of whether there is a likelihood of dilution by tarnishment.

Cir. 1989). The first five of these factors are “closely analogous” to the *Polaroid* factors. *L & L Wings, Inc. v. Marco-Destin, Inc.*, 676 F. Supp. 2d 179, 189 (S.D.N.Y. 2009). As previously discussed, the Court concluded that factual questions related to the *Polaroid* factors preclude a finding of likelihood of confusion as a matter of law. Therefore, Plaintiffs’ motion for summary judgment on its New York trademark dilution claim is also denied.

#### **D. Permanent Injunction**

“A permanent injunction is appropriate where the party seeking the injunction has succeeded on the merits and shows the absence of an adequate remedy at law and irreparable harm if the relief is not granted.” *Patsy’s Italian Restaurant, Inc. v. Banas*, 658 F.3d 254, 272 (2d Cir. 2011) (internal quotation marks omitted). Because the Court has concluded that triable issues of fact remain on the merits, the motion for a permanent injunction is denied.

#### **IV. Conclusion**

For the foregoing reasons, Plaintiffs’ motion for partial summary judgment and entry of a permanent injunction against Defendants Andre Maurice and Leana Lopez is DENIED.

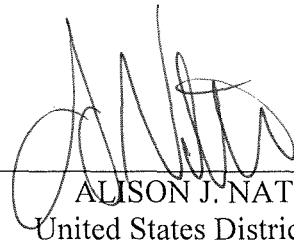
A status conference will be held on November 1, 2018, at 10:00 AM in Courtroom 906 of the Thurgood Marshall Courthouse. The parties shall meet and confer regarding settlement and possible dates for trial and submit a joint letter no later than one week prior to the conference indicating available trial dates and whether they would like referral to a magistrate judge for a settlement conference.

Chambers will mail copies of this Memorandum Opinion and Order to pro se Defendants and that mailing will be noted on the public docket. This resolves Dkt. No. 87.

SO ORDERED.

Dated: September 30, 2018

New York, New York

A handwritten signature in black ink, appearing to read 'Alison J. Nathan', is written over a horizontal line.

ALISON J. NATHAN  
United States District Judge

**United States Court of Appeals  
for the Federal Circuit**

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**CONVERSE, INC.,**  
*Appellant*

v.

**INTERNATIONAL TRADE COMMISSION,**  
*Appellee*

**SKECHERS U.S.A., INC., NEW BALANCE  
ATHLETICS, INC., FKA NEW BALANCE ATHLETIC  
SHOE, INC., HU LIQUIDATION, LLC, FKA  
HIGHLINE UNITED LLC,**  
*Intervenors*

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2016-2497

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Appeal from the United States International Trade  
Commission in Investigation No. 337-TA-936.

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Decided: October 30, 2018

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JAMES J. AQUILINA, II, Design IP, PC, Allentown, PA, for amicus curiae Industrial Designers Society of America, Inc.

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CONVERSE, INC. v. ITC

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DAVID HAL BERNSTEIN, Debevoise & Plimpton LLP, New York, NY, for amici curiae All Market Inc., Case-Mate, Inc., General Mills, Inc., Herman Miller, Inc., Honeywell International Inc., Mark Anthony International SRL, Owens Corning Intellectual Capital, LLC, Princeton Vanguard, LLC, Snyder's-Lance, Inc.

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Before DYK, O'MALLEY, and HUGHES, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* DYK.

Opinion concurring-in-part, dissenting-in-part filed by  
*Circuit Judge* O'MALLEY.

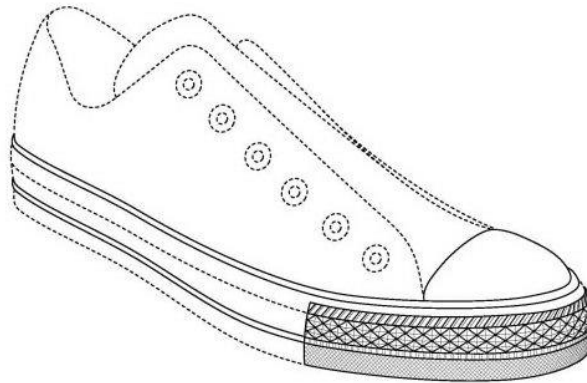
DYK, *Circuit Judge*.

Converse, Inc., appeals from a final determination of the International Trade Commission ("ITC") that held invalid Converse's trademark in the midsole design of its Chuck Taylor All Star shoes, U.S. Trademark Registration No. 4,398,753 ("the '753 trademark"). Because it found the registered mark invalid and that Converse could not establish the existence of common-law trademark rights, the ITC determined there was no violation of section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337 (2012), by the importation of the accused products. The ITC nonetheless addressed infringement, finding that various accused products would have infringed Converse's mark if valid.

We hold that the ITC erred in applying the wrong standard in aspects of both its invalidity and infringement determinations. We vacate and remand for further proceedings.

#### BACKGROUND

This case involves alleged infringement of Converse's rights in trade dress arising from the common law and its trademark registration. The '753 trademark was issued to Converse on September 10, 2013, and describes the trade-dress configuration of three design elements on the midsole of Converse's All Star shoes. In particular, as described in the registration, "the mark consists of the design of the two stripes on the midsole of the shoe, the design of the toe cap, the design of the multi-layered toe bumper featuring diamonds and line patterns, and the relative position of these elements to each other." The mark is depicted in a single drawing in the registration:



Converse asserts common-law rights in the same mark predating its registration.

Section 337 provides a remedy at the ITC for, among other things, “[t]he importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.” 19 U.S.C. § 1337(a)(1)(C). On October 14, 2014, Converse filed a complaint with the ITC alleging violations of section 337 by various respondents in the importation into the United States, the sale for importation, and the sale within the United States after importation of shoes that infringe its trademark. The ITC instituted an investigation on November 17, 2014. Although some of the respondents defaulted, several appeared and actively participated in the ITC proceedings, asserting that the accused products did not infringe the mark and that, in any event, it was invalid. These respondents have now intervened in Converse’s appeal and are referred to herein as the intervenors.

A central issue was whether the mark had acquired secondary meaning. Converse asserted that it had acquired secondary meaning, the mark having been used by Converse since 1932. The intervenors, on the other hand, disputed secondary meaning, claiming that Converse’s use of the mark had not been substantially exclusive and offering a survey (the Butler survey) concluding that consumers did not associate the Converse mark with a single source. The parties also disputed infringement. Both the ITC Administrative Law Judge (“ALJ”) and the ITC treated Converse as claiming two separate marks—a common-law mark and a registered mark.

On November 17, 2015, the ALJ issued an initial determination finding violations of section 337 by the intervenors because the registered ’753 trademark was infringed and not invalid, relying on the presumption of secondary meaning afforded to the registered mark. However, the ALJ found that Converse had not estab-

lished secondary meaning for the common-law mark (but that, if protectable, the common-law mark was infringed). Converse, the intervenors, and the ITC staff petitioned for review.

On June 23, 2016, the ITC issued its final determination. The ITC reversed the ALJ's finding of no invalidity of the registered mark. The ITC found the registered mark invalid in light of its determination that the mark had not acquired secondary meaning. With respect to the common-law mark, the ITC affirmed the ALJ's finding that the mark had not acquired secondary meaning. The ITC determined that, if either trademark was not invalid or protectable, it was infringed, affirming the ALJ's finding in this respect. The ITC refused to enter an exclusion order with respect to any of the respondents, including those who had defaulted. Converse timely appealed, and we have jurisdiction under 28 U.S.C. § 1295(a)(6).

The court held oral argument on February 8, 2018. On June 7, 2018, the court requested supplemental briefing on the following questions:

1. Was Converse required to show priority in the mark (i.e., secondary meaning at the time of first infringement) without regard to the presumption of validity that would exist if the trademark registration is valid?
2. What significance does the registration of the mark or its validity have in these proceedings?
3. Was it necessary or appropriate for the ITC to address the validity of the registered mark?

*Converse, Inc. v. Int'l Trade Comm'n*, 726 F. App'x 818, 819 (Fed. Cir. 2018) (per curiam) (nonprecedential order). Each of the parties filed supplemental briefs in response.

## DISCUSSION

We review the ITC's legal determinations de novo and its factual findings for substantial evidence. *Cisco Sys., Inc. v. Int'l Trade Comm'n*, 873 F.3d 1354, 1360–61 (Fed. Cir. 2017). We conclude that the ITC made a series of errors that require a remand. In Part I, we discuss the relevant date for assessing secondary meaning, the significance of Converse's trademark registration, and the benefits arising from that registration. In Part II, we define the factors to be weighed in determining whether a mark has acquired secondary meaning. And in Part III, we address the standard for evaluating likelihood of confusion for the purposes of determining infringement.

I. The Timing of the Secondary Meaning Inquiry and the Relevance of Trademark Registration

The ITC's first error was failing to distinguish between alleged infringers who began infringing before Converse obtained its trademark registration and those who began afterward. This error was not identified as such in Converse's briefing, no doubt because the error was beneficial to Converse. The intervenors argued in their principal and supplemental briefs that the ITC erred in this respect.

In addressing these issues, we think that it is confusing and inaccurate to refer to two separate marks—a registered mark and a common-law mark. Rather, there is a single mark, as to which different rights attach from the common law and from federal registration. *E.g.*, *In re Int'l Flavors & Fragrances Inc.*, 183 F.3d 1361, 1366 (Fed. Cir. 1999) (“The federal registration of a trademark does not create an exclusive property right in the mark. The owner of the mark already has the property right established by prior use . . . . However, those trademark owners who register their marks with the [Patent and Trademark Office (PTO)] are afforded additional protection not provided by the common law.”); *In re Deister Concentrator*

Co., 289 F.2d 496, 501 (CCPA 1961) (“[T]he Lanham Act does not create trademarks. While it may create some new substantive rights in trademarks, unless the trademarks pre-exist there is nothing to be registered. Neither does it create ownership, but only evidence thereof.”); 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 19:3 (5th ed. 2017 & Supp. 2018) (“Although a federal registration gives the owner of a mark very important and valuable legal rights and benefits, the registration does not create the trademark.”); see also *Matal v. Tam*, 137 S. Ct. 1744, 1751 (2017) (quoting *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1299 (2015)) (“[F]ederal law does not create trademarks.” (alteration in original)).

Converse secured trademark registration for its trade dress on September 10, 2013. Converse alleges that before and after the date of registration the respondents infringed that mark. To establish infringement of a trademark under the Lanham Act, Converse must prove “(1) it has a valid and legally protectable mark; (2) it owns the mark; and (3) the defendant’s use of the mark to identify goods or services causes a likelihood of confusion.” *ERBE Elektromedizin GmbH v. Canaday Tech. LLC*, 629 F.3d 1278, 1287 (Fed. Cir. 2010) (quoting *A & H Sportswear, Inc. v. Victoria’s Secret Stores, Inc.*, 237 F.3d 198, 210 (3d Cir. 2000)).

All trademarks, in order to be valid or protectable, must be distinctive of a product’s source, and “courts have held that a mark can be distinctive in one of two ways.” *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 210 (2000). “First, a mark is inherently distinctive if ‘[its] intrinsic nature serves to identify a particular source.’” *Id.* (alteration in original) (quoting *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992)). “Second, a mark has acquired distinctiveness, even if it is not inherently distinctive, if it has developed secondary meaning, which occurs when, ‘in the minds of the public, the primary

significance of a [mark] is to identify the source of the product rather than the product itself.” *Id.* at 211 (alteration in original) (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 851 n.11 (1982)); *see also* 15 U.S.C. § 1052(f).

Converse here seeks protection as to the intervenors for a mark in the form of unregistered product-design trade dress. The Supreme Court has held that unlike word marks and product-packaging trade dress, product-design trade dress can never be inherently distinctive. *Wal-Mart*, 529 U.S. at 216. As a result, “a product’s design is distinctive, and therefore protectable, only upon a showing of secondary meaning.” *Id.* Accordingly, Converse must show that its mark has acquired distinctiveness, i.e., secondary meaning.

The ITC’s decision never determined the relevant date for assessing the existence of secondary meaning. The ITC utilized 2003 (characterized as the “date of first infringement”) as the relevant date in certain instances, but also extensively cited to evidence from after 2003. On appeal, the ITC contends that its finding should be read to mean that Converse’s trademark had not acquired secondary meaning at any time.

Because the relevant date is so important to the secondary-meaning analysis, we find that a specific determination of secondary meaning as of the relevant date must be made. In any infringement action, the party asserting trade-dress protection must establish that its mark had acquired secondary meaning before the first infringing use by each alleged infringer. *See, e.g., Braun, Inc. v. Dynamics Corp. of Am.*, 975 F.2d 815, 826 (Fed. Cir. 1992) (holding that “[a] claim of trade dress infringement fails if secondary meaning did not exist before the infringement began” and placing the burden of proof on the plaintiff); 2 McCarthy, *supra*, § 16:34 (noting that the purported “senior user must prove the existence of secondary mean-



ing in its mark at the time and place that the junior user first began use of that mark” and collecting cases); Restatement (Third) of Unfair Competition § 19 cmt. b. (Am. Law Inst. 1995 & Supp. 2018). In this respect, Converse argues that it is entitled to rely on the presumption of validity afforded to registered marks. We do not agree that this presumption applies to infringement that began before registration.

For infringement in the period after registration, the Lanham Act entitles the owner of the registered mark to a presumption that the mark is valid, *see* 15 U.S.C. §§ 1057(b), 1115(a), including that it has acquired secondary meaning, *see* 2 McCarthy, *supra*, § 11:43 (citing *Lovely Skin, Inc. v. Ishtar Skin Care Prods., LLC*, 745 F.3d 877, 882 (8th Cir. 2014); *Cold War Museum, Inc. v. Cold War Air Museum, Inc.*, 586 F.3d 1352, 1356 (Fed. Cir. 2009)); 2 McCarthy, *supra*, § 15:34; 6 McCarthy, *supra*, § 32:134. In the context of cancellation proceedings, we have held that this presumption shifts both the burden of persuasion and the initial burden of production to the challenger to rebut the presumption. *Cold War*, 586 F.3d at 1358; *see also Schaffer ex rel. Schaffer v. Weast*, 546 U.S. 49, 56 (2005) (describing the difference between these “two distinct burdens”). We see no reason why the effect of the presumption should be any different in the infringement context, and we join with the majority of circuits that have held that the presumption shifts both burdens to the party challenging secondary meaning. *See* 6 McCarthy, *supra*, § 32:138 n.12 (collecting cases); Restatement (Third) of Unfair Competition § 13 cmt. a. This result is strongly supported by the legislative history of the Lanham Act as thoroughly documented by Charles L. Cook and Theodore H. Davis Jr., *Litigating the Meaning of “Prima Facie Evidence” Under the Lanham Act: The Fog and Art of War*, 103 Trademark Rep. 437, 459–86 (2013) (showing that Congress repeatedly considered this ques-

tion and expressly chose to shift the burden of persuasion).

However, under the statute, the registration and its accompanying presumption of secondary meaning operate only prospectively from the date of registration, i.e., the date on which the Patent and Trademark Office (“PTO”) determined that secondary meaning had been acquired. *See* 15 U.S.C. §§ 1052(f), 1057(a)–(b), 1115(a). This was recognized by the Eighth Circuit in *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 870 (8th Cir. 1994)<sup>1</sup> and has been approved by the relevant treatises. *See* 7 Louis Altman & Malla Pollack, *Callmann on Unfair Competition, Trademarks and Monopolies* § 26:101 (4th ed. 2012 & Supp. 2018); 2 McCarthy, *supra*, §§ 11:53, 15:34.

This rule is a straightforward application of the Lanham Act, pursuant to which the PTO examines whether secondary meaning has been acquired at the time of registration. *See* 15 U.S.C. § 1052(f). The resulting registration confers a presumption of secondary meaning from that point in time, *see id.* §§ 1057(b), 1115(a), but at the time of registration the PTO is not asked to determine whether secondary meaning had been acquired at some previous date, and therefore registration cannot support a presumption for the period before registration. Indeed, on a record such as this, with a multiyear gap between infringement and registration, registration cannot even be probative of secondary meaning at the time of infringement.

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<sup>1</sup> The *Aromatique* court concluded that the marks in question “may be presumed to have acquired secondary meaning only as of” the date of registration, and as a result, for purposes of proving secondary meaning as of a date three years prior to registration, the owner of the marks “[wa]s not entitled to the presumption.” *Id.*

Converse argued to the ITC that its registration entitled it to a presumption of secondary meaning at any and all times, including before registration. But Converse identified no circuit court decisions in which this question was squarely presented and decided in favor of Converse's position, and it relies on legislative history that predates the Lanham Act by two decades and fails to address the question at issue.

We conclude that Converse's registration confers a presumption of secondary meaning beginning only as of the date of registration and confers no presumption of secondary meaning before the date of registration. Thus, with respect to infringement by those respondents whose first uses came before the registration (including all of the intervenors), Converse must establish without the benefit of the presumption that its mark had acquired secondary meaning before the first infringing use by each respondent.

The intervenors contend that Converse has waived any argument that it could prevail on its claims of pre-registration infringement without the benefit of a presumption of secondary meaning. We do not think a finding of waiver is appropriate here, given that our opinion is clarifying and in some ways changing the legal landscape with respect to proving secondary meaning. Thus, we conclude that on remand, Converse has not waived the argument that its mark acquired secondary meaning even before the date of registration under the appropriate standards, an issue we discuss in Part II below.

The question remains whether the issue of trademark validity needs to be addressed by the ITC on remand. The dissent argues that since the intervenors' first infringement in all cases began before registration and the remaining respondents defaulted, trademark validity need not be addressed in granting relief. In this respect the

dissent relies on the provisions of 19 U.S.C. § 1337.<sup>2</sup> Dissenting Op. at 12–13. We decline to decide that issue at this stage since it has not been addressed by either the ITC or the parties. But Converse and the intervenors assume that on remand further issues of validity remain because the order sought is a general exclusion order. Converse Suppl. Br. 11–12 (“The ITC also needed to address Converse’s registered trademark when evaluating Converse’s infringement claims as to infringements that began after Converse registered the trademark. For those infringements, as discussed above, Converse may rely on its federal registration’s presumption of secondary meaning to satisfy the first element of its infringement claims.”); Intervenors’ Suppl. Br. 12 (“With respect to parties other than the Intervenors who may be affected by a GEO, it was both necessary and appropriate for the ITC to consider the validity of the ’753 Registration”). On their face, the 1988 amendments to the Tariff Act of 1930

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<sup>2</sup> 19 U.S.C. § 1337(g)(1)(C), which is cited by the dissent, provides that where

the person fails to respond to the complaint and notice or otherwise fails to appear to answer the complaint and notice . . . the Commission shall presume the facts alleged in the complaint to be true and shall, upon request, issue an exclusion from entry or a cease and desist order, or both, limited to that person unless, after considering the effect of such exclusion or order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the Commission finds that such exclusion or order should not be issued.

(now section 1337(g)) only appear to authorize the entry of an exclusion order “limited to that person,” i.e., the defaulting party and not a general exclusion order.<sup>3</sup> Whether the 1988 amendments, as the dissent urges, require the entry of a general exclusion order without addressing trademark validity or infringement is best addressed on remand.<sup>4</sup>

If validity remains an issue, of course, the secondary-meaning analysis should look to the date of registration. See *McCormick & Co. v. Summers*, 354 F.2d 668, 674 (CCPA 1966) (“[R]egistrability of a mark must be determined on the basis of facts as they exist at the time when the issue of registrability is under consideration.”). In this case, that date was September 10, 2013.

## II. The Standards for Determining Whether A Mark Has Acquired Secondary Meaning

Converse argues that the ITC erred in its secondary meaning analysis in a number of respects. We agree with Converse in part, concluding that in some of the claimed respects the ITC applied the wrong legal standard in its determination of secondary meaning.

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<sup>3</sup> See also H.R. Rep. No. 99-581, at 115 (1988) (“However, a general exclusion order prohibiting the entry of unfairly traded articles regardless of their source may not be issued unless a violation of the Act has been established by substantial, reliable, and probative evidence.”).

<sup>4</sup> We note in this connection that even before 1988 we had held in the patent context that the ITC cannot consider validity as to defaulting parties. See *Lannom Mfg. Co. v. U.S. Int’l Trade Comm’n*, 799 F.2d 1572 (Fed. Cir. 1986). We do not decide whether the same approach governs under the 1988 amendments with respect to general exclusion orders or in the trademark context.

## A

We first address the relevant factors. In assessing whether the '753 trademark had acquired secondary meaning, the ITC weighed seven factors: “(1) the degree and manner of use; (2) the exclusivity of use; (3) the length of use; (4) the degree and manner of sales, advertising, and promotional activities; (5) the effectiveness of the effort to create secondary meaning; (6) deliberate copying; and (7) association of the trade dress with a particular source by actual purchasers (typically measured by customer surveys).” J.A. 21. The ITC affirmed the ALJ’s determination that factors 1, 3, 4, and 6 supported a finding of secondary meaning; that factor 5 was neutral; and that factor 7 weighed against such a finding. The ITC determined that the ALJ had erred, however, in finding factor 2 (exclusivity of use) to be neutral; instead, the ITC found that it weighed against a finding of secondary meaning. Weighing all these factors, the ITC then determined that the '753 trademark had not acquired secondary meaning and was, therefore, invalid.

Each circuit that has addressed secondary meaning—11 circuits in all—has formulated some version of a multifactor test similar to the test adopted by the ITC.<sup>5</sup>

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<sup>5</sup> See, e.g., *Flynn v. AK Peters, Ltd.*, 377 F.3d 13, 20 (1st Cir. 2004); *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc.*, 696 F.3d 206, 226 (2d Cir. 2012); *Parks LLC v. Tyson Foods, Inc.*, 863 F.3d 220, 231 (3d Cir. 2017); *Grayson O Co. v. Agadir Int’l LLC*, 856 F.3d 307, 316 (4th Cir. 2017); *Test Masters Educ. Servs., Inc. v. Robin Singh Educ. Servs., Inc.*, 799 F.3d 437, 445 (5th Cir. 2015), *cert. denied*, 137 S. Ct. 499 (2016); *Gen. Motors Corp. v. Lanard Toys, Inc.*, 468 F.3d 405, 418 (6th Cir. 2006); *Platinum Home Mortg. Corp. v. Platinum Fin. Grp., Inc.*, 149 F.3d 722, 728 (7th Cir. 1998); *Stuart Hall*

This Court has previously discussed certain factors that are relevant to the analysis, which overlap to an extent with those identified by the ITC. *See, e.g., Coach Servs., Inc. v. Triumph Learning LLC*, 668 F.3d 1356, 1379 (Fed. Cir. 2012) (“To determine whether a mark has acquired secondary meaning, courts consider: advertising expenditures and sales success; length and exclusivity of use; unsolicited media coverage; copying of the mark by the defendant; and consumer studies.”); *see also Real Foods Pty Ltd. v. Frito-Lay N. Am., Inc.*, Nos. 17-1959, -2009, 2018 WL 4781153, at \*6 (Fed. Cir. Oct. 4, 2018) (quoting *Coach* for same proposition); *In re Steelbuilding.com*, 415 F.3d 1293, 1300 (Fed. Cir. 2005) (“In determining whether secondary meaning has been acquired, the Board may examine copying, advertising expenditures, sales success, length and exclusivity of use, unsolicited media coverage, and consumer studies (linking the name to a source).”).

Today we clarify that the considerations to be assessed in determining whether a mark has acquired secondary meaning can be described by the following six factors: (1) association of the trade dress with a particular source by actual purchasers (typically measured by customer surveys); (2) length, degree, and exclusivity of use; (3) amount and manner of advertising; (4) amount of sales and number of customers; (5) intentional copying; and (6) unsolicited media coverage of the product embodying the mark. While the ITC’s test set forth length, degree, and exclusivity of use as separate factors, we think that these

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*Co. v. Ampad Corp.*, 51 F.3d 780, 789–90 (8th Cir. 1995); *Miller v. Glenn Miller Prods., Inc.*, 454 F.3d 975, 991 (9th Cir. 2006) (per curiam); *Forney Indus., Inc. v. Daco of Mo., Inc.*, 835 F.3d 1238, 1253 (10th Cir. 2016); *FN Herstal SA v. Clyde Armory, Inc.*, 838 F.3d 1071, 1084 (11th Cir. 2016), *cert. denied*, 137 S. Ct. 1436 (2017). *See generally* 2 McCarthy, *supra*, § 15:30.

considerations are substantially interrelated and should be evaluated together. All six factors are to be weighed together in determining the existence of secondary meaning.

## B

Next, we address the significance of the trademark owner's and third parties' prior uses of the mark. We conclude that the ITC relied too heavily on prior uses long predating the first infringing uses and the date of registration. The secondary meaning analysis primarily seeks to determine what is in the minds of consumers as of the relevant date,<sup>6</sup> and factor 2 must be applied with this purpose in view. The most relevant evidence will be the trademark owner's and third parties' use in the recent period before first use or infringement.

The Lanham Act itself sheds light on what constitutes the most relevant period. Section 2(f) provides that in assessing secondary meaning:

The Director [of the PTO] may accept as prima facie evidence that a mark has become distinctive, as used on or in connection with the applicant's goods in commerce, proof of substantially exclusive and continuous use thereof as a mark by the applicant in commerce *for the five years before the date on which the claim of distinctiveness is made.*

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<sup>6</sup> As noted above, in order to prevail on a claim of infringement, secondary meaning must have been acquired by *the date of first infringing use*. To the extent an alleged infringer challenges the present validity of the asserted trademark registration, validity depends on whether the mark had acquired secondary meaning as of *the date of registration*.



15 U.S.C. § 1052(f) (emphasis added). A somewhat different, ten-year rule had previously been enacted in 1905. *See* Act of Feb. 20, 1905, ch. 592, § 5, 33 Stat. 724, 726. Describing marks subject to that 1905 law, the Supreme Court noted, “Their exclusive use as trademarks for the stated period was deemed, in the judgment of Congress, a sufficient assurance that they had acquired a secondary meaning as the designation of the origin or ownership of the merchandise to which they were affixed.” *Thaddeus Davids Co. v. Davids*, 233 U.S. 461, 470 (1914).

Today’s five-year rule was enacted in substantially its present form in 1946. *See* Act of July 5, 1946 (Lanham Act), ch. 540, § 2(f), 60 Stat. 427, 429. Remarking on the shift from ten to five years and relying on *Davids*, the Eighth Circuit found “it must follow that Congress in establishing the new and different prerequisite of five years . . . now deems that period of such use adequate.” *Curtis-Stephens-Embry Co. v. Pro-Tek-Toe Skate Stop Co.*, 199 F.2d 407, 413 (8th Cir. 1952).

To be sure, section 2(f) sets up an evidentiary rule for the Director rather than courts. But the Supreme Court has noted “that the general principles qualifying a mark for registration under § 2 of the Lanham Act are for the most part applicable” in other trademark proceedings, such as suits seeking to enforce unregistered marks under 15 U.S.C. § 1125(a). *Two Pesos*, 505 U.S. at 768. And several other courts of appeals, drawing on section 2(f), have found five years’ substantially exclusive and continuous use to weigh strongly in favor of a finding of secondary meaning. *See Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 295–96 (7th Cir. 1998); *Sunbeam Prods., Inc. v. W. Bend Co.*, 123 F.3d 246, 255 (5th Cir. 1997), *abrogated on other grounds by TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Stuart Hall*, 51 F.3d at 789–90. *But see FN Herstal*, 838 F.3d at 1084 (declining to rely on section 2(f)).

We agree with those circuits that recognize the importance of looking to this five-year period. While section 2(f) cannot be read as limiting the inquiry to the five years before the relevant date, it can and should be read as suggesting that this period is the most relevant. As a result, in evaluating factor 2, the ITC should rely principally on uses within the last five years. The critical issue for this factor is whether prior uses impacted the perceptions of the consuming public as of the relevant date. *See Palm Bay Imps., Inc. v. Veuve Clicquot Ponsardin Maison Fondee en 1772*, 396 F.3d 1369, 1373–74 (Fed. Cir. 2005) (making a similar point in the likelihood-of-confusion context). Consumers are more likely to remember and be impacted in their perceptions by third-party uses within five years and less likely with respect to older uses. We recently applied similar, common-sense reasoning in the trademark opposition context, finding that survey results were probative, at best, of the public’s perception five years after the survey was conducted. *Royal Crown Co. v. Coca-Cola Co.*, No. 2016-2375, 2018 WL 3040163, at \*8 (Fed. Cir. June 20, 2018).

Therefore, uses older than five years should only be considered relevant if there is evidence that such uses were likely to have impacted consumers’ perceptions of the mark as of the relevant date. For example, this might be the case where a particular advertising campaign has been in use for longer than five years. The ITC’s determination relied heavily on evidence—both as to Converse’s use and the use by competitors—far predating the relevant timeframe. Evidence older than this five-year period should be reevaluated on remand to determine whether it is relevant.

### C

In considering exclusivity of use—that is, whether the trademark owner’s use of the mark was substantially exclusive—it appears the ITC considered prior third-party

uses of shoes with designs that were not substantially similar to the '753 trademark. The ITC cited historical examples as a “third-party use of the [’753 trademark]” or “shoes bearing the [trademark].” J.A. 28. But several of the instances of third-party use cited in the ITC’s decision are shoes that bear at most a passing resemblance to the ’753 trademark. Many more are missing at least one of the elements of the ’753 trademark. Still others are reproduced in such poor resolution that no reasonable comparison can be made. Examples of prior uses that may not be substantially similar are set forth in the Appendix to this opinion.

Although we agree with the ITC that evidence of the use of similar but not identical trade dress may inform the secondary-meaning analysis, we think such uses must be substantially similar to the asserted mark. *See Echo Travel, Inc. v. Travel Assocs., Inc.*, 870 F.2d 1264, 1266, 1269 (7th Cir. 1989) (weighing prior use of marks described as “substantially similar” and “substantially identical”); *Sweetheart Plastics, Inc. v. Detroit Forming, Inc.*, 743 F.2d 1039, 1045 (4th Cir. 1984) (approving of the admission of evidence of “substantially identical” and “substantially similar” designs as “probative of the extent and nature of exclusivity of use”); *Scarves by Vera, Inc. v. Todo Imports Ltd.*, 544 F.2d 1167, 1174 (2d Cir. 1976) (criticizing reliance on prior uses of marks that were insufficiently similar). Here, the ITC made no determination as to which of the prior uses were substantially similar to the ’753 trademark and relied on at least some that were not. On remand, the ITC must constrain its analysis of both Converse’s use and the use by its competitors to marks substantially similar to Converse’s registered mark.

#### D

The ITC also placed considerable weight on survey evidence submitted by the intervenors (the CBSC only

Butler survey) to support its determination that the mark had not acquired secondary meaning.<sup>7</sup> We agree with amici that surveys are sometimes difficult to use as evidence of historic secondary meaning. Amicus Br. of All Market Inc. 29. This is because “[t]he relevant consumer population for assessing consumer attitudes at a point in the past is a group of consumers at that point in the past” and “[a] contemporaneous survey commissioned for litigation obviously cannot access such a pool of respondents.” *Id.* at 29. Thus, the ITC should only give such survey evidence “weight appropriate to the extent that it sheds light on consumer perceptions in the past.” 2 McCarthy, *supra*, § 16:34.

We think the Butler survey likely has little relevance with respect to the issue of secondary meaning for the intervenors. The intervenors’ expert, Sarah Butler, surveyed respondents in the spring of 2015 to determine whether they associated the ’753 trademark with a single source. Converse did not dispute that a survey taken two years after the registration is relevant to determining secondary meaning *as of the date of registration*. On remand, however, the ITC must consider whether Converse’s mark had acquired secondary meaning as of each first infringing use by each intervenor, the earliest of which is more than ten years before the date of the Butler survey and the latest of which is likely more than five

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<sup>7</sup> The ALJ had rejected eight other surveys—five offered by Converse and three by the intervenors—primarily because they used improper test and control images. In its reply brief, Converse argues that the ITC erred in rejecting a survey conducted by one of Converse’s experts, Dr. Gerald Ford. But that argument was not sufficiently articulated in Converse’s opening brief to preserve it. *See, e.g., Evans v. Bldg. Materials Corp. of Am.*, 858 F.3d 1377, 1381–82 (Fed. Cir. 2017).

years before the Butler survey. Thus, with respect to Converse's claims of infringement against the intervenors, the ITC should give the Butler survey little probative weight in its analysis, except to the extent that the Butler survey was within five years of the first infringement by one of the intervenors. *See generally Commerce Nat'l. Ins. Servs., Inc. v. Commerce Ins. Agency, Inc.*, 214 F.3d 432, 440 (3d Cir. 2000) (recency of survey contributed to its being "wholly irrelevant to whether CBI established secondary meaning in the 'Commerce' mark as of 1983").

If on remand, secondary meaning at the time of the registration remains an issue, the Butler survey may have relevance since it was conducted within two years of the registration; indeed, Converse does not object to the use of the Butler survey on the ground that it is too distant in time. Surveys that are conducted within five years of the relevant date may provide evidence as to secondary meaning although "[n]o single factor is determinative." *In re Steelbuilding.com*, 415 F.3d at 1300.

Butler concluded that the '753 trademark had a 21.5% net rate of association with a single source, a rate of association that the ALJ found "insufficient to establish secondary meaning" at the time of registration. J.A. 88. The ITC found that the Butler survey "weighs against a finding of secondary meaning," J.A. 26, relying on the ALJ's conclusion that the survey was "insufficient to establish secondary meaning," J.A. 88. We see no error in the conclusion that the survey does not establish secondary meaning, but we are unclear as to the ITC's reasoning as to why the survey supports the opposite—a lack of secondary meaning. On appeal the intervenors argue that the Butler survey affirmatively supports their position—showing lack of secondary meaning. Converse argues that the Butler survey is flawed and should be given no weight. We do not resolve this issue which is a matter for the ITC in the first instance. In any remand where secondary meaning as of the time of registration is

a relevant issue, the Board should analyze whether the survey shows lack of secondary meaning as of the date of registration. Unless the survey affirmatively shows a lack of secondary meaning, there is simply a lack of survey evidence of secondary meaning—which is a neutral factor favoring neither party.

### III. The Standards for Determining Likelihood of Confusion

#### A

The intervenors also contend that the ITC erred in finding a likelihood of confusion—and, therefore, infringement—with respect to accused products that lacked one or more elements of the '753 trademark. For example, the intervenors point out that the ITC found no infringement by an accused product missing one of the '753 trademark's elements (two stripes on the midsole) but did find infringement by two other accused products missing a different element (the multi-layered toe bumper featuring diamonds and line patterns). The ALJ's only explanation for these different results was that, in the former case, "[t]he differences in these shoe models are not drastic enough to overcome the similarities." J.A. 151.

The likelihood-of-confusion analysis for determining infringement turns in part on the similarity of the accused products to the asserted mark. *See, e.g., Nautilus Grp., Inc. v. Icon Health & Fitness, Inc.*, 372 F.3d 1330, 1334–35 (Fed. Cir. 2004). We described earlier that, in the invalidity determination, marks that are not substantially similar cannot be considered. In the context of trade-dress infringement, we also hold that accused products that are not substantially similar cannot infringe. *See Versa Prods. Co. v. Bifold Co. (Mfg.)*, 50 F.3d 189, 202 (3d Cir. 1995) (“[S]ubstantial similarity of appearance is necessarily a prerequisite to a finding of likelihood of confusion in product configuration cases.”); *see also Eng’g Dynamics, Inc. v. Structural Software, Inc.*,

26 F.3d 1335, 1350 (5th Cir. 1994) (“The Lanham Act prohibits passing off goods or services as those of a competitor by employing substantially similar trade dress which is likely to confuse consumers as to the sources of the product.”), *modified on other grounds*, 46 F.3d 408 (5th Cir. 1995). We have applied an analogous requirement in the design-patent context, where infringement cannot be found unless an ordinary observer would perceive that the “two designs are substantially the same.” *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665, 670 (Fed. Cir. 2008) (en banc) (quoting *Gorham Co. v. White*, 81 U.S. 511, 528 (1871)).

On remand, the ITC should reassess the accused products to determine whether they are substantially similar to the mark in the infringement analysis.

## B

Finally, the intervenors present other arguments in favor of affirmance, none of which we find persuasive.

First, the intervenors assert that the brand-name labeling of the accused products was dispositive of the likelihood of confusion as a matter of law. Contrary to the intervenors’ argument, we have not held that such labeling is always legally sufficient to avoid likelihood of confusion but rather that those labels may be highly probative evidence. *See, e.g., Conopco, Inc. v. May Dep’t Stores Co.*, 46 F.3d 1556, 1570–71 (Fed. Cir. 1994); *Braun*, 975 F.2d at 828; *Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1446–47 (Fed. Cir. 1984), *abrogated on other grounds by Two Pesos*, 505 U.S. 763; *see also* 1 McCarthy, *supra*, § 8:16; 4 *id.* § 23:53. The ALJ did not misapply this rule.

Second, one intervenor contends that the ITC erred by finding infringement absent evidence that its products have harmed Converse’s reputation. Neither case cited by the intervenor establishes such a prerequisite to a finding

CONVERSE, INC. v. ITC

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of infringement. *See Gen. Motors Corp. v. Keystone Auto. Indus., Inc.*, 453 F.3d 351, 356–59 (6th Cir. 2006); *Payless Shoesource, Inc. v. Reebok Int'l Ltd.*, 998 F.2d 985, 989–90 (Fed. Cir. 1993).

Third, the intervenors argue that the '753 trademark is functional and hence not protectable. We find no error in the ITC's determination that the mark is nonfunctional. Any functional benefit is derived from the presence of toe caps and bumpers generally, not the particular design of the '753 trademark, and there are numerous commercial alternatives to that design. *See, e.g., In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332, 1338–39 (CCPA 1982).

#### CONCLUSION

We vacate and remand to the ITC for further proceedings consistent with this opinion.

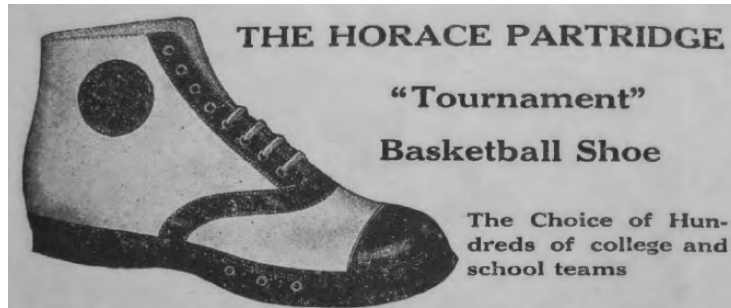
#### **VACATED AND REMANDED**

#### COSTS

No costs.



APPENDIX



J.A. 40,928.



J.A. 41,738.

CONVERSE, INC. v. ITC

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Our

**83¢**  
Children's  
Size  
**Men's**  
**Women's Children's**  
Strong white canvas. Durable  
crepe corrugated rubber sole.  
Ship. weight: Men's, 2 lbs.; wo-  
men's and big boys', 1 lb. 8 oz.;  
boys' and children's, 1 pound.  
State size wanted.  
26 F 4285—Men's **\$1.00**  
4 to 11  
26 F 4289—Women's  
2½ to 8  
26 F 4286—Boys'  
1 to 5  
26 F 4287—11 to 13½  
26 F 4288—8 to 10½

**\$1.39**  
**Men's, Boys', Crepe Sole**  
Extremely long wear and gen-  
uine foot comfort are features of  
this crepe sole Sports Shoe, and  
you could not find a greater value.  
Durable white canvas  
uppers are reinforced with shoe  
rubber. Ship. weight: Men's, 2  
pounds; boys', 1 pound 8 ounces.  
State size wanted.  
26 F 4265—Men's **\$1.55**  
8 to 11  
26 F 4266—Boys', 1 to 6 **1.45**  
26 F 4267—Boys',  
11 to 15½ **1.39**

Two Shoes of Very Fine Quality

**Non-Slip  
Rubber  
Sole**



**\$1.75**

**Crepe  
Sole**



**\$2.69**

Basket-ball players prefer this  
higher grade shoe. Also popular  
for everyday wear. Thick slip-  
pered ebony black rubber sole.  
Superior white canvas uppers are  
reinforced along the eyelets, sides  
and the ankle. Ship. wt., 2 lbs.  
4 ounces. State size.  
26 F 4210—6 to 12 **\$1.89**  
26 F 4211—2½ to 6 **1.75**

Our very finest quality canvas  
shoe for basket-ball or everyday  
wear. Uppers of extra fine white  
canvas reinforced along the eye-  
lets, side and toe. Pure gum rub-  
ber soles will give extra wear and  
comfort. Ship. wt., 2 lbs. 4 oz.  
SIZES: 6 to 12. State size.  
26 F 4202 **\$2.69**

J.A. 42,824.



J.A. 43,133.

**United States Court of Appeals  
for the Federal Circuit**

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**CONVERSE, INC.,**  
*Appellant*

v.

**INTERNATIONAL TRADE COMMISSION,**  
*Appellee*

**SKECHERS U.S.A., INC., NEW BALANCE  
ATHLETICS, INC., FKA NEW BALANCE ATHLETIC  
SHOE, INC., HU LIQUIDATION, LLC, FKA  
HIGHLINE UNITED LLC,**  
*Intervenors*

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2016-2497

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Appeal from the United States International Trade  
Commission in Investigation No. 337-TA-936.

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O'MALLEY, *Circuit Judge*, concurring-in-part and dissent-  
ing-in-part.

I agree with the majority that the International Trade  
Commission (“ITC” or “Commission”) erred in its legal  
analysis in this matter and that its decision must be  
vacated. I also agree that a remand is appropriate. I

even agree with many of the ways in which the majority finds that the ITC erred.<sup>1</sup> I cannot join in the majority's reasoning, however, because I believe that the majority overlooks important procedural facts and binding statutory authority to reach issues that are not properly before us. Thus, I do not agree with the majority's decision to remand questions regarding the validity of the registered mark for further consideration or its decision to even address questions of infringement. And, I cannot accede to the majority's failure to order the ITC to enter a remedy against the parties found in default in the proceedings below or to explain why public interest concerns would justify not doing so.

Specifically, I believe that the majority: (1) misperceives the scope of the ITC's authority to invalidate duly issued intellectual property rights when it addresses the issue of the validity of a registered mark; (2) blurs the line between the concepts of priority of use under common law and the validity of a registered mark; (3) espouses advisory—and unnecessary—opinions on the weight to be given certain survey evidence and the question of infringement; and (4) ignores the ITC's statutory obligation to enter remedies against defaulting parties. Thus, except where otherwise noted, I concur only in the

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<sup>1</sup> In particular, I agree that the ITC erred when it failed to distinguish between alleged infringers whose first uses began before Converse obtained its registered mark and those whose first uses began afterward. I also agree that, in order to prevail against the intervenors, Converse must establish that its mark had acquired distinctiveness before each first use by each intervenor and that it must do so without the benefit of the presumption of acquired distinctiveness that is afforded registered marks.

conclusion that the ITC's findings must be vacated, and the matter remanded to the ITC for further analysis. I dissent from the fact that the majority discusses matters not properly before us and from the nature of the remand the majority outlines.

I begin with a discussion of the ITC's authority and how that impacts the scope of our review on appeal. The majority rightly finds fault with the ITC's failure "to distinguish between alleged infringers who began infringing before Converse obtained its trademark registration and those who began afterward." Majority Op. at 7. But, the majority makes the same mistake when it considers and passes judgment on the ITC's determination regarding the validity of the registered mark. The ITC has no authority to invalidate a trademark—or patent for that matter—except and to the extent the validity of either is asserted as a defense to and is, thus, relevant to the question of whether an accused infringer can be liable for infringement. *See Kinik Co. v. Int'l Trade Comm'n.*, 362 F.3d 1359, 1367 (Fed. Cir. 2004) (concluding that the ITC has "no authorization to determine patent validity when that defense was not raised"). Indeed, where a respondent seeks a declaration of invalidity by way of a counterclaim, rather than as a mere defense to infringement, it is statutorily required to remove that counterclaim to district court. 19 U.S.C. § 1337(c) ("Immediately after a counterclaim is received by the Commission, the respondent raising such counterclaim shall file a notice of removal with a United States district court in which venue for any of the counterclaims raised by the party would exist under section 1391 of Title 28."); *see* 28 U.S.C. § 1368 ("The district courts shall have original jurisdiction of any civil action based on a counterclaim raised pursuant to section 337(c) of the Tariff Act of 1930, to the extent that it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim in the proceeding under section 337(a) of that Act.")

The validity of Converse's registered trademark is not relevant to the question of whether any remaining party in this case is liable for infringement or has violated 19 U.S.C. § 1337. Only two types of accused infringers remain in this case—(1) the defaulting parties, who acquiesced to Converse's claims and whose first uses began *after* the date of registration, and (2) the intervenors, who actively participated in the proceeding and whose first uses began *before* the date of registration. The validity of the registered mark is not relevant to Converse's claims against any of those parties.

The defaulting parties, by virtue of defaulting, never challenged Converse's claims of infringement or the validity of the registered mark. Even the majority admits that our opinion in *Lannom Mfg. Co. v. Int'l Trade Comm'n*, 799 F.2d 1572 (Fed. Cir. 1986) stands for the proposition "that the ITC cannot consider validity as to defaulting parties." Majority Op. at 14 n.4. Because the ITC may only assess validity when raised as a defense to a claim of infringement, the ITC's ruling with respect to the registered mark was neither necessary nor appropriate as to those parties. The same is true with respect to the claims against the intervenors, but for different reasons. Because Converse concedes that the intervenors all began their allegedly infringing uses well before the date of registration (as the majority correctly concludes), the intervenors cannot be liable for infringement of the registered mark. That means that the ITC's discussion of the validity of the registered mark was neither necessary nor appropriate with respect to those respondents either.

The majority recognizes that registration is irrelevant to uses beginning before the date of registration when it concludes that "Converse's registration confers a presumption of secondary meaning beginning only as of the date of registration and confers no presumption of secondary meaning before the date of registration." Majority Op. at 12. It even admits that Converse only "seeks

protection as to the intervenors for a mark in the form of *unregistered* product-design.” Majority Op. at 9 (emphasis added). But it then questions the logical impact of its own conclusion when it asks “whether the issue of trademark validity needs to be addressed by the ITC on remand.” Majority Op. at 12. And, it does so again when it concludes that the question of whether the validity of the mark needs to be addressed on remand is, itself, “best addressed on remand.” Majority Op. at 14. But, whether the validity of the registered mark has any impact on pre-registration uses is a legal question. Indeed, it is one the majority decides, but from which it then backs away.

The majority then adds to the uncertainty of its holding by continuing at some length to consider the ITC’s determination regarding the validity of the registered mark—implying it sees some relevance to that analysis—and ultimately remanding for further consideration of that question.<sup>2</sup> Majority Op. at 14–23. It does so without

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<sup>2</sup> The majority attempts to justify this by stating that both “Converse and the intervenors assume that on remand further issues of validity remain because the order sought is a general exclusion order.” Majority Op. at 13. In other words, it implies that Converse’s request for a general exclusion order could somehow put the validity of the registered mark at issue. It provides no legal support for this implication, however. Indeed, there is no support in the relevant statutory sections or our case law for the proposition that the ITC’s authority to determine the scope of a remedy could independently confer the authority to assess the validity of a registered mark. While the ITC may assess what remedy, or combination of remedies, to issue upon default, it must do so with a recognition that an unchallenged registered mark must be presumed valid.



identifying a single respondent in this appeal, or who was actively involved in the proceedings when the ITC issued its decision, for whom the validity of the registered mark is relevant to Converse's claims of infringement. In fact, the record is devoid of any indication that any such party remains.

The majority glosses over the procedural facts in this case that establish that no active respondent remains whose first use began after registration. When discussing the procedural background, the majority states that "Converse filed a complaint with the ITC alleging violations of section 337 by *various* respondents," and that, "[a]lthough some of the respondents defaulted, *several* appeared and actively participated in the ITC proceedings." Majority Op. at 5 (emphases added). What the majority *fails* to mention is that these "several" respondents who "appeared and actively participated" comprise only the four intervenors whose earliest first uses predate the date of registration. A careful review of the procedural history and record below confirms this.

On October 14, 2014, Converse filed a complaint with the ITC alleging violations of § 1337 by 31 respondents. On January 12, 2015, an additional party, New Balance Athletic Shoe, Inc., intervened, bringing the total number of respondents to 32.<sup>3</sup> J.A. 54. Five of these respondents,

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<sup>3</sup> (1) Shenzhen Foreversun Industrial Co., Ltd. a/k/a Shenzhen Foreversun Shoes Co., Ltd.; (2) Dioniso SRL; (3) Fujian Xinya I&E Trading Co. Ltd.; (4) Zhejiang Ouhai International Trade Co. Ltd.; (5) Wenzhou Cereals Oils & Foodstuffs Foreign Trade Co. Ltd.; (6) Hitch Enterprises Pty Ltd d/b/a Skeanie; (7) PW Shoes Inc.; (8) Ositos Shoes, Inc. d/b/a Collection'O; (9) Ralph Lauren Corporation; (10) OPPO Original Corp.; (11) H&M Hennes & Mauritz LP; (12) Zulily, Inc.; (13) Nowhere Co.,

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identified above as the defaulting parties, acquiesced to Converse's claims by defaulting.<sup>4</sup> As noted, none of the defaulting parties contested Converse's allegations that they violated and continue to violate § 1337 by the importation of products that infringe a registered mark. J.A. 56. And none asserted defenses—based on the invalidity of the registered mark or otherwise—to Converse's claims of infringement. Exactly 21 of the remaining 27 respondents settled with Converse.<sup>5</sup> Finally, two other respond-

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Ltd. d/b/a Bape; **(14)** Aldo Group; **(15)** Gina Group, LLC; **(16)** Tory Burch LLC; **(17)** Brian Lichtenberg, LLC; **(18)** FILA U.S.A., Inc.; **(19)** Mamiye Imports LLC d/b/a Lilly of New York; **(20)** Shoe Shox; **(21)** Iconix Brand Group, Inc. d/b/a Ed Hardy; **(22)** A-List, Inc. d/b/a Kitson; **(23)** Esquire Footwear, LLC; **(24)** Fortune Dynamic, Inc.; **(25)** Cmerit USA, Inc., d/b/a Gatta Flurt; **(26)** Kmart Corporation; **(27)** Orange Clubwear, Inc.; **(28)** Edamame Kids, Inc.; **(29)** Skechers U.S.A., Inc.; **(30)** Wal-Mart Stores, Inc.; **(31)** HU Liquidation, LLC, f.k.a. Highline United LLC; **(32)** New Balance Athletics, Inc., f.k.a. New Balance Athletic Shoe, Inc. J.A. 53–54.

<sup>4</sup> Respondents (1)–(5) defaulted: **(1)** Shenzhen Foreversun Industrial Co., Ltd. a/k/a Shenzhen Foreversun Shoes Co., Ltd.; **(2)** Dioniso SRL; **(3)** Fujian Xinya I&E Trading Co. Ltd.; **(4)** Zhejiang Ouhai International Trade Co. Ltd.; and **(5)** Wenzhou Cereals Oils & Foodstuffs Foreign Trade Co. Ltd. J.A. 11.

<sup>5</sup> Respondents (6)–(26) settled: **(6)** Hitch Enterprises Pty Ltd d/b/a Skeanie; **(7)** PW Shoes Inc.; **(8)** Ositos Shoes, Inc. d/b/a Collection'O; **(9)** Ralph Lauren Corporation; **(10)** OPPO Original Corp.; **(11)** H&M Hennes & Mauritz LP; **(12)** Zulily, Inc.; **(13)** Nowhere Co., Ltd. d/b/a Bape; **(14)** Aldo Group; **(15)** Gina Group, LLC; **(16)** Tory Burch LLC; **(17)** Brian Lichtenberg, LLC; **(18)** FILA U.S.A., Inc.; **(19)** Mamiye Imports LLC d/b/a Lilly of New

ents moved to terminate based on a consent order or for good cause pursuant to ITC Rule 210.21(a)(1).<sup>6</sup> These motions were granted. Thus, the arithmetic shows that, at the time that the Administrative Law Judge (“ALJ”) issued the Initial Determination on November 17, 2015, 23 of the total 32 initial respondents no longer remained in the case and five of the remaining nine respondents had defaulted. J.A. 52–56. Only Skechers U.S.A., Inc., Wal-Mart Stores, Inc., HU Liquidation, LLC, f.k.a. High-line United LLC, New Balance Athletics, Inc., f.k.a. New Balance Athletic Shoe, Inc., identified above as the intervenors, actively participated in the Investigation. J.A. 56.<sup>7</sup> And, as noted, these intervenors are “those respondents whose first uses came before the registration.” Majority Op. at 12. It is clear then that no parties remain

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York; **(20)** Shoe Shox; **(21)** Iconix Brand Group, Inc. d/b/a Ed Hardy; **(22)** A-List, Inc. d/b/a Kitson; **(23)** Esquire Footwear, LLC; **(24)** Fortune Dynamic, Inc.; **(25)** Cmerit USA, Inc., d/b/a Gatta Flurt; **(26)** Kmart Corporation. J.A. 54 n.4. The ITC appeared to reference Shoe Shox and Skechers U.S.A., Inc. (“Skechers”) as a single party when identifying the list of initial respondents, J.A. 54, but then treated Shoe Shox as a separate party from Skechers when it identified Shoe Shox, but not Skechers, as one of the 21 parties who settled with Converse, J.A. 54 n.4. Significantly, Converse’s complaint lists the two entities as separate respondents. J.A. 373–74. To avoid confusion, we list and treat Shoe Shox as a separate entity from Skechers.

<sup>6</sup> Respondents **(27)**–**(28)** terminated proceedings: **(27)** Orange Clubwear, Inc.; **(28)** Edamame Kids, Inc. J.A. 56 n.6, 7.

<sup>7</sup> Wal-Mart Stores, Inc. has recently withdrawn from this appeal. Order Granting Wal-Mart’s Mot. to Withdraw 2, ECF No. 233.

whose earliest first uses began after registration and who also actively participated in the case. Thus, the relevant and only question is who has *priority of use* of a common law trade dress. The validity of the registered mark is irrelevant to that question.<sup>8</sup>

This leads me to my second concern with the majority's opinion—that it blurs the line between the concept of priority of use under common law and the concept of the validity of a registered mark. The above timeline establishes that the only issue properly before this court as it relates to the mark is the priority of use of an alleged common law right to the mid-sole trade dress. Yet the majority goes on to assess the validity of the registered mark even though no respondents remain for whom the registered mark is relevant. The natural, but demonstrably false implication of the majority's position is that a later-obtained registration is somehow relevant to establishing priority of use at an earlier date. This is contrary to our precedent stating that “[a] claim of trade dress infringement fails if secondary meaning did not exist before the infringement began.” *Braun Inc. v. Dynamics Corp. of Am.*, 975 F.2d 815, 826 (Fed. Cir. 1992). Indeed, a party with priority of use may continue to use a mark without infringing even if the mark later acquires distinctiveness—demonstrated through registration or otherwise. *See Saratoga Vichy Spring Co., Inc. v. Lehman*, 625 F.2d 1037, 1043 (2d Cir. 1980) (“Even if Saratoga Vichy has rights in the name ‘Saratoga’ because its use of the

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<sup>8</sup> The intervenors do not assert that they can show acquired distinctiveness with respect to their own uses of the mark, at any point in time. They claim only that Converse cannot show that the mark acquired distinctiveness vis-à-vis Converse as of the intervenors' first uses.

name has acquired a secondary meaning, it could not prevent the use of that term by one whose use had begun before the secondary meaning was acquired.”).

Here, if the intervenors are proven to have priority of use, they cannot be found to infringe even if Converse’s later-obtained registered mark were valid and the intervenors continued to use the mark today. The intervenors argued exactly this point below, stating that they, as “junior user[s] cannot infringe rights that do not exist,” and that, “the circumstances do not change if the senior user[, Converse,] later acquires secondary meaning (or a registration)” because “a junior user’s permissible use does not become infringing from mere continuation.” Suppl. J.A. 19. Thus, the only question that could properly be before the ITC on remand is whether Converse can show that its mark acquired distinctiveness as of each first use by each intervenor. The majority’s attempt to expand the scope of our review by considering the validity of the registered mark conflates the concepts of the validity of a registered mark and priority of use. That Converse mischaracterized the effect of the registered mark as it relates to its claims against the intervenors, or that the ITC seemed to misunderstand the extent of its authority to invalidate a registered mark, cannot justify the majority’s decision to compound the confusion at the heart of the ITC’s judgment.

Another related concern is with the majority’s decision to pass judgment on the relevance or adequacy of the Butler survey. Because the validity of the registered mark is not at issue, any discussion of a clearly post-dated survey is pure dicta. I agree with the majority that surveys significantly postdating historical uses are not relevant to the question of priority of use. This should end any further discussion of the Butler survey. The majority’s extended consideration of the merits of the survey, including its suggestion that “the Butler survey may have relevance since it was conducted within two

years of the registration,” is inappropriate.<sup>9</sup> Majority Op. at 22.

My next concern with the majority opinion is in its assessment of the ITC’s infringement analysis. Like its discussion of the merits of the Butler survey, the majority’s discussion of the ITC’s infringement findings are dicta. Indeed, that portion of the opinion is no more than an advisory opinion. Again, because Converse’s claims alleging infringement of the registered mark are relevant only to Converse’s claims against the defaulting parties, and the defaulting parties did not challenge Converse’s infringement claims, the ITC must proceed on the assumption that those parties *did* infringe the registered mark at the time of their respective uses of the trade dress covered by the mark. As to the intervenors, unless and until a judgment of priority of use is established, questions of infringement are not at issue. The question of infringement—by any party—is either not at issue in this appeal or not ripe for our review. Even the majority acknowledges that the ITC’s infringement findings were alternative findings and, thus, dicta, at the Commission level itself. See Majority Op. at 6 (“The ITC determined that, *if either trademark was not invalid or protectable*, it was infringed. . . .” (emphasis added)); see also J.A. 35 (“The Commission affirms the ID’s finding that there is a likelihood of confusion with respect to the [registered mark] for specific accused footwear products *if the [registered mark] is not invalid . . .*” (emphasis added)).

Even if the issue of infringement were not dicta, moreover, it is hard to see how the majority could conceivably vacate the Commission’s findings. The ALJ

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<sup>9</sup> If I were to consider the merits of the Butler survey at all, I would be less inclined than the majority is to give it weight.

made detailed findings under the factors set forth *In re E.I. DuPont DeNemours & Co.*, 476 F.2d 1357, 1361 (CCPA 1973). He specifically analyzed the question of substantial similarity to the mark for each allegedly infringing product, making factual findings as to each. The ITC then adopted those findings. J.A. 119–55. Those findings are findings of fact to which we owe deference. *Coach*, 668 F.3d at 1365–66.

My final concern with the majority’s opinion, and specifically the scope of its remand, is with its failure to instruct the ITC to enter a remedy against all the defaulting parties, or to justify its failure to do so by reference to any relevant public interest concerns. The ITC is required by statute to grant relief to Converse against the defaulting parties. Specifically, 19 U.S.C. § 1337(g)(1) states that, if any parties are found to be in default, then:

the Commission shall presume the facts alleged in the complaint to be true and shall, upon request, issue an exclusion from entry or a cease and desist order, or both, limited to that person unless, after considering the effect of such exclusion order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the Commission finds that such exclusion or order should not be issued.

This language requires the ITC to presume the facts alleged in the complaint to be true and to provide some form of relief against any parties found to be in default—be it an exclusion order (general or limited), a cease and desist order, or both. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1354 (2018) (finding that the word “shall” means “must” because it “generally imposes a nondiscretionary duty.”); *Boomerang Tube LLC v. United States*, 856 F.3d 908, 912 (Fed. Cir. 2017) (explaining that “shall” connotes

a requirement). The ITC may only refuse to do so based on public interest factors *unrelated* to the validity of the mark or whether that mark was infringed by the defaulting parties.

Such a presumption was not always the law. Congress added the statutory section providing for default judgments in the 1988 amendment to the Trade Act. Prior to the amendment, the ITC could not issue a default judgment without first finding a violation under § 1337. *See Certain Attache Cases*, Inv. No. 337-TA-49, 1979 WL 61026, at \*2–4 (USITC Mar. 1, 1979) (denying motion for default judgment because record evidence failed to demonstrate “that the importation of the infringing articles does not have the effect or tendency to destroy or substantially injure the domestic industry”). Thus, complainants faced the same burden of proof even when the named respondents had defaulted. In passing the 1988 amendment, Congress acknowledged that, without the participation of a party in default, a complainant faced difficulties proving facts sufficient to establish a violation of § 1337. *See In the Matter of Certain Elec. Skin Care Devices*, Inv. No. 337-TA-959, 2017 WL 8683854, at \*14 (USITC Feb. 13, 2017) (“[D]iscovery is usually difficult, if not impossible, to obtain from named respondents who have chosen not to participate in an investigation.”). Section 1377(g) addresses this by requiring the ITC to “presume the facts alleged in the complaint to be true,” and “upon request, issue appropriate relief solely against that person.” *See* H.R. Rep. No. 100-576, at 636 (1988) (Conf. Rep.).

Against that backdrop, the majority’s remand instruction simultaneously does too much and too little. It does too much by directing the ITC to further address the validity and infringement of the registered mark, even though the statute requires that the ITC presume that Converse’s infringement allegations against the defaulting parties are true and that its registered mark is valid.



And it does too little by not directing the ITC to grant a remedy against the defaulting parties unless it explains why public interest factors would justify not doing so.

Converse alleged that importation of the defaulting parties' accused products would violate § 1337, in part, because the accused products infringe Converse's registered mark. These parties undisputedly defaulted, and Converse moved for default judgment. Thus, there is no need to assess the strength of Converse's allegations against the defaulting parties; rather, we must instruct the ITC to presume as true the facts alleged in Converse's complaint and to issue an exclusion order, a cease and desist order, or both limited to the defaulting parties unless the ITC determines that the public interest weighs against such relief.

For the reasons stated above, I believe the majority stretches the scope of this court's review beyond that which is appropriate to express its views on issues that are not properly before us. I also believe the majority ignores its and the ITC's obligation to order relief against the defaulting parties. Therefore, I cannot join the majority's reasoning and must concur only in the decision to vacate the ITC's findings and to remand for further proceedings. I dissent from both the majority's consideration of matters not before us and the nature of the remand the majority orders.

# United States Court of Appeals For the First Circuit

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No. 16-9016

IN RE: TEMPNOLOGY, LLC, n/k/a Old Cold LLC,  
Debtor.

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MISSION PRODUCT HOLDINGS, INC.,

Appellant,

v.

TEMPNOLOGY, LLC, n/k/a Old Cold LLC,

Appellee.

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APPEAL FROM THE BANKRUPTCY APPELLATE PANEL  
FOR THE FIRST CIRCUIT

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Before

Torruella, Lynch, and Kayatta,  
Circuit Judges.

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Robert J. Keach, with whom Lindsay K.Z. Milne and Bernstein, Shur, Sawyer & Nelson, P.A. were on brief, for appellant.

Lee A. Harrington, with whom Daniel W. Sklar and Nixon Peabody LLP were on brief, for appellee.

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January 12, 2018

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**KAYATTA, Circuit Judge.** Generally speaking, when a company files for protection under Chapter 11 of the Bankruptcy Code, the trustee or the debtor-in-possession may secure court approval to "reject" any executory contract of the debtor, meaning that the other party to the contract is left with a damages claim for breach, but not the ability to compel further performance. 11 U.S.C. §§ 365(a), 1107(a); see NLRB v. Bildisco & Bildisco, 465 U.S. 513, 531-32 (1984); Mason v. Official Comm. of Unsecured Creditors, for FBI Distrib. Corp. & FBC Distrib. Corp. (In re FBI Distrib. Corp.), 330 F.3d 36, 43-44 (1st Cir. 2003). When the rejected contract, however, is one "under which the debtor is a licensor of a right to intellectual property," the licensee may elect to "retain its rights . . . to such intellectual property," thereby continuing the debtor's duty to license the intellectual property. 11 U.S.C. § 365(n)(1). In this case, Tempnology, LLC ("Debtor") -- a debtor-in-possession seeking to reorganize under Chapter 11 -- rejected an agreement giving certain marketing and distribution rights to Mission Product Holdings, Inc. The parties agree that Mission can insist that the rejection not apply to nonexclusive patent licenses contained in the rejected agreement. They disagree as to whether the rejection applies to the agreement's grants of a trademark license and of exclusive rights to sell certain of Debtor's goods. In the case of the trademark license, resolving that disagreement poses for this circuit an

issue of first impression concerning which other circuits are split. For the following reasons, we agree with the bankruptcy court that the rejection left Mission with only a pre-petition damages claim in lieu of any obligation by Debtor to further perform under either the trademark license or the grant of exclusive distribution rights.

**I.**

Debtor made specialized products -- such as towels, socks, headbands, and other accessories -- designed to remain at low temperatures even when used during exercise, which it marketed under the "Coolcore" and "Dr. Cool" brands. A significant intellectual property portfolio supported Debtor's products. This portfolio consisted of two issued patents, four pending patents, research studies, and a multitude of registered and pending trademarks.

On November 21, 2012, Mission and Debtor executed a Co-Marketing and Distribution Agreement, which serves as the focal point of this appeal. The Agreement provided Mission with three relevant categories of rights.

First, Debtor granted Mission distribution rights to certain of its manufactured products within the United States.<sup>1</sup>

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<sup>1</sup> In addition to the United States, the exclusive geographic territory also included "other countries and territories that [Mission] acquires exclusive distribution rights to pursuant to its first rights of refusal and notice."

These products, called "Cooling Accessories," were defined in the Agreement as "products of the specific types listed on Exhibit A" and "manufactured by or on behalf of [Debtor]." They also included "additional products that are hereafter developed by [Debtor]." Exhibit A broke down the thirteen listed products into two categories: "Exclusive" and "Non-Exclusive" Cooling Accessories. For "Exclusive Cooling Accessories" -- comprised of towels, wraps, hoodies, bandanas, multi-chills, and doo rags -- Debtor agreed that "it will not license or sell" the products "to anyone other than [Mission] during the Term." Mission's rights with respect to the remaining Cooling Accessories -- comprised of socks, headbands, wristbands, sleeves, skullcaps, yoga mats, and baselayers -- were nonexclusive because Debtor reserved for itself the "right to sell . . . to vertically integrated companies as well as customers that are not Sports Distributors or retailers in the Sporting Channel."

Second, Debtor granted Mission a nonexclusive license to Debtor's intellectual property. This "non-exclusive, irrevocable, royalty-free, fully paid-up, perpetual, worldwide, fully-transferable license" granted Mission the right "to sublicense (through multiple tiers), use, reproduce, modify, and create derivative work based on and otherwise freely exploit" Debtor's products -- including Cooling Accessories -- and its intellectual

property. This irrevocable license, however, expressly excluded any rights to Debtor's trademarks.

Trademarks were the subject of the third bucket of rights. Section 15(d) of the Agreement granted Mission a "non-exclusive, non-transferable, limited license" for the term of the Agreement "to use [Debtor's] trademark and logo (as well as any other Marks licensed hereunder) for the limited purpose of performing its obligations hereunder, exercising its rights and promoting the purposes of this Agreement." This license came with limitations. Mission was forbidden from using the trademarks in a manner that was disparaging, inaccurate, or otherwise inconsistent with the terms of the Agreement. Further, Mission was required to "comply with any written trademark guidelines" and Debtor had "the right to review and approve all uses of its Marks," except for certain pre-approved uses.

The Agreement also included a provision permitting either party to terminate the Agreement without cause. On June 30, 2014, Mission exercised this option, triggering a "Wind-Down Period" of approximately two years. Debtor, in turn, issued a notice of immediate termination for cause on July 22, 2014, claiming that Mission's hiring of Debtor's former president violated the Agreement's restrictive covenants. Pursuant to the Agreement's terms, Mission's challenge to Debtor's immediate termination for cause went before an arbitrator. The arbitrator

determined that Debtor had waived any grounds for immediate termination under the restrictive covenant and that the Agreement remained in effect until the expiration of the Wind-Down Period. That ruling meant that Mission was contractually entitled to retain its distribution and trademark rights until July 1, 2016, and its nonexclusive intellectual property rights in perpetuity.

Intervening events, however, put an earlier end to the parties' contractual relationship. Although Debtor posted profits in 2012, its financial outlook dimmed. After accruing multi-million dollar net operating losses in 2013 and 2014, Debtor filed a voluntary petition for Chapter 11 bankruptcy on September 1, 2015. The following day, Debtor moved to reject seventeen of its contracts, including the Agreement, pursuant to 11 U.S.C. § 365(a).

Section 365(a) permits a debtor-in-possession,<sup>2</sup> with the court's approval, to "reject any executory contract" that, in the debtor's business judgment, is not beneficial to the company. See Agarwal v. Pomona Valley Med. Grp., Inc. (In re Pomona Valley Med. Grp., Inc.), 476 F.3d 665, 669-71 (9th Cir. 2007); see also Bildisco & Bildisco, 465 U.S. at 520, 523. In its memoranda

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<sup>2</sup> Although this provision of the statute only refers to the powers of a trustee, per 11 U.S.C. § 1107(a), a Chapter 11 "debtor in possession shall have all the rights . . . and powers, and shall perform all the functions and duties, . . . of a trustee serving in a case under this chapter." See also In re FBI Distrib. Corp., 330 F.3d at 42 n.8 (citing this provision).

supporting its motion, Debtor informed the bankruptcy court that it sought to reject the Agreement because it hindered Debtor's ability to derive revenue from other marketing and distribution opportunities. Debtor faulted Mission -- and particularly the Agreement's grant of exclusive distribution rights -- for its bankruptcy. It alleged that the Agreement "suffocated the Debtor's ability to market and distribute its products" after Mission failed to fulfill its obligations, "essentially starving the Debtor from any income."

Mission objected to the rejection motion, arguing that 11 U.S.C. § 365(n) allowed Mission to retain both its intellectual property license and its exclusive distribution rights. Section 365(n) provides an exception from section 365(a)'s broad rejection authority by limiting the debtor-in-possession's ability to terminate intellectual property licenses it has granted to other parties.

On September 21, 2015, the bankruptcy court granted Debtor's motion to reject certain executory contracts, except for the Agreement, for which it ordered further hearing. In a subsequent one-sentence order, the bankruptcy court granted the motion to reject the Agreement, "subject to Mission Product Holdings's election to preserve its rights under 11 U.S.C. § 365(n)." Debtor then moved for a determination of the applicability and scope of Mission's rights under section 365(n).



In that motion, Debtor conceded that Mission retained its nonexclusive, perpetual license to certain of Debtor's intellectual properties -- which did not include its trademarks - - but argued that section 365(n) did not cover either Mission's exclusive distribution rights or the trademark license. Mission again objected, arguing that the relief Debtor requested required an adversary proceeding pursuant to Rule 7001(2) of the Federal Rules of Bankruptcy Procedure.

After holding a nontestimonial hearing, the bankruptcy court concluded that Mission's election pursuant to section 365(n) did not preserve either the exclusive distribution rights or the trademark license. The court found that section 365(n) only protected intellectual property rights, and Mission's exclusive distributorship could not fairly be characterized as such. With respect to trademarks, the court reasoned that Congress's decision to leave trademarks off the definitional list of intellectual properties in 11 U.S.C. § 101(35A) left the trademark license unprotected from rejection. Finally, the court rejected Mission's argument that the Bankruptcy Code required an adversary proceeding to determine the issue. The court viewed "the Motion in the context of rejection under § 365, which is a contested matter under Fed. R. Bankr. P. 9014."

Mission appealed to the Bankruptcy Appellate Panel for the First Circuit ("BAP"). The BAP affirmed the bankruptcy court's

order with respect to Mission's exclusive distribution rights, concluding that "Mission's attempt to re-characterize its exclusive product distribution rights under the Agreement as an intellectual property license [is] unsupported by either the letter or the spirit of the Agreement." Like the bankruptcy court, the BAP read section 365(n)'s protection of "exclusivity provision[s]" as encompassing only the exclusivity attributes, such as they might be, of intellectual property rights. The BAP also affirmed the bankruptcy court's determination that the section 365(n) motion did not require Debtor to commence an adversary proceeding under Bankruptcy Rule 7001.

Regarding trademarks, however, the BAP diverged from the bankruptcy court. Although the BAP agreed that section 365(n) failed to protect Mission's rights to Debtor's trademarks, it disagreed as to the effect of that conclusion. Rather than finding that rejection extinguished the non-debtor's rights, the BAP followed the Seventh Circuit's ruling in Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC, 686 F.3d 372 (7th Cir. 2012). The BAP held that, because section 365(g) deems the effect of rejection to be a breach of contract, and a licensor's breach of a trademark agreement outside the bankruptcy context does not necessarily terminate the licensee's rights, rejection under section 365(g) likewise does not necessarily eliminate those rights. Thus, the BAP reversed the bankruptcy court's

determination that Mission no longer had protectable rights in Debtor's trademarks and trade names.

This appeal ensued. We affirm the bankruptcy court's determinations. We conclude that section 365(n) does not apply to Mission's right to be the exclusive distributor of Debtor's products, or to its trademark license. Unlike the BAP and the Seventh Circuit, we also hold that Mission's right to use Debtor's trademarks did not otherwise survive rejection of the Agreement.

## II.

On appeal from a decision by the BAP, "[w]e accord no special deference to determinations made by the [BAP]," and instead "train the lens of our inquiry directly on the bankruptcy court's decision."<sup>3</sup> Wheeling & Lake Erie Ry. Co. v. Keach (In re Montreal, Maine & Atl. Ry., Ltd.), 799 F.3d 1, 5 (1st Cir. 2015). In doing so, we review the bankruptcy court's factual findings for clear error and its conclusions of law de novo. DeGiacomo v. Traverse (In re Traverse), 753 F.3d 19, 24 (1st Cir. 2014).

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<sup>3</sup> We do nevertheless pay great attention to the considered opinion of the three experienced bankruptcy judges who sit on the BAP. Among other things, our consideration of such an opinion reduces the likelihood that our court of general appellate jurisdiction is blindsided by the effect that a decision might have on matters or issues of bankruptcy law and practice that are beyond the ken of the parties in a particular proceeding.

### III.

We begin with the statutory framework that defines the scope of Debtor's ability, "subject to the court's approval," to "assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). Executory contracts, although not defined in the Bankruptcy Code, are generally considered to be contracts "on which performance is due to some extent on both sides." In re FBI Distrib. Corp., 330 F.3d at 40 n.5 (quoting Bildisco & Bildisco, 465 U.S. at 522 n.6); see also Parkview Adventist Med. Ctr. v. United States ex rel. Dep't of Health & Human Servs., 842 F.3d 757, 763 n.12 (1st Cir. 2016). Section 365(a) permits the debtor-in-possession to assume those contracts that are beneficial and reject those that may hinder its recovery. In re FBI Distrib. Corp., 330 F.3d at 42. It provides an "elixir for use in nursing a business back to good health" by allowing the trustee or debtor-in-possession to "prescribe it as an emetic to purge the bankruptcy estate of obligations that promise to hinder a reorganization." Thinking Machs. Corp. v. Mellon Fin. Servs. Corp. (In re Thinking Machs. Corp.), 67 F.3d 1021, 1024 (1st Cir. 1995). Section 365(a) thus furthers Chapter 11's "paramount objective" of rehabilitating debtors. In re FBI Distrib. Corp., 330 F.3d at 41. In lieu of the rejected obligation, a debtor is left with a liability for what the Code deems to be a pre-petition breach of the contract. 11 U.S.C.

§ 365(g) ("[T]he rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease . . . immediately before the date of the filing of the petition . . . .").

In 1985, the Fourth Circuit was tasked with applying this framework to an intellectual property license granted by a debtor. See Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985). The Fourth Circuit held that the term "executory contract" in section 365(a) encompassed intellectual property licenses, id. at 1045, and that under section 365(g) the effect of rejection was to terminate an intellectual property license, id. at 1048. The court based its reasoning on what it saw as the animating principles behind section 365(g), thus distinguishing "statutory breach" from common law breach:

Even though § 365(g) treats rejection as breach, the legislative history of § 365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party. . . . [T]he statutory "breach" contemplated by § 365(g) controls, and provides only a money damages remedy for the non-bankrupt party. . . . Allowing specific performance would obviously undercut the core purpose of rejection under § 365(a).

Id.

Three years later, Congress responded. Rather than amending either section 365(a) or section 365(g), Congress enacted

a brand new section 365(n). See S. Rep. No. 100-505, at 8 (1988). Section 365(n)(1) gives to a licensee of intellectual property rights a choice between treating the license as terminated and asserting a claim for pre-petition damages -- a remedy the licensee held already under section 365(g) -- or retaining its intellectual property rights under the license. It states, in full:

If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect--

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for--

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

11 U.S.C. § 365(n)(1).

Congress also amended the definition of intellectual property, thus defining the scope of the new section 365(n)(1). Under 11 U.S.C. § 101(35A),

The term "intellectual property" means--

- (A) trade secret;
- (B) invention, process, design, or plant protected under title 35;
- (C) patent application;
- (D) plant variety;
- (E) work of authorship protected under title 17; or
- (F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law.

#### **IV.**

With the foregoing framework in mind, we turn now to Mission's arguments on appeal. We consider first its contention that its exclusive distribution rights remained unaffected by Debtor's rejection of the Agreement. We then address Mission's contention that its trademark license also remained in effect during the two-year Wind-Down Period. What is at issue for these parties, practically speaking, is whether to classify as pre-petition or post-petition liability any damages caused by Debtor's failure to honor its executory obligations during the two-year Wind-Down Period.

#### **A.**

Section 365(n)(1)(B) allows Mission "to retain its rights (including a right to enforce any exclusivity provision of

such contract . . .) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law)." Mission would have us read the words "any exclusivity provision of such contract" in the foregoing parenthetical as meaning any "exclusivity provision" in the entire contract (or any supplementary agreement), whether or not the provision grants exclusive use of a pertinent intellectual property right.

We disagree. We start in section 365(a) with the universe of all executory contracts that a debtor may seek to reject; section 365(n)(1) then focuses on a subset of that universe ("executory contract[s] under which the debtor is a licensor of a right to intellectual property"); subsection (n)(1)(B) then says what happens to intellectual property rights granted under such contracts (the licensee may "retain its rights"); and the parenthetical merely makes clear that those rights "to such intellectual property" include any exclusivity attributes of those rights. In this manner, subsection (n)(1)(B) protects, for example, an exclusive license to use a patent, but does not protect an exclusive right to sell a product merely because that right appears in a contract that also contains a license to use intellectual property.



Our reading aligns with the legislative record. In enacting section 365(n), Congress made clear that it was responding to a "particular problem arising out of recent court decisions." S. Rep. No. 100-505, at 5. The limited "purpose of the bill is to amend Section 365 of the Bankruptcy Code to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off." Id. at 1. The amendment is "not in any way intended to address broader matters under Section 365." Id. at 5. Congress, it seems, was focused on a narrow issue, and only intended its amendment to address that issue. It did not intend the scope of its amendment to extend beyond the licensee's bargained-for intellectual property rights post-rejection, as Mission's position would necessarily require. Further supporting our reading of the statutory text, Congress's description of the protected exclusivity rights in both relevant congressional reports is limited to license rights, and does not mention or imply the protection of exclusive rights other than those to intellectual property. The House Report, describing the House's version of the bill,<sup>4</sup> states that, "[u]nder the legislation, any right in the license agreement giving the licensee an exclusive license will

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<sup>4</sup> Congress ultimately adopted the Senate version, although the language of this section of the House bill is identical to its Senate counterpart.

still be enforceable by the licensee, but other rights of the licensee cannot be specifically enforced." H.R. Rep. No. 100-1012, at 6 (1988). Similarly, the Senate Report says that "if the contract granted exclusive use to the licensee, such exclusivity would be preserved to the license." S. Rep. No. 100-505, at 9.

Mission's fallback position is to argue that, in this instance, its exclusive distribution right is, de facto, a provision that renders its right to use Debtor's intellectual property exclusive. The unstated premise is that because Mission has an exclusive right to sell certain of Debtor's products made using Debtor's intellectual property, no one else can use the intellectual property. Hence, Mission reasons, the exclusive distribution right is an "exclusivity provision" of the intellectual property right.

The most obvious defect in this argument is its premise. The Agreement and record are clear that Debtor can use its intellectual property to make and sell products other than those for which the Agreement grants Mission exclusive distribution rights. The only thing that is exclusive is the right to sell certain products, not the right to practice, for example, the patent that is used to make those products. An exclusive right to sell a product is not equivalent to an exclusive right to exploit the product's underlying intellectual property.

But, argues Mission, because of its exclusive distribution rights, no one can use the Debtor's patent to make at least some products if those products are to be sold in Mission's territory. Perhaps. But this is simply a restriction on the right to sell certain products that, like many products, happen to be made using a patent. And the exclusivity Mission seeks to maintain would apply fully even if there were no patent license at all. Given that the right to sell a product is clearly not included within the statute's definition of intellectual property, we are not going to treat it as such merely because of a coincidental practical effect it may have in limiting the scope of the manner in which a patent might be exploited, especially where the Agreement itself expressly makes clear that any patent license is nonexclusive. To hold otherwise would be to find buried in a parenthetical to a statutory subsection an implied exception to rejection that would, in practical terms, likely cover as much commercial territory as do some of the rights expressly defined as protected. See Whitman v. Am. Trucking Ass'n, 531 U.S. 457, 468 (2001) ("Congress . . . does not, one might say, hide elephants in mouseholes."). The fact that Mission can cite no circuit court precedent for its effort to paint its exclusive distribution right

as a de facto exclusive intellectual property right further buttresses our conclusion.<sup>5</sup>

Mission also argues that its nonexclusive license of intellectual property "lacks meaningful value" unless it retains an exclusive right to sell certain of Debtor's products. Why this is so is not apparent given that section 365(n) protects the nonexclusive license, hence Mission retained the right to use the intellectual property. The Agreement itself spells out myriad ways that Mission could exploit its nonexclusive intellectual property rights that were presumably unaffected by rejection of its exclusive distribution right: Mission could still "sublicense (through multiple tiers), use, reproduce, modify, and create derivative work based on" Debtor's intellectual property. And if those rights lacked meaningful value, that hardly becomes a reason for turning rights that are not intellectual property rights into intellectual property rights. Rather, it simply suggests that most of the contract's value was apparently in the exclusive distribution agreement.

Nor does the reference in section 365(n)(1)(B) to "any embodiment of such intellectual property" help Mission.

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<sup>5</sup> Mission cites Encino Bus. Mgmt., Inc. v. Prize Frize, Inc. (In re Prize Frize, Inc.), 32 F.3d 426 (9th Cir. 1994), but the contract in that case granted an "exclusive license to utilize the proprietary rights." Id. at 427. This case is clearly distinguishable, as Mission was granted no such right.

Embodiment is a term of art associated with intellectual property. The Senate Report includes a letter informing the Judiciary Committee of the Department of Commerce's view of the bill, which states that "[a]lthough 'embodiment' is not defined, we assume the term arises from the copyright law." S. Rep. No. 100-505, at 12. Black's Law Dictionary tags the term as belonging to patent law, and offers three alternate definitions: (1) "[t]he tangible manifestation of an invention"; (2) "[t]he method for using this tangible form"; or (3) "[t]he part of a patent application or patent that describes a concrete manifestation of the invention." *Embodiment*, Black's Law Dictionary (10th ed. 2014). Black's Law Dictionary further notes that while intellectual property "is a mental construct" without "physical structure," an embodiment "is a specific physical form of the invention" and thus "[e]ach embodiment exists in the real world." Id. (quoting Morgan D. Rosenberg, The Essentials of Patent Claim Drafting xvii (2012)).

Where the statutory language includes a term of art, resort to sources beyond the text is particularly appropriate to make clear the intended meaning of that term. See Molzof v. United States, 502 U.S. 301, 307 (1992). Both the Senate Report and the Department of Commerce letter offer additional insight into the meaning of "embodiment" and its application to a licensee's rights. The Senate Report provides three examples of protected rights, and concludes with two traits that all protected rights must contain:

[T]he parties might have agreed that the licensor would prepare a prototype incorporating the licensed intellectual property. If such a prototype was prepared prior to the filing of the petition for relief, but had not been delivered to the licensee at that time, then the licensee can compel the delivery of the prototype in accordance with the terms of the rejected license. Other examples of embodiments include genetic material needed to produce certain biotechnological products and computer program source codes. There are many other possible examples of embodiments, but critical to any right of the licensee to obtain such embodiments under this bill is the prepetition agreement of the parties that the licensee have access to such material and the physical existence of such material on the day of the bankruptcy filing.

S. Rep. No. 100-505, at 9-10 (emphasis added). The Department of Commerce letter states:

Where the licensed intellectual property is not a work of authorship, we assume the term "embodiment" would be interpreted in a similar sense of enablement in a manner reasonable in the circumstances and would not necessarily include all physical manifestations of the intellectual property. For example, an embodiment of a licensed process might be interpreted to include technical data sufficient to enable the licensee to operate the process, but not a manufacturing facility using (or embodying) the process; and an embodiment of a licensed invention might be interpreted to include a sample of the invention, but not all inventory.

S. Rep. No. 100-505, at 12 (emphasis added).

A few common themes appear in these explanations. First, the pre-petition agreement must give the licensee access to the

embodiment of intellectual property. Second, an embodiment of intellectual property is a tangible or physical object that exists pre-petition. Third, an embodiment of intellectual property is something inherently limited in number -- it is a prototype or example of a product, but does not include all products produced using the intellectual property. Finally, we can infer that the purpose of this provision is to allow the licensee to exploit its right to the underlying intellectual property.

Here, we have no object to which Mission requires access in order to exploit an intellectual property right. Rather, we have a prosaic, nonexclusive right to use a patented process, and an unremarkable and entirely independent right to be the exclusive distributor of some but not all goods made with that process. There is simply no "embodiment" at issue in the relevant statutory sense.

Nor does this case, as Mission contends, bear on the enforceability of all negative covenants independent of an intellectual property license. If a party possesses an intellectual property license, perhaps the Code may protect from rejection certain negative covenants -- such as confidentiality - - that do not materially restrict the debtor's reorganization, are tied closely to the intellectual property license, and are necessary to implement its terms. See Biosafe Int'l, Inc. v. Controlled Shredders, Inc. (In re Szombathy), Nos. 94 B 15536, 95

A 01035, 1996 WL 417121, at \*11 (Bankr. N.D. Ill. July 9, 1996) rev'd in part sub nom. Szombathy v. Controlled Shredders, Inc., Nos. 94 B 15536, 95 A 01035, 1997 WL 189314 (N.D. Ill. Apr. 14, 1997). But we are not presented with that situation here.

Finally, we observe that Mission salts its brief with several undeveloped suggestions that rejection under section 365(a), even if allowed, might not extinguish a right to demand specific performance of the negative covenant implicit in the exclusive distribution rights. Mission attempts to support these suggestions by citing In re Szombathy, 1996 WL 417121, and by emphasizing that case's reliance on a quote from the Department of Commerce's letter to the Senate Judiciary Committee. Neither source seems to come close to carrying the meaning claimed by Mission. In any event, even as Mission tendered an analogous argument in connection with its trademark license (which we address, below), it never raised any such argument in the bankruptcy court as a basis for preserving its exclusive distribution rights. Hence, the argument is waived in this civil action. See Argentaria v. Wiscovitch-Rentas (In re Net-Velázquez), 625 F.3d 34, 40 (1st Cir. 2010) ("The proposition is well established that, 'absent the most extraordinary circumstances, legal theories not raised squarely in the lower court cannot be broached for the first time on appeal.'" (quoting



Teamsters, Chauffeurs, Warehousemen & Helpers Union, Local No. 59  
v. Superline Transp. Co., 953 F.2d 17, 21 (1st Cir. 1992))).

**B.**

We next consider whether Mission retained its rights to use Debtor's trademarks post-rejection. In defining the intellectual property eligible for the protection of section 365(n), Congress expressly listed six kinds of intellectual property. 11 U.S.C. § 101(35A). Trademark licenses (hardly something one would forget about) are not listed, even though relatively obscure property such as "mask work protected under chapter 9 of title 17" is included. Id. Nor does the statute contain any catchall or residual clause from which one might infer the inclusion of properties beyond those expressly listed.

One might reasonably conclude that Congress's decision not to include trademark licenses within the protective ambit of section 365(n) must mean that such licenses are not exempt from section 365(a) rejection. On the other hand, the conclusion that an agreement finds no haven from rejection in section 365(n) does not entirely exhaust the possible arguments for finding that a right under that agreement might otherwise survive rejection. For example, we have held that a counterparty's right to compel the return of its own property survives rejection of a contract under which the debtor has possession of that property. See Abboud v.

The Ground Round, Inc. (In re The Ground Round, Inc.), 482 F.3d 15, 19 (1st Cir. 2007). This case, though, does not present us with a request by a party following rejection to recover its own property temporarily in the hands of the debtor. Rather, it presents a demand by a party to continue using the debtor's property.

Regarding trademarks specifically, the Senate Report states that Congress "postpone[d]" action on trademark licenses "to allow the development of equitable treatment of this situation by bankruptcy courts." S. Rep. No. 100-505, at 5. The only circuit to address this issue squarely has resisted the temptation to find in this ambiguous comment outside the statutory text a toehold for unfettered "equitable" dispensations from section 365(a) rejection when it would otherwise apply. See Sunbeam, 686 F.3d at 375 ("What the Bankruptcy Code provides, a judge cannot override by declaring that enforcement would be 'inequitable.'"). We agree. See Law v. Siegel, 134 S. Ct. 1188, 1194-95 (2014) ("We have long held that 'whatever equitable powers remain in the bankruptcy courts must and can only be exercised within the confines of' the Bankruptcy Code." (quoting Norwest Bank Worthington v. Ahlers, 485 U.S. 197, 206 (1988))).

There is, though, an alternative argument for finding that a right to use a debtor's trademark continues post-rejection. That argument rests not on equitable dispensation from rejection,

but instead on an exploration of exactly what rejection means. The argument, as accepted by the Seventh Circuit in Sunbeam, runs thus: Under section 365(g), section 365(a) rejection constitutes a breach of contract that "frees the estate from the obligation to perform." Sunbeam, 686 F.3d at 377 (quoting Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007)). "But nothing about this process implies that any rights of the other contracting party have been vaporized." Id. Therefore, reasoned the Seventh Circuit, while rejection converts a debtor's duty to perform into a liability for pre-petition damages, it leaves in place the counterparty's right to continue using a trademark licensed to it under the rejected agreement. In so reasoning, the Seventh Circuit found itself unpersuaded by the contrary approach taken by the Fourth Circuit in Lubrizol. Sunbeam, 686 F.3d at 378; see also In re Exide Techs., 607 F.3d 957, 964-68 (3d Cir. 2010) (Ambro, J., concurring).

Of course, to be precise, rejection as Congress viewed it does not "vaporize" a right. Rather, rejection converts the right into a pre-petition claim for damages. Putting that point of vocabulary to one side, and leaving open the possibility that courts may find some unwritten limitations on the full effects of section 365(a) rejection, we find trademark rights to provide a poor candidate for such dispensation. Congress's principal aim in providing for rejection was to "release the debtor's estate from

burdensome obligations that can impede a successful reorganization." Bildisco & Bildisco, 465 U.S. at 528. Sunbeam therefore largely rests on the unstated premise that it is possible to free a debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark. See Sunbeam, 686 F.3d at 377. Judge Ambro's concurrence in In re Exide Technologies shares that premise. See 607 F.3d at 967 (Ambro, J., concurring) (assuming that the bankruptcy court could allow the licensee to retain trademark rights even while giving the debtor "a fresh start").

Careful examination undercuts that premise because the effective licensing of a trademark requires that the trademark owner -- here Debtor, followed by any purchaser of its assets -- monitor and exercise control over the quality of the goods sold to the public under cover of the trademark. See 3 J. Thomas McCarthy, McCarthy on Trademarks & Unfair Competition § 18:48 (5th ed. 2017) ("Thus, not only does the trademark owner have the right to control quality, when it licenses, it has the duty to control quality."). Trademarks, unlike patents, are public-facing messages to consumers about the relationship between the goods and the trademark owner. They signal uniform quality and also protect a business from competitors who attempt to profit from its developed goodwill. See Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633, 636 (1st Cir. 1992). The licensor's monitoring

and control thus serve to ensure that the public is not deceived as to the nature or quality of the goods sold. Presumably, for this reason, the Agreement expressly reserves to Debtor the ability to exercise this control: The Agreement provides that Debtor "shall have the right to review and approve all uses of its Marks," except for certain pre-approved uses. Importantly, failure to monitor and exercise this control results in a so-called "naked license," jeopardizing the continued validity of the owner's own trademark rights. McCarthy, supra, § 18:48; see also Eva's Bridal Ltd. v. Halanick Enters., Inc., 639 F.3d 788, 790 (7th Cir. 2011) ("[A] naked license abandons a mark."); Restatement (Third) of Unfair Competition § 33 ("The owner of a trademark, trade name, collective mark, or certification mark may license another to use the designation. . . . Failure of the licensor to exercise reasonable control over the use of the designation by the licensee can result in abandonment . . . .").

The Seventh Circuit's approach, therefore, would allow Mission to retain the use of Debtor's trademarks in a manner that would force Debtor to choose between performing executory obligations arising from the continuance of the license or risking the permanent loss of its trademarks, thereby diminishing their value to Debtor, whether realized directly or through an asset sale. Such a restriction on Debtor's ability to free itself from its executory obligations, even if limited to trademark licenses

alone, would depart from the manner in which section 365(a) otherwise operates. And the logic behind that approach (no rights of the counterparty should be "vaporized" in favor of a damages claim) would seem to invite further leakage. If trademark rights categorically survive rejection, then why not exclusive distribution rights as well? Or a right to receive advance notice before termination of performance? And so on.

Although claiming to follow Sunbeam, our dissenting colleague seems to reject its categorical approach in favor of what Sunbeam itself rejected -- an "equitable remedy" that would consider in some unspecified manner the "terms of the Agreement, and non-bankruptcy law." See Sunbeam, 686 F.3d at 375-76. In so doing, our colleague gives great weight to a few lines in the Senate Report, treating them variously as "guidance," as a statement of Congress's "intent," and even as a mandate that "instruct[s]" the courts. In short, the dissent's interpretative approach seems to accord a line in the Senate Report the force of a line in the statute itself. Moreover, it does so by taking a line out of the Senate Report addressing section 365(n), which itself has no relevant ambiguity, and then uses that line to inform the dissent's interpretation of the previously enacted section 365(a). And while it is true that the Senate Report references equitable consideration, the dissent also seems to overlook the fact that when Congress otherwise intended to grant

bankruptcy courts the ability to "equitably" craft exceptions to the Code's rules, it did so in the statute itself. See, e.g., 11 U.S.C. § 365(d)(5) (requiring the trustee to perform the obligations of the debtor until an unexpired lease is assumed or rejected "unless the court, after notice and a hearing and based on the equities of the case, orders otherwise"); id. § 552(b)(1) (stating that a security agreement may extend to proceeds or profits acquired after the commencement of the case "to the extent provided by such security agreement and by applicable nonbankruptcy law, except to any extent that the court, after notice and a hearing and based on the equities of the case, orders otherwise"); see also id. § 502(j) ("A reconsidered claim may be allowed or disallowed according to the equities of the case."); id. § 557(d)(2)(D) (allowing the expedited disposition of grain by, inter alia, "such other methods as is equitable in the case"); id. § 723(d) ("[T]he court, after notice and a hearing, shall determine an equitable distribution of the surplus so recovered . . . ."); id. § 1113(c) (listing whether "the balance of the equities clearly favors rejection of such agreement" as a factor for a court to consider in determining whether to approve an application for rejection of a collective bargaining agreement); id. § 1114(g) (requiring a court to modify the payment of retirement benefits if the court finds that "such modification is necessary to permit the reorganization of the debtor and assures

that all creditors, the debtor, and all of the affected parties are treated fairly and equitably, and is clearly favored by the balance of the equities").

Even if we did sit in the chancellor's chair in applying section 365(a), we would likely hesitate to adopt our colleague's approach. Under such a case-specific, equitable approach, one might in theory preclude rejection only where the burden of quality assurance on the debtor will be minimal. The problem, though, is that in the bankruptcy context especially, where the licensor and licensee are at odds over continuing to deal with each other, the burden will likely often be greater than normal. Here, for example, the adversarial relationship between Debtor and Mission may portend less eager compliance. More importantly, in all cases there will be some burden, and it will usually not be possible to know at the time of the bankruptcy proceeding how great the burden will prove to be, as it will depend very much on the subsequent actions of the licensee. Conversely, the burden imposed on the counterparty of having its trademark right converted to a pre-petition damages claim at a time when the relationship signaled by the trademark is itself ending will in most instances be less than the burden of having patent rights so converted. The counterparty may still make and sell its products -- or any products -- just so long as it avoids use of the trademark precisely when the message conveyed by the trademark may no longer be accurate. We therefore



find unappealing the prospect of saddling bankruptcy proceedings with the added cost and delay of attempting to draw fact-sensitive and unreliable distinctions between greater and lesser burdens of this type. See RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 566 U.S. 639, 649 (2012) ("[I]t is our obligation to interpret the Code clearly and predictably using well established principles of statutory construction."). There is, too, the public's interest in not being misled as to the origin and quantity of goods that consumers buy.

In sum, the approach taken by Sunbeam entirely ignores the residual enforcement burden it would impose on the debtor just as the Code otherwise allows the debtor to free itself from executory burdens. The approach also rests on a logic that invites further degradation of the debtor's fresh start options. Our colleague's alternative, "equitable" approach seems similarly flawed, and has the added drawback of imposing increased uncertainty and costs on the parties in bankruptcy proceedings. For these reasons, we favor the categorical approach of leaving trademark licenses unprotected from court-approved rejection, unless and until Congress should decide otherwise. See James M. Wilton & Andrew G. Devore, Trademark Licensing in the Shadow of Bankruptcy, 68 Bus. Law. 739, 771-76 (2013).

C.

Mission's final argument is that the bankruptcy court erred by not holding an adversary proceeding under Bankruptcy Rule 7001. Mission contends that because the rule governing adversary proceedings includes within its ambit determinations of an "interest in property," the bankruptcy court was required to hold such a hearing to determine the scope of Mission's rights. The bankruptcy court instead treated the issue as a contested matter under Rule 9014. We need not address this argument directly, because we find that even if an adversary proceeding was required, any error was harmless.

Mission contends that it was prejudiced because it was not given a fair opportunity to develop an evidentiary record. But the issues at stake can be resolved -- and are resolved, in our de novo review -- without reliance on any disputed facts outside the four corners of the Agreement. The logical leap Mission asks us to make -- that extrinsic evidence would be both appropriate and lead to a different result -- is unsupported by any possible extrinsic evidence to which Mission points. Further, the bankruptcy court permitted Mission and Debtor to conduct discovery following its September 21, 2015 order. There is no evidence, however, that either party had a need for or in fact did conduct discovery, and if they did, Mission offers no explanation for how this discovery generated any factual dispute that need be

resolved in a testimonial hearing. Requiring Debtor to commence an adversary proceeding would only have delayed the resolution of critical issues without changing the bankruptcy court's ultimate determination.

**v.**

For the foregoing reasons, the bankruptcy court's decision is affirmed.

**-Concurring and Dissenting Opinion Follows-**

**TORRUELLA, Circuit Judge (Concurring in part, dissenting in part).** I agree with the majority that 11 U.S.C. § 365(n) does not protect Mission's exclusive distribution rights or its non-exclusive trademark license. The plain language of this subsection identifies "intellectual property," which, for purposes of chapter 11, does not encompass trademarks. See 11 U.S.C. § 101(35A). However, I disagree with the majority's bright-line rule that the omission of trademarks from the protections of section 365(n) leaves a non-rejecting party without any remaining rights to use a debtor's trademark and logo. As Judge Easterbrook wrote, "an omission is just an omission," and simply implies that section 365(n) does not determine how trademark licenses should be treated -- one way or the other. Sunbeam, 686 F.3d at 375. I would follow the Seventh Circuit and the BAP in finding that Mission's rights to use Debtor's trademark did not vaporize as a result of Debtor's rejection of the executory contract.

The majority focuses on the Bankruptcy Code's protection of debtors' ability to reorganize and to escape "burdensome obligations." But, as the majority acknowledges, in some situations, the Bankruptcy Code also provides protections to non-debtor parties of an executory contract, allowing the courts to determine an equitable remedy pursuant to the terms of a rejected contract. See Ohio v. Kovacs, 469 U.S. 274, 280 (1985); see also In re Nickels Midway Pier, LLC, 255 F. App'x 633, 637-38 (3d Cir.

2007); Abboud, 482 F.3d at 19. Thus, to determine the effect of a section 365(a) rejection on a trademark license, we look to the plain text of section 365 as a whole, which dictates the parameters of such a rejection of an executory contract.

A plain language review reveals section 365's silence as to the treatment of a trademark license post-rejection. Where a statute is silent, we look to the legislative history for assistance. DiGiovanni v. Traylor Bros., Inc., 75 F.3d 748, 755 (1st Cir. 1996) (citing Cabral v. I.N.S., 15 F.3d 193, 194 (1st Cir. 1994)). Resultantly, our examination leads us back to Congress's intent when it enacted section 365(n). The Senate Committee report makes clear that Congress enacted section 365(n) as a direct response to the Fourth Circuit's decision in Lubrizol, 756 F.2d 1043, where the court found that rejection of a contract for an intellectual property license deprived the licensee of all rights previously granted under that license. See S. Rep. No. 100-505, at 2-3. In so doing, Congress intended to "correct[] the perception of some courts that Section 365 was ever intended to be a mechanism for stripping innocent licensee [sic] of rights central to the operations of their ongoing business." Id., at 4.

Specific to trademark licenses, the Senate Committee report explains that the purposeful omission of trademarks was not designed to leave trademark licensees unprotected, but rather was "designed to allow more time for study, not to approve Lubrizol."

Sunbeam, 686 F.3d at 375. The relevant portion of the Senate report reads:

[T]he bill does not address the rejection of executory trademark[s], . . . . While such rejection is of concern because of the interpretation of [§] 365 by the Lubrizol court and others, . . . such contracts raise issues beyond the scope of this legislation. In particular, trademark . . . relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

S. Rep. No. 100-505, at 5. This legislative history expresses congressional concern about the application of Lubrizol's holding to trademarks licenses until further studies are done, and, rather than continue to apply Lubrizol's holding, encourages "equitable treatment" by the courts to resolve disputes arising in the meantime. Id. Why would Congress have provided this guidance if it meant for Lubrizol -- the very case Congress rejected -- to apply to trademark licenses? Congress has yet to advise the courts about the results of any further studies; as such, the majority's judicially created bright-line rule contravenes congressional intent.

The majority's view infers that the omission of trademarks from section 101(35A)'s definition of "intellectual property," and therefore the protections of section 365(n), implies that section 365 categorically affords no protections to

licensees of trademarks. Yet, Congress's own interpretation of section 365(n) informs us that the bill does not "address or intend any inference to be drawn concerning the treatment of executory contracts which are unrelated to intellectual property." Id. "In light of these direct congressional statements of intent, it is simply more freight than negative inference will bear to read rejection of a trademark license to effect the same result as termination of that license." In re Exide Techs., 607 F.3d at 967 (Ambro, J., concurring) (citation and internal quotation marks omitted).

Instead, like the BAP below, I find it appropriate to view a debtor's section 365(a) rejection through the broader lens of section 365, as the Seventh Circuit did in Sunbeam. Section 365(g) states that "the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease." 11 U.S.C. § 365(g). Similar to other contractual breaches outside of the bankruptcy context, a rejection pursuant to section 365(a) does not automatically terminate a non-rejecting party's rights under a contract. Sunbeam, 686 F.3d at 377. Admittedly, "[w]hat the Bankruptcy Code provides, a judge cannot override by declaring that enforcement would be inequitable." Id. at 375 (internal quotation marks omitted). Given the Bankruptcy Code's silence as to the post-rejection rights that a trademark licensee does or does not retain, and in accordance with principles

governing breaches of contract, we must resolve the dispute by looking to the terms of the contract to which these sophisticated parties agreed, and other applicable non-bankruptcy law. While the majority mistakenly insists that that this approach rejects the one followed in Sunbeam, it is precisely what the Seventh Circuit called for in finding that rejection does not abrogate a contract. Id. at 377. The majority takes issue with this consideration in what it terms as "some unspecified manner," but ignores that "the development of equitable treatment" is precisely what Congress has instructed the courts to do. See S. Rep. No. 100-505, at 6. Instead, the majority's view that a section 365(a) rejection eliminates a licensee's rights to the bargained-for use of a debtor's trademark effectively treats a debtor's rejection as a contract cancellation, rather than a contractual breach, putting the court at odds with legislative intent. It also "makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve." In re Exide Techs., 607 F.3d at 967-68 (Ambro, J., concurring).

I respect my colleagues' concern that following the Seventh Circuit's holding that a section 365(a) rejection does not categorically eviscerate the trademark rights that a debtor-licensor bargained away may "require[] that the trademark owner - - here Debtor -- monitor and exercise control over the quality of the goods sold to the public" post-rejection. However, licensees



have trademark quality assurance obligations under the terms of their individual contracts which can be enforced through further legal action and the equitable remedy of specific performance. In the current case, Mission's obligations are laid out in Section 15(d) of the Agreement, which states that, inter alia, Mission shall not use the trademarks in a disparaging or inaccurate manner, shall comply with written trademark guidelines, and shall not create a unitary composite mark. The majority speculates that the remaining burden on the debtor will be too great in the bankruptcy context, and therefore, if it "were in the chancellor's chair," it would not follow this approach. However, we need not enter such a debate as it is not the role of the courts to legislate, as the majority's approach effectively does, through the creation of bright-line rules in the face of congressional intent. Congress contemplated the majority's concern when it enacted section 365(n), recognizing "that there may be circumstances in which the future affirmative performance obligations under a license cannot be performed in a manner that benefits the estate." S. Rep. No. 100-505, at 4-5. The legislative history indicates that treatment of trademark licenses is one such circumstance.

Accordingly, the BAP was correct to follow the Seventh Circuit's lead in finding that, even though 11 U.S.C. § 365(n) does not provide Mission protection of its license to use Debtor's trademarks, Debtor's rejection of the executory contract does not

rescind the Agreement and eviscerate any of Mission's remaining trademark rights. Instead, as Congress has instructed the bankruptcy courts to do, the effect of Debtor's rejection on Mission's trademark license should be guided by the terms of the Agreement, and non-bankruptcy law, to determine the appropriate equitable remedy of the functional breach of contract. I respectfully dissent.

Copyright Materials

# BMG Rights Mgmt. (US) LLC v. Cox Communs., Inc.

United States Court of Appeals for the Fourth Circuit

October 25, 2017, Argued; February 1, 2018, Decided

No. 16-1972, No. 17-1352, No. 17-1353

## Reporter

881 F.3d 293 \*; 2018 U.S. App. LEXIS 2487 \*\*; 126 U.S.P.Q.2D (BNA) 1327 \*\*\*; Copy. L. Rep. (CCH) P31,220; 2018 WL 650316

BMG RIGHTS MANAGEMENT (US) LLC, Plaintiff - Appellee, and ROUND HILL MUSIC LP, Plaintiff, v. COX COMMUNICATIONS, INCORPORATED; COXCOM, LLC, Defendants - Appellants, and COX ENTERPRISES, INC.; COXCOM, INC., d/b/a Cox Communications Northern Virginia; JOHN DOE 2, IP Subscriber 174.65.175.31, Defendants, RIGHTSCORP, INC., Party-in-Interest.AMERICAN COUNCIL ON EDUCATION; ASSOCIATION OF AMERICAN UNIVERSITIES; EDUCAUSE; AMERICAN LIBRARY ASSOCIATION; ASSOCIATION OF RESEARCH LIBRARIES; ASSOCIATION OF COLLEGE AND RESEARCH LIBRARIES; AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM; APPA: LEADERSHIP IN EDUCATIONAL FACILITIES; 2 NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS; THURGOOD MARSHALL COLLEGE FUND; ASSOCIATION OF CATHOLIC COLLEGES AND UNIVERSITIES; NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES; PUBLIC KNOWLEDGE; ELECTRONIC FRONTIER FOUNDATION; CENTER FOR DEMOCRACY & TECHNOLOGY, Amici Curiae, and CONSUMER TECHNOLOGY ASSOCIATION; COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION; UNITED STATES TELECOM ASSOCIATION; AMERICAN CABLE ASSOCIATION; INTERNET COMMERCE COALITION, Amici Supporting Appellant, RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.; THE COPYRIGHT ALLIANCE; NATIONAL MUSIC PUBLISHERS' ASSOCIATION; NASHVILLE SONGWRITERS ASSOCIATION INTERNATIONAL; MOTION PICTURE ASSOCIATION OF AMERICA, INC., Amici Supporting Appellee.BMG RIGHTS MANAGEMENT (US) LLC, Plaintiff - Appellant, and ROUND HILL MUSIC LP, Plaintiff, v. COX COMMUNICATIONS, INCORPORATED; COXCOM, LLC, 3 Defendants - Appellees, and COX ENTERPRISES, INCORPORATED; COXCOM, INC., d/b/a Cox Communications of Northern Virginia; JOHN DOE, IP Subscriber 174.65.175.31, Defendants, RIGHTSCORP, INC., Party-in-Interest.BMG RIGHTS MANAGEMENT (US) LLC; ROUND HILL MUSIC LP, Plaintiffs - Appellees, v. COX

COMMUNICATIONS, INCORPORATED; COXCOM, LLC, Defendants - Appellants, and COX ENTERPRISES, INCORPORATED; COXCOM, INC., d/b/a Cox Communications of Northern Virginia; JOHN DOE, IP Subscriber 174.65.175.31, Defendants, RIGHTSCORP, INC., Party-in-Interest.

**Subsequent History:** Motion denied by BMG Rights Mgmt. (US) LLC v. Cox Enters., 2018 U.S. Dist. LEXIS 220084 (E.D. Va., Aug. 9, 2018)

**Prior History:** [\*\*1] Appeals from the United States District Court for the Eastern District of Virginia, at Alexandria. (1:14-cv-01611-LO-JFA). Liam O'Grady, District Judge.

BMG Rights Mgmt. (US) LLC v. Cox Communs., Inc., 234 F. Supp. 3d 760, 2017 U.S. Dist. LEXIS 21001 (E.D. Va., Feb. 14, 2017)

BMG Rights Mgmt. (US) LLC v. Cox Communs., Inc., 149 F. Supp. 3d 634, 2015 U.S. Dist. LEXIS 161091 (E.D. Va., Dec. 1, 2015)

**Disposition:** AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED.

**Counsel:** ARGUED: Michael S. Elkin, WINSTON & STRAWN LLP, New York, New York, for Appellants/Cross-Appellees.

Michael J. Allan, STEPTOE & JOHNSON LLP, Washington, D.C., for Appellee/Cross-Appellant.

ON BRIEF: Thomas P. Lane, New York, New York, Jennifer A. Golinveaux, Thomas J. Kearney, San Francisco, California, Steffen N. Johnson, Christopher E. Mills, WINSTON & STRAWN LLP, Washington, D.C.; Craig C. Reilly, Alexandria, Virginia, for Appellants/Cross-Appellees.

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Seth D. Greenstein, CONSTANTINE CANNON LLP, Washington, D.C., for Amici Consumer Technology Association and Computer & Communications Industry

Association.

Jonathan Band, JONATHAN BAND PLLC, Washington, D.C., for Amici American Council on Education, Association of American Universities, Educause, American Library Association, Association of Research [\*\*2] Libraries, Association of College and Research Libraries, American Indian Higher Education Consortium, APPA: Leadership in Educational Facilities, National Association of College and University Business Officers, Thurgood Marshall College Fund, Association of Catholic Colleges and Universities, and National Association of Independent Colleges and Universities.

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Andrew L. Deutsch, DLA PIPER LLP, New York, New York, for Amicus Internet Commerce Coalition.

Mitchell L. Stoltz, ELECTRONIC FRONTIER FOUNDATION, San Francisco, California; Charles Duan, PUBLIC KNOWLEDGE, Washington, D.C., for Amici Public Knowledge, Electronic Frontier Foundation, and Center for Democracy & Technology.

George M. Borkowski, RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC., Washington, D.C.; Kannon K. Shanmugam, Thomas G. Hentoff, Connor S. Sullivan, WILLIAMS & CONNOLLY LLP, Washington, [\*\*3] D.C., for Amicus Recording Industry Association of America, Inc.

Linda M. Burrow, Eric S. Pettit, Albert Giang, Alison Mackenzie, CALDWELL LESLIE & PROCTOR, PC, Los Angeles, California, for Amicus The Copyright Alliance.

Erich C. Carey, Vice President & Senior Counsel, Litigation, NATIONAL MUSIC PUBLISHERS' ASSOCIATION, Washington, D.C., for Amicus National Music Publishers' Association.

Jacqueline C. Charlesworth, New York, New York, for Amici National Music Publishers' Association and Nashville Songwriters Association International.

R. Reeves Anderson, Denver, Colorado, Elisabeth S. Theodore, Washington, D.C., John C. Ulin, ARNOLD & PORTER KAYE SCHOLER LLP, Los Angeles, California, for Amicus Motion Picture Association of America, Inc.

**Judges:** Before MOTZ and WYNN, Circuit Judges, and

SHEDD, Senior Circuit Judge. Judge Motz wrote the opinion, in which Judge Wynn and Senior Judge Shedd joined.

**Opinion by:** DIANA GRIBBON MOTZ

## Opinion

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[\*\*\*1330] [\*298] DIANA GRIBBON MOTZ, Circuit Judge:

BMG Rights Management (US) LLC ("BMG"), which owns copyrights in musical compositions, filed this suit alleging copyright infringement against Cox Communications, Inc. and CoxCom, LLC (collectively, "Cox"), providers of high-speed Internet access. BMG seeks [\*\*4] to hold Cox contributorily liable for infringement of BMG's copyrights by subscribers to Cox's Internet service. Following extensive discovery, the district court held that Cox had not produced evidence that it had implemented a policy entitling it to a statutory safe harbor defense and so granted summary judgment on that issue to BMG. After a two-week trial, a jury found Cox liable for willful contributory infringement and awarded BMG \$25 million in statutory damages. Cox appeals, asserting that the district court erred in denying it the safe harbor defense and incorrectly instructed the jury. We hold that Cox is not entitled to the safe harbor defense and affirm the district court's denial of it, but we reverse in part, vacate in part, and remand for a new trial because of certain errors in the jury instructions.

I.

A.

Cox is a conduit Internet service provider ("ISP"), providing approximately 4.5 million subscribers with high-speed Internet access for a monthly fee. Some of Cox's subscribers shared and received copyrighted files, including music files, using a technology known as BitTorrent. BitTorrent is not a software program, but rather describes a protocol — a set of rules governing [\*\*5] the communication between computers — that allows individual computers on the Internet to transfer files directly to other computers. This method of file sharing is commonly known as "peer-to-peer" file sharing, and contrasts with the traditional method of downloading a file from a central server using a Web browser.

Although peer-to-peer file sharing is not new, what makes BitTorrent unique is that it allows a user to download a file from multiple peers at the same time — even peers who only have a piece of the file, rather than the complete file. In other [\*\*299] words, as soon as a user has downloaded a piece of the file, he or she can [\*\*\*1331] begin sharing that piece

with others (while continuing to download the rest of the file). This innovation makes sharing via BitTorrent particularly fast and efficient. Although BitTorrent can be used to share any type of digital file, many use it to share copyrighted music and video files without authorization.

As a conduit ISP, Cox only provides Internet access to its subscribers. Cox does not create or sell software that operates using the BitTorrent protocol, store copyright-infringing material on its own computer servers, or control what its subscribers **[\*\*6]** store on their personal computers.

Cox's agreement with its subscribers reserves the right to suspend or terminate subscribers who use Cox's service "to post, copy, transmit, or disseminate any content that infringes the patents, copyrights . . . or proprietary rights of any party." To enforce that agreement and protect itself from liability, however, Cox created only a very limited automated system to process notifications of alleged infringement received from copyright owners. Cox's automated system rests on a thirteen-strike policy that determines the action to be taken based on how many notices Cox has previously received regarding infringement by a particular subscriber. The first notice alleging a subscriber's infringement produces no action from Cox. The second through seventh notices result in warning emails from Cox to the subscriber. After the eighth and ninth notices, Cox limits the subscriber's Internet access to a single webpage that contains a warning, but the subscriber can reactivate complete service by clicking an acknowledgement. After the tenth and eleventh notices, Cox suspends services, requiring the subscriber to call a technician, who, after explaining the reason **[\*\*7]** for suspension and advising removal of infringing content, reactivates service. After the twelfth notice, the subscriber is suspended and directed to a specialized technician, who, after another warning to cease infringing conduct, reactivates service. After the thirteenth notice, the subscriber is again suspended, and, for the first time, considered for termination. Cox never automatically terminates a subscriber.

The effectiveness of Cox's thirteen-strike policy as a deterrent to copyright infringement has several additional limitations. Cox restricts the number of notices it will process from any copyright holder or agent in one day; any notice received after this limit has been met does not count in Cox's graduated response escalation. Cox also counts only one notice per subscriber per day. And Cox resets a subscriber's thirteen-strike counter every six months.

BMG, a music publishing company, owns copyrights in musical compositions. To protect this copyrighted material, BMG hired Rightscorp, Inc., which monitors BitTorrent activity to determine when infringers share its clients'

copyrighted works. When Rightscorp identifies such sharing, it emails an infringement notice to the alleged **[\*\*8]** infringer's ISP (here, Cox). The notice contains the name of the copyright owner (here, BMG), the title of the copyrighted work, the alleged infringer's IP address, a time stamp, and a statement under penalty of perjury that Rightscorp is an authorized agent and the notice is accurate.

Rightscorp also asks the ISP to forward the notice to the allegedly infringing subscriber, since only the ISP can match the IP address to the subscriber's identity. For that purpose, the notice contains a settlement offer, allowing the alleged infringer to pay twenty or thirty dollars for a release from liability for the instance of **[\*300]** infringement alleged in the notice. Cox has determined to refuse to forward or process notices that contain such settlement language. When Cox began receiving Rightscorp notices in the spring of 2011 (before Rightscorp had signed BMG as a client), Cox notified Rightscorp that it would process the notices only if Rightscorp removed the settlement language. Rightscorp did not do so. Cox never considered removing the settlement language itself or using other means to inform its subscribers of the allegedly infringing activity observed by Rightscorp.

Rightscorp continued to send **[\*\*9]** Cox large numbers of settlement notices. In the fall of 2011, Cox decided to "blacklist" Rightscorp, meaning Cox would delete notices received from Rightscorp without acting on them or even viewing them. BMG hired Rightscorp in December 2011 — *after* Cox blacklisted Rightscorp. Thus, Cox did not ever view a single one of the millions of notices that Rightscorp sent to Cox on BMG's behalf.

B.

On November 26, 2014, BMG initiated this action against Cox. BMG alleged that Cox was vicariously and contributorily liable for acts of copyright infringement by its subscribers.

At the conclusion of discovery, the parties filed multi-issue cross-motions for summary judgment, which the district court resolved in a careful written opinion. Among these issues, **[\*\*\*1332]** BMG asserted that Cox had not established a policy entitling it to the safe harbor defense contained in the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 512(a). To qualify for that safe harbor, an ISP, like Cox, must have "adopted and reasonably implemented . . . a policy that provides for the termination in appropriate circumstances of subscribers . . . who are repeat infringers." *Id.* § 512(i)(1)(A). The district court agreed with BMG and held that no reasonable jury **[\*\*10]** could find that Cox implemented a policy that entitled it to that DMCA safe harbor. The court explained that BMG had offered evidence that "Cox knew

accounts were being used repeatedly for infringing activity yet failed to terminate" those accounts and that Cox did "not come forward with any evidence" to the contrary. Accordingly, the court granted summary judgment to BMG on Cox's safe harbor defense.

The case proceeded to a jury trial that involved the testimony of more than a dozen witnesses and admission of numerous documents. At the conclusion of the trial, the district court instructed the jury that to prove contributory infringement, BMG had to show "direct infringement of BMG's copyrighted works" by Cox subscribers, that "Cox knew or should have known of such infringing activity," and that "Cox induced, caused, or materially contributed to such infringing activity." The court further instructed the jury that BMG could prove Cox's knowledge of infringing activity by showing willful blindness, if Cox "was aware of a high probability that Cox users were infringing BMG's copyrights but consciously avoided confirming that fact."

The jury found Cox liable for willful contributory infringement [\*\*11] and awarded BMG \$25 million in statutory damages. The jury also found that Cox was not liable for vicarious infringement. The district court denied all post-trial motions and entered judgment in accordance with the verdict. Cox appeals, arguing that BMG should not have been granted summary judgment as to the DMCA safe harbor and that erroneous jury instructions entitle it [\*301] to a new trial.<sup>1</sup>

## II.

We first address Cox's contention that the district court erred in denying it the § 512(a) DMCA safe harbor defense. We review de novo the grant of summary judgment. *Henry v. Purnell*, 652 F.3d 524, 531 (4th Cir. 2011) (en banc).

### A.

The DMCA provides a series of safe harbors that limit the copyright infringement liability of an ISP and related entities. As a conduit ISP, Cox seeks the benefit of the safe harbor contained in 17 U.S.C. § 512(a). To fall within that safe harbor, Cox must show that it meets the threshold requirement, common to all § 512 safe harbors, that it has

"adopted and reasonably implemented . . . a policy that provides for the termination in appropriate circumstances of subscribers . . . who are repeat infringers." 17 U.S.C. § 512(i)(1)(A).

Cox's principal contention is that "repeat infringers" means *adjudicated* repeat infringers: people who have been held liable by a court for multiple instances [\*\*12] of copyright infringement. Cox asserts that it complied with § 512(i)(1)(A)'s requirement and is therefore entitled to the § 512(a) DMCA safe harbor because BMG did not show that Cox failed to terminate any adjudicated infringers. BMG responds that Cox's interpretation of "repeat infringers" is contrary to "the DMCA's plain terms." Appellee Br. at 31.

Because the statute does not define the term "repeat infringers," to resolve that question, we turn first to the term's ordinary meaning. *See Sebelius v. Cloer*, 569 U.S. 369, 376, 133 S. Ct. 1886, 185 L. Ed. 2d 1003 (2013). The ordinary meaning of an infringer is "[s]omeone who interferes with one of the exclusive rights of a . . . copyright" holder — in short, one who infringes a copyright. *Infringer*, Black's Law Dictionary 902 (10th ed. 2014). A repeat infringer, then, is one who infringes a copyright more than once.

Cox contends that because the repeat infringer provision uses the term "infringer" without modifiers such as "alleged" or "claimed" that appear elsewhere in the DMCA, "infringer" must mean "adjudicated infringer." But the DMCA's use of phrases like "alleged infringer" in other portions of the statute indicates only that the term "infringer" alone must mean something different [\*\*\*1333] than "alleged infringer," otherwise, the word "alleged" [\*\*13] would be superfluous. Using the ordinary meaning of "infringer," however, fully accords with this principle: someone who *actually* infringes a copyright differs from someone who has merely *allegedly* infringed a copyright, because an allegation could be false. The need to differentiate the terms "infringer" and "alleged infringer" thus does not mandate Cox's proposed definition.

Moreover, other provisions of the Copyright Act use the term "infringer" (and similar terms) to refer to all who engage in infringing activity, not just the narrow subset of those who have been so adjudicated by a court. For example, § 501(a), which creates a civil cause of action for copyright owners, states that "[a]nyone who violates any of the exclusive rights of [\*302] the copyright owner" provided for in the statute "is an *infringer* of the copyright or right of the author." 17 U.S.C. § 501(a) (emphasis added).

Similarly, the DMCA itself provides that ISPs who store copyrighted material are generally not liable for removing "material or activity *claimed to be infringing* or based on facts or circumstances from which *infringing activity is apparent*,

<sup>1</sup> After trial, both parties moved for fees and costs. The district court awarded BMG over \$8 million in attorney's fees but limited some of the costs recoverable by BMG. The court denied Cox's motion for fees and costs against an earlier plaintiff in the litigation, Round Hill Music LP, against whom Cox prevailed on summary judgment. The parties appeal these orders. Because our holding as to the jury instructions requires us to vacate this award of fees and costs, we do not address the merits of those awards.

regardless of whether the material or activity is *ultimately determined to be infringing*." **[\*\*14]** *Id.* § 512(g)(1) (emphases added). This provision expressly distinguishes among three categories of activity: activity merely "claimed to be infringing," actual "infringing activity" (as is apparent from "facts or circumstances"), and activity "ultimately determined to be infringing." The distinction between "infringing activity" and activity "ultimately determined to be infringing" in § 512(g) shelters ISPs from being liable for taking down material that *is* "infringing," even if no court "ultimately determine[s]" that it is infringing — because, for example, the copyright holder simply does not file a lawsuit against the person who uploaded the infringing material. As this provision illustrates, Congress knew how to expressly refer to adjudicated infringement, but did not do so in the repeat infringer provision. *See also id.* § 512(b)(2)(E)(i) (addressing circumstance in which "a court has ordered that . . . material be removed"). That suggests the term "infringer" in § 512(i) is not limited to adjudicated infringers.

The legislative history of the repeat infringer provision supports this conclusion. Both the House Commerce and Senate Judiciary Committee Reports explained that "those who repeatedly or flagrantly abuse their access **[\*\*15]** to the Internet through disrespect for the intellectual property rights of others should know that there is a realistic threat of losing that access." H.R. Rep. No. 105-551, pt. 2, at 61 (1998); S. Rep. No. 105-190, at 52 (1998). This passage makes clear that if persons "abuse their access to the Internet through disrespect for the intellectual property rights of others" — that is, if they infringe copyrights — they should face a "realistic threat of losing" their Internet access. The passage does not suggest that they should risk losing Internet access only once they have been sued in court and found liable for multiple instances of infringement. Indeed, the risk of losing one's Internet access would hardly constitute a "realistic threat" capable of deterring infringement if that punishment applied only to those *already* subject to civil penalties and legal fees as adjudicated infringers.

The only circuit to expressly consider the definition of a "repeat infringer" in the DMCA has defined it to mean "someone who interferes with one of the exclusive rights of a copyright" "again or repeatedly." *EMI Christian Music Grp., Inc. v. MP3tunes, LLC*, 844 F.3d 79, 89 (2d Cir. 2016) (alterations, internal quotation marks, and citations **[\*\*16]** omitted); *accord, e.g., Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004) (finding material dispute of fact as to whether ISP was entitled to invoke safe harbor provision because there was "ample evidence" that ISP did not terminate "repeat infringers," but not suggesting that the infringing subscribers were *adjudicated* infringers); *In re Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003)

(finding ISP ineligible for safe harbor defense where ISP "invited" "the use of its service by 'repeat infringers,'" but not discussing any evidence that users were *adjudicated* infringers). Cox does not cite a single case adopting its contrary view that only adjudicated infringers can be "repeat infringers" for purposes **[\*303]** of the DMCA.<sup>2</sup>

**[\*\*\*1334]** Accordingly, we reject Cox's argument that the term "repeat infringers" in § 512(i) is limited to adjudicated infringers.<sup>3</sup>

## B.

Section 512(i) thus requires that, to obtain the benefit of the DMCA safe harbor, Cox must have reasonably implemented "a policy that provides for the termination in appropriate circumstances" of its subscribers who repeatedly infringe copyrights. 17 U.S.C. § 512(i)(1)(A). We are mindful of the need to afford ISPs flexibility in crafting repeat infringer policies, and of the difficulty of determining when it is "appropriate" to terminate a person's access to the Internet. **[\*\*17]** *See id.* At a minimum, however, an ISP has not "reasonably implemented" a repeat infringer policy if the ISP fails to enforce the terms of its policy in any meaningful fashion. *See In re Aimster Copyright Litig.*, 252 F. Supp. 2d 634, 659 (N.D. Ill. 2002), *aff'd*, 334 F.3d 643 (7th Cir. 2003) ("Adopting a repeat infringer policy and then purposely eviscerating any hope that such a policy could ever be carried out is not an 'implementation' as required by § 512(i)."). Here, Cox formally adopted a repeat infringer "policy," but, both before and after September 2012, made every effort to avoid reasonably implementing that policy. Indeed, in carrying out its thirteen-strike process, Cox very clearly determined *not* to terminate subscribers who in fact repeatedly violated the policy.

The words of Cox's own employees confirm this conclusion.

<sup>2</sup>Nor do we find Cox's reliance on Professor Nimmer's copyright treatise convincing. Although the treatise discusses several possible meanings for the term "infringer," it ultimately concludes that "an 'infringer' in the statutory sense may be *either* a party who has been adjudicated to have committed copyright infringement, *or* a party about whom the service provider has actual knowledge that s/he has engaged in infringement." 4 Nimmer on Copyright § 12B.10[B][3][c] (emphases added); *see id.* § 12B.10[B][3][a]. That conclusion lies at odds with Cox's assertion that only an adjudicated infringer qualifies as an "infringer" for purposes of the DMCA.

<sup>3</sup>We note that even were we to adopt Cox's position that its policy must only target *adjudicated* repeat infringers, Cox undisputedly did not have such a policy. As summarized above, Cox's policy focused on the number of complaints (or strikes) a subscriber received, not whether a court had adjudicated the subscriber a repeat infringer.



In a 2009 email, Jason Zabek, the executive managing the Abuse Group, a team tasked with addressing subscribers' violations of Cox's policies, explained to his team that "if a customer is terminated for DMCA, you are able to reactivate them," and that "[a]fter you reactivate them the DMCA 'counter' restarts." The email continued, "This is to be an unwritten semi-policy." Zabek also advised a customer service representative asking whether she could reactivate a terminated [\*\*18] subscriber that "[i]f it is for DMCA you can go ahead and reactivate." Zabek explained to another representative: "Once the customer has been terminated for DMCA, we have fulfilled the obligation of the DMCA safe harbor and can start over." He elaborated that this would allow Cox to "collect a few extra weeks of payments for their account. ;-)." Another email summarized Cox's practice more succinctly: "DMCA = reactivate." As a result of this practice, from the beginning of the litigated time period until September 2012, Cox *never* terminated a subscriber for infringement without reactivating them.

Cox nonetheless contends that it lacked "actual knowledge" of its subscribers' infringement and therefore did not have to terminate them. That argument misses the [\*304] mark. The evidence shows that Cox *always* reactivated subscribers after termination, regardless of its knowledge of the subscriber's infringement. Cox did not, for example, advise employees *not* to reactivate a subscriber if the employees had reliable information regarding the subscriber's repeat infringement. An ISP cannot claim the protections of the DMCA safe harbor provisions merely by terminating customers as a symbolic gesture [\*\*19] before indiscriminately reactivating them within a short timeframe.

In September 2012, Cox abandoned its practice of routine reactivation. An internal email advised a new customer service representative that "we now terminate, for real." BMG argues, however, that this was a change in form rather than substance, because instead of terminating and then reactivating subscribers, Cox simply stopped terminating them in the first place. The record evidence supports this view. Before September 2012, Cox was terminating (and reactivating) 15.5 subscribers per month on average; after September 2012, Cox abruptly began terminating *less than one* subscriber per month on average. From September 2012 until the end of October 2014, the month before BMG filed suit, Cox issued only 21 terminations in total. Moreover, at least 17 of those 21 terminations concerned subscribers who had either failed to pay their bills on time or used excessive bandwidth (something that Cox subjected to a strict three-strike termination policy). Cox did not provide evidence that the remaining four terminations were for repeat copyright infringement. But even assuming they were, they stand in stark contrast to the over 500,000 [\*\*20] email warnings and

temporary suspensions Cox issued to alleged infringers during the same time period.

[\*\*1335] Moreover, Cox dispensed with terminating subscribers who repeatedly infringed *BMG's* copyrights in particular when it decided to delete automatically all infringement notices received from BMG's agent, Rightscorp. As a result, Cox received none of the millions of infringement notices that Rightscorp sent to Cox on BMG's behalf during the relevant period. Although our inquiry concerns Cox's policy toward all of its repeatedly infringing subscribers, not just those who infringed BMG's copyrights, Cox's decision to categorically disregard all notices from Rightscorp provides further evidence that Cox did not reasonably implement a repeat infringer policy. *See Ellison*, 357 F.3d at 1080 (holding that "the district court erred in concluding on summary judgment that [the ISP] satisfied the requirements of § 512(i)" because the record showed that the ISP "allowed notices of potential copyright infringement to fall into a vacuum and to go unheeded," indicating it "had not reasonably implemented its policy against repeat infringers"); *Aimster*, 334 F.3d at 655 (holding that a defendant who "disabled itself from doing anything to prevent infringement" [\*\*21] did not reasonably implement a repeat infringer policy).

BMG also provided evidence of particular instances in which Cox failed to terminate subscribers whom Cox employees regarded as repeat infringers. For example, one subscriber "was advised to stop sharing . . . and remove his PTP programs," and a Cox employee noted that the subscriber was "well aware of his actions" and was "upset that 'after years of doing this' he is now getting caught." Nonetheless, Cox did not terminate the subscriber. Another customer was advised that "further complaints would result in termination" and that it was the customer's "absolute last chance to . . . remove ALL" file-sharing software. But when Cox received another complaint, a manager directed the employee *not* to terminate, but rather to "suspend this Customer, one LAST time," [\*\*305] noting that "[t]his customer pays us over \$400/month" and that "[e]very terminated Customer becomes lost revenue."

Cox responds that these post-September 2012 emails do not necessarily "*prove* actual knowledge of repeat infringement." Appellants Br. at 59. Again, that argument is misplaced. Cox bears the burden of proof on the DMCA safe harbor defense; thus, Cox had to point to [\*\*22] evidence showing that it reasonably implemented a repeat infringer policy. The emails show that Cox internally concluded that a subscriber should be terminated after the next strike, but then declined to do so because it did not want to lose revenue. In other words, Cox failed to follow through on its own policy. Cox argues that these emails only concerned "four cases," and that "occasional

lapses" are forgivable. *Id.* at 58. But even four cases are significant when measured against Cox's equally small total number of relevant terminations in this period — also four. More importantly, Cox did not produce any evidence of instances in which it *did* follow through on its policy and terminate subscribers after giving them a final warning to stop infringing.

In addition, Cox suggests that because the DMCA merely requires termination of repeat infringers in "appropriate circumstances," Cox decided not to terminate certain subscribers only when "appropriate circumstances" were lacking. Appellants Br. at 56- 57. But Cox failed to provide evidence that a determination of "appropriate circumstances" played *any* role in its decisions to terminate (or not to terminate). Cox did not, for example, point to any **[\*\*23]** criteria that its employees used to determine whether "appropriate circumstances" for termination existed. Instead, the evidence shows that Cox's decisions not to terminate had nothing to do with "appropriate circumstances" but instead were based on one goal: not losing revenue from paying subscribers.

Cox failed to qualify for the DMCA safe harbor because it failed to implement its policy in any consistent or meaningful way — leaving it essentially with no policy. Accordingly, the district court did not err in holding that Cox failed to offer evidence supporting its entitlement to the § 512(a) safe harbor defense and therefore granting summary judgment on this issue to BMG.

### III.

We turn to Cox's other principal challenge to the judgment: that the district court erred in instructing the jury as to contributory infringement. "We generally review a trial court's . . . jury instructions for abuse of discretion." *Coll. Loan Corp. v. SLM Corp.*, 396 F.3d 588, 595 (4th Cir. 2005). However, we review *de novo* whether jury instructions correctly state the law, *see United States v. Cherry*, 330 F.3d 658, 665 (4th Cir. 2003), because a trial court "by definition abuses its discretion when it makes an error of law," *Koon v. United States*, 518 U.S. 81, 100, 116 S. Ct. 2035, 135 L. Ed. 2d 392 (1996). Where an instruction is erroneous, we will set aside the verdict if "[t]here **[\*\*\*1336]** is a reasonable probability" that **[\*\*24]** the erroneous instruction "affected the jury's verdict." *See Cherry*, 330 F.3d at 600.

#### A.

Cox's initial jury instruction argument rests on its contention that it cannot be held liable for contributory copyright infringement because its technology is "capable of substantial noninfringing use." Appellants Br. at 15, 38. According to

Cox, the district court erred in refusing "to instruct the jury on this principle." *Id.* at 15.

**[\*306]** This argument is meritless. Of course, the mere sale of a product that has both lawful and unlawful uses does not in and of itself establish an intent to infringe. That is the holding of *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984). In *Sony*, copyright holders sought to hold Sony contributorily liable for selling video cassette recorders (VCRs) that customers used to tape copyrighted programs. *Id.* at 419-20. The Supreme Court rejected that claim, holding that because a VCR was "capable of commercially significant noninfringing uses," its manufacturer, Sony, could not be held contributory liable for distribution of the VCR. *Id.* at 442.

A few courts initially interpreted *Sony's* limitation, as Cox does, to mean that if a product can be substantially used lawfully, its producer *cannot* be contributorily liable for copyright infringement. *See, e.g., Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004), *vacated and remanded* **[\*\*25]**, 545 U.S. 913, 125 S. Ct. 2764, 162 L. Ed. 2d 781 (2005); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 262, 267 (5th Cir. 1988). But in *Grokster*, the Supreme Court rejected this broad reading. *See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 125 S. Ct. 2764, 162 L. Ed. 2d 781 (2005). The Court clarified that "*Sony* barred secondary liability based on *presuming or imputing intent* to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement." *Id.* at 933 (emphasis added). The *Grokster* Court explained that under *Sony*, intent to infringe will not be presumed from "the equivocal conduct of selling an item with substantial lawful as well as unlawful uses," even when the seller has the "understanding that some of [his or her] products will be misused." *Id.* at 932-33. More is needed. But the fact that a product is "capable of substantial lawful use" does not mean the "producer can never be held contributorily liable." *Id.* at 934.

Exactly the same flaw infects Cox's related argument that the district court erred in refusing to instruct the jury that "[i]t is not a material contribution to provide a product or service that is capable of substantial non-infringing uses." Appellants Br. 22-23. As the Supreme Court explained, reversal was required in *Grokster* because the Ninth Circuit had "read *Sony's* limitation to mean that whenever **[\*\*26]** a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it . . . . [t]his view of *Sony*, however, was error." *Grokster*, 545 U.S. at 934.

Because the instruction Cox requested misstates the law, the district court did not err in refusing to give it. *See United States v. Smoot*, 690 F.3d 215, 223 (4th Cir. 2012). In fact, providing a product with "substantial non-infringing uses" can constitute a material contribution to copyright infringement. *See, e.g., Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1172 (9th Cir. 2007) (holding that Google's image search engine "substantially assists websites to distribute their infringing copies" of copyrighted images, and thus constitutes a material contribution, even though "Google's assistance is available to all websites, not just infringing ones"). *Grokster* makes clear that what matters is not simply whether the product has some or even many non-infringing uses, but whether the product is distributed with the intent to cause copyright infringement. *See Grokster*, 545 U.S. at 934 ("Sony's rule limits imputing culpable intent [\*307] as a matter of law from the characteristics or uses of a distributed product." (emphasis added)).

Thus, contrary to Cox's argument, the fact that its technology can be substantially employed for a noninfringing use does [\*27] not immunize it from liability for contributory copyright infringement. The district court did not err in refusing to instruct the jury to the contrary.

B.

Alternatively, Cox offers a more nuanced attack on the contributory infringement instructions. Cox contends that the court erred in charging the jury as to the intent necessary to prove contributory infringement. Specifically, [\*\*\*1337] Cox challenges the district court's instructions that the jury could impose liability for contributory infringement if the jury found "Cox knew or should have known of such infringing activity." We agree that in so instructing the jury, the court erred.

i.

*Grokster* teaches that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement." 545 U.S. at 930 (emphasis added). The requisite intent may, however, be presumed according to the "rules of fault-based liability derived from the common law." *Id.* at 934-35. The most relevant of these common law rules is that if a person "knows that the consequences are certain, or substantially certain, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result." *See* Restatement (Second) of Torts § 8A cmt. b (1965); *Grokster*, 545 U.S. at 932 (a person "will be presumed to [\*28] intend the natural consequences of his acts" (internal quotation marks and citation omitted)). Under this principle, "when an article is good for nothing else but infringement . . . there is no injustice in presuming or

imputing an intent to infringe" based on its sale. *Grokster*, 545 U.S. at 932 (internal quotation marks and citation omitted). Assuming the seller is aware of the nature of his product — that its only use is infringing — he knows that infringement is substantially certain to result from his sale of that product and he may therefore be presumed to intend that result.

A similar result follows when a person sells a product that has lawful uses, but with the knowledge that the buyer will in fact use the product to infringe copyrights. In that circumstance, the seller knows that infringement is substantially certain to result from the sale; consequently, the seller intends to cause infringement just as much as a seller who provides a product that has exclusively unlawful uses. *See Henry v. A.B. Dick Co.*, 224 U.S. 1, 32 S. Ct. 364, 56 L. Ed. 645, 1912 Dec. Comm'r Pat. 575 (1912), overruled on other grounds, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871, 1917 Dec. Comm'r Pat. 391 (1917). Indeed, *Henry*, a hundred-year-old Supreme Court case involving contributory patent infringement that the Supreme Court cited in *Grokster*, 545 U.S. at 932-33, 935, and *Sony*, 464 U.S. at 441-42, rests on this very reasoning. There, the Court affirmed [\*29] a judgment for contributory infringement based on the defendants' sale to a specific person with knowledge that the product would be used to infringe, even though the product — ink — also had noninfringing uses. *Henry*, 224 U.S. at 48-49. The Court reasoned that because the defendants sold the ink "with the expectation that it would be used" to infringe, "the purpose and intent that it would be so used" could be presumed. *Id.* at 49.

[\*308] These principles apply equally in cases, like this one, that involve subscription services or rentals rather than one-time sales. Consider a company that leases VCRs, learns that specific customers use their VCRs to infringe, but nonetheless renews the lease to those infringing customers. Given those facts, the company knows that its action — renewing the lease of the VCR to these specific customers — is substantially certain to result in infringement, and so an intent to cause infringement may be presumed. *See Amazon.com*, 508 F.3d at 1172 (explaining that "intent may be imputed" based on "a service provider's knowing failure to prevent infringing actions.")

It is well-established that one mental state slightly less demanding than actual knowledge — willful blindness — can establish the requisite intent for contributory [\*30] copyright infringement. This is so because the law recognizes willful blindness as equivalent to actual knowledge. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 766, 131 S. Ct. 2060, 179 L. Ed. 2d 1167 (2011) ("[P]ersons who know enough to blind themselves to direct proof of critical

facts in effect have actual knowledge of those facts."); *Aimster*, 334 F.3d at 650 ("Willful blindness is knowledge, in copyright law . . . as it is in the law generally.").

Whether other mental states - such as negligence (where a defendant "should have known" of infringement) - can suffice to prove contributory copyright infringement presents a more difficult question.<sup>4</sup> The notion that contributory liability could be imposed based on something less than actual knowledge, or its equivalent, willful blindness, is not entirely without support. *See Aimster*, 334 F.3d at 650 ("[I]n copyright law . . . indeed it may be enough that the defendant *should* have known of the direct infringement . . . .") [\*\*\*1338] Nonetheless, we believe for several reasons, that, as Cox contends, negligence does not suffice to prove contributory infringement; rather, at least willful blindness is required.

First, *Grokster's* recitation of the standard — that "[o]ne infringes contributorily by *intentionally* inducing or encouraging direct infringement" — is on its face difficult [\*\*31] to reconcile with a negligence standard. *See* 545 U.S. at 930 (emphasis added). In addition, it would have been unnecessary for the Court to discuss in detail the situations in which intent may be presumed, and those situations, like *Sony*, in which it may not, if liability did not require intent at all, but merely required negligence. *See id.* at 934.

Looking to patent law, as the Supreme Court did in *Sony* and *Grokster*, further counsels against a negligence standard. The Supreme Court has long held that contributory patent infringement requires knowledge of direct infringement. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488, 84 S. Ct. 1526, 12 L. Ed. 2d 457, 1964 Dec. Comm'r Pat. 760 (1964). And in 2011, the Court held that willful blindness satisfies this knowledge requirement, but recklessness ("one who merely knows of a substantial and unjustified risk of . . . wrongdoing") and negligence ("one who should have known of a similar risk but, in fact, did not") do not. *Global-Tech*, 563 U.S. at 769-71. The Court reaffirmed this holding in 2015, stating that contributory patent infringement "requires proof [\*\*309] the defendant knew the acts were infringing," and that *Global-Tech* "was clear in rejecting any lesser mental state as the standard." *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1928, 191 L. Ed. 2d 883 (2015). The Court expressly rejected the possibility "that a person, or entity, could be liable even though he did not know the [\*\*32] acts

were infringing." *Id.* Thus, in the patent context, it is clear that contributory infringement cannot be based on a finding that a defendant "should have known" of infringement.

In both *Grokster* and *Sony*, the Supreme Court adopted now-codified patent law doctrines — the staple article doctrine and the inducement rule. The Court did so because of "the historic kinship between patent law and copyright law," *Sony*, 464 U.S. at 439-42, and the similar need in both contexts to impose liability on "culpable expression and conduct" without "discouraging the development of technologies with lawful and unlawful potential," *Grokster*, 545 U.S. at 936-37. We are persuaded that the *Global-Tech* rule developed in the patent law context, which held that contributory liability can be based on willful blindness but not on recklessness or negligence, is a sensible one in the copyright context. It appropriately targets culpable conduct without unduly burdening technological development.<sup>5</sup>

The law of aiding and abetting, "the criminal counterpart to contributory infringement," *Aimster*, 334 F.3d at 651, similarly militates against adoption of a negligence standard. A person "aids and abets a crime when . . . he intends to facilitate that offense's commission." [\*\*33] *Rosemond v. United States*, 572 U.S. 65, 134 S. Ct. 1240, 1248, 188 L. Ed. 2d 248 (2014). The necessary intent can be presumed only "when a person actively participates in a criminal venture with full *knowledge* of the circumstances constituting the charged offense." *Id.* at 1248-49 (emphasis added).

Furthermore, "[t]he Restatement of Torts, under a concert of action principle, accepts a doctrine with rough similarity to criminal aiding and abetting," and therefore provides another analog to contributory infringement. *See Cent. Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 181, 114 S. Ct. 1439, 128 L. Ed. 2d 119 (1994). "An actor is liable for harm resulting to a third person from the tortious conduct of another 'if he *knows* that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other.'" *Id.* (quoting Restatement (Second) of Torts § 876(b) (1977)) (emphasis

<sup>5</sup> To be sure, in patent law, contributory infringement is codified, and the statute requires that a contributory infringer sell a component "knowing the same to be especially made or especially adapted for use in an infringement." 35 U.S.C. § 271(c). But the Patent Act does not define knowledge or indicate whether knowledge includes willful blindness or something less, like recklessness or negligence. Nor was *Global-Tech's* holding, that willful blindness suffices but negligence does not, based on statutory interpretation. Thus, *Global-Tech's* rejection of any mental state lower than willful blindness cannot be limited to patent law solely because contributory infringement is codified in patent law but not in copyright law.

<sup>4</sup> The parties at times refer to this "should have known" standard as a "constructive knowledge" standard. We will follow the Supreme Court and refer to it as a "negligence" standard. *See Global-Tech*, 563 U.S. at 769-71 ("[A] negligent defendant is one who should have known of a . . . risk [of wrongdoing] but, in fact, did not.").

added). Because the Restatement here uses only the word "knows," where in other places it uses phrases like "knows or should know," it is clear that "knows" here refers to actual knowledge, not any lesser mental state. Compare Restatement (Second) of Torts § 876(b) with § 336 ("knows or has reason to know") and § 366 ("knows or should know"). And the Second \*\*\*1339 Circuit's widely-cited *Gershwin* decision on contributory infringement [\*310] expressly drew on precisely this "common law doctrine that one who knowingly participates or furthers a tortious act is jointly and severally [\*34] liable with the prime tortfeasor." *Gershwin Publ'g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (internal quotation marks and citation omitted) (emphasis added).

We therefore hold that proving contributory infringement requires proof of at least willful blindness; negligence is insufficient.

ii.

In arguing to the contrary, BMG relies on a pre-*Grokster* decision, *Ellison v. Robertson*, in which the Ninth Circuit stated that some of its precedents had "interpreted the knowledge requirement for contributory copyright infringement to include both those with *actual knowledge* and those who *have reason to know* of direct infringement." 357 F.3d 1072, 1076 (9th Cir. 2004). But the Ninth Circuit has since clarified, consistent with our holding today, that contributory infringement requires "actual knowledge of specific acts of infringement" or "[w]illful blindness of specific facts." *Luvdarts, LLC v. AT&T Mobility, LLC*, 710 F.3d 1068, 1072-73 (9th Cir. 2013) (internal quotation marks and citation omitted).

BMG also argues that "*Sony* itself described a case where the defendant 'knew or should have known' of the infringement as a "situation[] in which the imposition of [contributory] liability is manifestly just." Appellee Br. 44-45 (Appellee's alterations) (quoting *Sony*, 464 U.S. at 437-38, 437 n.18). BMG misreads *Sony*. The quoted sentence refers to *vicarious* liability, stating that imposing liability [\*35] is "manifestly just" where the defendant can "control the use of copyrighted works by others," *Sony*, 464 U.S. at 437-38 — which is an element of vicarious liability, but not of contributory infringement, see *Grokster*, 545 U.S. at 930 n.9.

In a footnote to that sentence, *Sony* cited numerous lower court cases, including one in which the district court held that an infringer's advertising agency and similar defendants could be held contributorily liable if they "knew or should have known that they were dealing in illegal goods." 464 U.S. at 437 n.18 (citing *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F.Supp. 399 (S.D.N.Y. 1966)).

Although that district court used the phrase "knew or should have known," the allegation in that case was that the defendants were dealing with counterfeit musical records priced "so suspiciously below the usual market price" that the defendants must have known or "deliberately closed [their] eyes" to the fact that the records were infringing. *Screen Gems-Columbia Music*, 256 F. Supp. at 404. In such circumstances, liability could be imposed based on a theory of willful blindness, making it unnecessary to permit the imposition of liability based on a lesser negligence standard.

iii.

In sum, the district court erred in charging the jury that Cox could be found liable for contributory infringement if it "knew or should have known of such infringing activity." [\*36] The formulation "should have known" reflects negligence and is therefore too low a standard. And because there is a reasonable probability that this erroneous instruction affected the jury's verdict, we remand for a new trial. See *United States v. Wilson*, 133 F.3d 251, 265 (4th Cir. 1997) ("[T]he instructions did not adequately impose . . . the burden of proving knowledge . . . For this reason, a new [\*311] trial is required.")<sup>6</sup>

C.

Cox asserts two further errors in the district court's contributory infringement instructions. Although Cox may not have adequately preserved these errors for review, we address them in the interest of judicial economy to ensure the correctness of the contributory infringement instructions on remand. See *Polk v. Yellow Freight Sys., Inc.*, 801 F.2d 190, 198 (6th Cir. 1986) (finding error in jury instructions and remanding for a new trial, explaining that "[a]lthough it appears that defendant may not have adequately preserved [the alleged errors in the jury instructions] for appeal, we nonetheless address them to ensure that the proper instructions are given on remand").

First, Cox contends that the district court erred in instructing the jury that Cox could be held liable for contributory copyright [\*340] infringement on the basis of proof of "direct infringement of BMG's copyrighted [\*37] works by users of Cox's Internet services" and that Cox knew "of such activity." See Appellants Br. at 24. Cox maintains that such

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<sup>6</sup>BMG's suggestion that the jury in the case at hand found willful blindness when it found willfulness is meritless. Under the willfulness instruction given by the court, the jury could find willfulness based on *recklessness*, a lower standard than willful blindness. Accordingly, we cannot conclude that the willfulness instruction provides a basis to hold that the jury found knowledge or willful blindness.

"generalized knowledge — that infringement was occurring somewhere on its network — is exactly what falls short under *Sony*." *Id.* at 27. We must agree.

Selling a product with both lawful and unlawful uses suggests an intent to cause infringement only if the seller knows of *specific* instances of infringement, but not if the seller only *generally* knows of infringement. *See Ludvarts*, 710 F.3d at 1072 (holding that contributory copyright infringement "requires more than a generalized knowledge . . . of the possibility of infringement"; it requires "specific knowledge of infringement"). A seller who only generally knows of infringement is aware that "some of [his] products will be misused" - but critically, not *which* products will be misused. *See Grokster*, 545 U.S. at 932-33. Thus, when that seller makes a sale to a specific customer, the seller knows only that the customer *may* infringe, not that the customer is substantially certain to do so.

BMG does not dispute that the requisite mental state must be tied to specific infringements; it contends, however, that the court's instructions in fact "tied knowledge to specific acts [\*\*38] of direct infringement." Appellee Br. at 50. BMG rests on the fact that the instruction required that Cox knew "of *such* infringing activity," and that *such* infringing activity referred back to "direct infringement of BMG's copyrighted works by users of Cox's Internet service."

It does not follow, however, that a jury so instructed found that Cox had knowledge of specific infringements. For example, the jury could have found that Cox knew of "direct infringement of BMG's copyrighted works" by its subscribers if Cox had data showing that *some number of its subscribers* were infringing BMG's copyrights, even if the data did not show *which ones* were infringing. That level of generalized knowledge does not reflect an intent to cause infringement, because it is not knowledge that infringement is substantially certain to result from Cox's continued provision of Internet access to particular subscribers. Put another way, the proper standard requires a defendant to have specific enough knowledge of infringement [\*\*312] that the defendant could *do* something about it. On remand, therefore, the contributory infringement instruction should require that Cox knew of specific instances of infringement or was [\*\*39] willfully blind to such instances.

Relatedly, Cox challenges the district court's willful blindness instruction. The court instructed the jury that Cox "acted with willful blindness if it was aware of a high probability that Cox users were infringing BMG's copyrights but consciously avoided confirming that fact." Since we have held that contributory infringement requires knowledge of, or willful blindness to, *specific instances* of infringement, the court's

willful blindness instruction should similarly require a conclusion that Cox consciously avoided learning about specific instances of infringement, not merely that Cox avoided confirming the fact that "Cox users were infringing BMG's copyrights" in general.

D.

Although we have concluded that the district court incorrectly instructed the jury in some instances, we reject Cox's argument that with proper instructions, it is entitled to judgment as a matter of law. The district court's thoroughness and sure grasp of numerous complex issues provide a model of fair administration of justice. At trial, BMG offered powerful evidence from which a reasonable jury could find that Cox willfully blinded itself to specific instances of infringement [\*\*40] by its subscribers, such as evidence that Cox prevented itself from receiving any of the more than one million notices Rightscorp sent on BMG's behalf. Indeed, that appears to be the primary theory for liability advanced by BMG. *See* Appellee Br. at 21 ("Cox was put on notice of — and willfully blinded itself to — millions of specific instances of unlawful sharing of BMG's works by its subscribers . . ."). That determination, of course, must be made by a jury properly instructed as to the law. But the trial record provides no basis for judgment as a matter of law in Cox's favor.

IV.

Cox advances several other claims of error. None have merit.

A.

Cox challenges the district court's willfulness instruction, arguing that it incorrectly required "the jury to analyze Cox's knowledge of its *subscribers'* actions," rather than Cox's knowledge that "*its actions* constitute [\*\*\*1341] an infringement." Appellants Br. at 59.<sup>7</sup> BMG contends that Cox failed to preserve this objection. We need not address whether Cox waived the objection because we reject it on the merits. Cox does not dispute that willfulness in copyright law is satisfied by recklessness, and the case law defines recklessness broadly. For example, [\*\*41] we have explained that copyright infringement is willful if the defendant "recklessly disregards a copyright holder's rights." *Lyons P'ship, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 799 (4th

<sup>7</sup>The court's willfulness instruction reads in full:

Cox's contributory or vicarious infringement is considered willful if BMG proves by a preponderance of the evidence that Cox had knowledge that its subscribers' actions constituted infringement of BMG's copyrights, acted with reckless disregard for the infringement of BMG's copyrights, or was willfully blind to the infringement of BMG's copyrights."

Cir. 2001). The Second Circuit has similarly held that a finding of willfulness is appropriate if "the defendant's actions were the result of 'reckless disregard' for . . . the copyright holder's rights." *Island [\*313] Software & Comput. Serv., Inc. v. Microsoft Corp.*, 413 F.3d 257, 263 (2d Cir. 2005). Contributorily (or vicariously) infringing with knowledge that one's subscribers are infringing is consistent with at least reckless disregard for the copyright holder's rights.

Cox next argues that the court erred by declining to give an innocent infringer instruction. Again, we disagree. Innocent infringer status (which may reduce damages) is only available if the infringer can prove that he or she "had no reason to believe that his or her acts constituted an infringement." 17 U.S.C. § 504(c)(2). For example, the Second Circuit upheld a district court's conclusion as to innocent infringement where an infringing music wholesaler reasonably believed that it had received the right to make copies of copyrighted albums under an agreement with the copyright holder. *See Bryant v. Media Right Prods., Inc.*, 603 F.3d 135, 143 (2d Cir. 2010). Cox does not suggest such circumstances were present here. The district court therefore correctly concluded that an innocent infringer instruction was not available to Cox.

Cox also challenges the district court's DMCA instruction. At trial, witnesses and documents often referred to the DMCA and its safe harbor provisions. Because the court held Cox not entitled to any DMCA safe harbor defense at summary judgment, it instructed the jury that "the DMCA is not a defense in this case and must be disregarded." Cox fails to show that this instruction — which is not a misstatement of the law — constitutes an abuse of discretion. Cox's theory is that the instruction "suggested that Cox's alleged failure to qualify for the DMCA defense made it liable for infringement." Appellants Br. at 33. But the district court clearly instructed the jury that it alone would determine the facts and weigh the evidence. And indeed, the jury found Cox not liable for vicarious infringement, suggesting it was not so easily confused.

B.

We also reject Cox's assertions that the district court erred in its evidentiary rulings, which we review for abuse of discretion. *See Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 141, 118 S. Ct. 512, 139 L. Ed. 2d 508 (1997).

Cox unpersuasively argues that the court abused its discretion by admitting Rightscorp's notices because the notices were hearsay. The district court correctly concluded that the information contained in the notices was not hearsay because it was generated by a computer and thus was not a "statement." *See United States v. Washington*, 498 F.3d 225, 231 (4th Cir. 2007) ("Only a person may be a declarant and

make a statement. Accordingly, 'nothing "said" by a machine is hear-say' (quoting 4 Mueller & Kirkpatrick, Federal Evidence, § 380, at 65 (2d ed. 1994))). Contrary to Cox's argument, the fact that the machine-generated notices also contained the signature of Rightscorp's CEO and an oath under penalty of perjury does not transform them into statements, since the information itself was not prepared or created by a human.

Nor were the notices excludable as more prejudicial than probative under Federal Rule of Evidence 403. The notices were certainly probative, and although they disfavored Cox's position, Cox fails to demonstrate that they were "unfairly prejudicial." *See PBM Prods., LLC v. Mead Johnson & Co.*, 639 F.3d 111, 124 (4th Cir. 2011). "The 'mere fact that the evidence will damage the defendant's case is not enough" to establish unfair prejudice. *Id.* (quoting *United States v. Williams*, 445 F.3d 724, 730 (4th Cir. 2006)).

Cox next faults the district court for admitting two studies examining how much of the content shared using BitTorrent is infringing. Cox argues that the court erred by admitting these studies under Federal Rule of Evidence 803(17), the hearsay exception for "compilations that are generally relied on . . . by persons in particular occupations." Given that BMG's expert, Dr. William Lehr, testified that the two studies "were widely cited in the industry" and were "the most substantial published publicly available studies" on the issue, the court did not abuse its discretion.

Finally, Cox contends that the district court erroneously "allowed BMG's witnesses and attorneys to use the term 'infringement' pervasively when referring to Rightscorp's automated observations." Appellants Br. at 32. But as we have explained above, the court clearly and carefully instructed the jurors that they alone could determine infringement. The court even interrupted BMG's expert testimony to instruct the jury that BMG's expert was using the word infringement to describe "the contents in the notices," but that the jury would "be making the ultimate decision" on infringement. Accordingly, the court did not abuse its discretion.

V.

For the reasons stated above, we affirm the district court's grant of summary judgment to BMG on the § 512(a) DMCA safe harbor defense, but reverse and remand for a new trial. We also vacate the district court's grant of attorney's fees and costs to BMG and its denial of fees and costs to Cox.

*AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED*

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# Capitol Records, LLC v. ReDigi Inc.

United States Court of Appeals for the Second Circuit  
August 22, 2017, Argued; December 12, 2018, Decided  
Docket No. 16-2321

## Reporter

910 F.3d 649 \*; 2018 U.S. App. LEXIS 34914 \*\*

Capitol Records, LLC, Capitol Christian Music Group, Inc., Virgin Records IR Holdings, Inc., Plaintiffs-Appellees, v. ReDigi Inc., John Ossenmacher, Larry Rudolph, AKA Lawrence S. Rogel, Defendants-Appellants.

**Subsequent History:** As Amended December 13, 2018.

**Prior History:** [\*\*1] Defendants, ReDigi Inc. and related persons, appeal from the grant of partial summary judgment and stipulated final judgment by the United States District Court for the Southern District of New York (Richard J. Sullivan, J.) in favor of Plaintiffs, record companies whose copyrighted sound recordings were resold through the ReDigi platform. The district court found copyright infringement. AFFIRMED.

Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640, 2013 U.S. Dist. LEXIS 48043 (S.D.N.Y., Mar. 30, 2013)

**Counsel:** RICHARD S. MANDEL, New York, N.Y. (Jonathan Z. King, Cowan, Liebowitz & Latman, P.C., New York, N.Y., on the brief), for Plaintiffs-Appellees.

ROBERT C. WELSH, New York, N.Y. (C. Dennis Loomis, Baker & Hostetler LLP, Los Angeles, CA, on the brief) for Defendant-Appellants.

**Judges:** Before: JON O. NEWMAN, PIERRE N. LEVAL, and ROSEMARY S. POOLER, Circuit Judges.

**Opinion by:** PIERRE N. LEVAL

## Opinion

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[\*651] LEVAL, *Circuit Judge*:

Defendant ReDigi, Inc. and its founders, Defendants Larry Rudolph and John Ossenmacher,<sup>1</sup> appeal from the judgment of the United States District Court for the Southern District of New York (Richard J. [\*652] Sullivan, J.) in favor of

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<sup>1</sup>Hereinafter "ReDigi" is used to designate all three Defendants, except where the context makes clear it refers solely to the company.

Plaintiffs, Capitol Records, LLC, Capitol Christian Music Group, Inc., and Virgin Records IR Holdings, Inc. ("Plaintiffs"), finding copyright infringement. Defendants had created an Internet [\*\*2] platform designed to enable the lawful resale, under the first sale doctrine, of lawfully purchased digital music files, and had hosted resales of such files on the platform. The district court concluded that, notwithstanding the "first sale" doctrine, codified in the Copyright Act of 1976, 17 U.S.C. § 109(a), ReDigi's Internet system version 1.0 infringed the Plaintiffs' copyrights by enabling the resale of such digital files containing sound recordings of Plaintiffs' copyrighted music. We agree with the district court that ReDigi infringed the Plaintiffs' exclusive rights under 17 U.S.C. § 106(1) to reproduce their copyrighted works. We make no decision whether ReDigi also infringed the Plaintiffs' exclusive rights under 17 U.S.C. § 106(3) to distribute their works.<sup>2</sup>

## BACKGROUND

### I. Facts

Plaintiffs are record companies, which own copyrights or licenses in sound recordings of musical performances. Plaintiffs distribute those sound recordings in numerous forms, of which the most familiar twenty years ago was the compact disc. Today, Plaintiffs also distribute their music in the form of digital files, which are sold to the public by authorized agent services, such as Apple iTunes, under license from Plaintiffs. [\*\*3] Purchasers from the Apple iTunes online store download the files onto their personal computers or other devices.

ReDigi was founded by Defendants Ossenmacher and

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<sup>2</sup>We do not adjudicate whether ReDigi's system version 2.0 infringed any of the Plaintiffs' rights as this question (although stipulated in the final judgment) was not litigated in the district court. Defendants stipulated that a judgment in Plaintiffs' favor would enjoin the Defendants, as well as all persons in specified relationships with the Defendants, such as their "officers, agents, servants, representatives . . . and licensees," from implementing version 2.0. Stipulated Final Judgment ¶5, *Capitol Records, LLC v. ReDigi, Inc.*, No. 12-CV-95 (RJS), ECF No. 222 (S.D.N.Y. June 3, 2015).

Rudolph in 2009 with the goal of creating enabling technology and providing a marketplace for the lawful resale of lawfully purchased digital music files.<sup>3</sup> Ossenmacher served as ReDigi's Chief Executive Officer and Rudolph, who spent twelve years as a Principal Research Scientist at the Massachusetts Institute of Technology, served as ReDigi's Chief Technical Officer. During the period addressed by the operative complaint, ReDigi, through its system version 1.0, hosted resales of digital music files containing the Plaintiffs' music by persons who had lawfully purchased the files from iTunes.

Considering the evidence in the light most favorable to ReDigi, ReDigi's system version 1.0 operates as follows.

*1. Music Manager:* A person who owns a digital music file lawfully purchased from iTunes and intends to employ ReDigi's system to resell it (the "user") must first download and install onto her computer ReDigi's "Music Manager" software program ("Music Manager"). Once Music Manager has been installed, it analyzes the digital file [\*\*4] intended for resale, verifies that the file was originally lawfully purchased from iTunes, and scans it for indications of tampering. If the file was lawfully purchased, [\*\*653] Music Manager deems it an "Eligible File" that may be resold.<sup>4</sup>

*2. Data Migration:* The ReDigi user must then cause the file to be transferred to ReDigi's remote server, known as the "Cloud Locker." To effectuate this transfer, ReDigi developed a new method that functions differently from the conventional file transfer. The conventional process is to reproduce the digital file at the receiving destination so that, upon completion of the transfer, the file exists simultaneously on both the receiving device and on the device from which it was transferred. If connectivity is disrupted during such a standard transfer, the process can be repeated because the file remains intact on the sender's device.

Under ReDigi's method—which it calls "data migration"—ReDigi's software "begins by breaking the [digital] music file into small 'blocks' [of data] of roughly four thousand bytes in length." Appellants Br. 24. Once the file has been broken into blocks of data ("packets"), ReDigi's system creates a "transitory copy" of each packet [\*\*5] in the initial

purchaser's computer buffer. *Id.* Upon copying (or "reading") a packet into the initial purchaser's computer buffer, ReDigi's software sends a command to delete that packet of the digital file from permanent storage on the initial purchaser's device. Rogel Decl. App'x 690-91. ReDigi's software then sends the packet to the ReDigi software to be copied into the buffer and deleted from the user's device. Rogel Decl. App'x 691. During the data migration process, the digital file cannot be accessed, played, or perceived. If connectivity is disrupted during the data migration process, the remnants of the digital file on the user's device are unusable, and the transfer cannot be re-initiated. In such circumstances, ReDigi (according to its brief) bears the cost of the user's loss. Appellants Br. 25.<sup>5</sup>

Once all the packets of the source file have been transferred to ReDigi's server, the Eligible File has been entirely removed from the user's device. The packets are then re-assembled into a complete, accessible, and playable file on ReDigi's server.

ReDigi describes its primary technological innovation using the metaphor of a train (the digital file) leaving from one station (the [\*\*6] original purchaser's device) and arriving at its destination (in the first instance, ReDigi's server). Under either the typical method or ReDigi's method, packets are sent sequentially, such that, conceptually, "each packet is a car" moving from the source to the destination device. App'x 657. Once all the packets arrive at the destination device, they are reassembled into a usable file. *Id.* At that moment, in a typical transfer, the entire digital file in usable form exists on both devices. *Id.* ReDigi's system differs in that it effectuates a deletion of each packet from the user's device immediately after the "transitory copy" of that packet arrives in the computer's buffer (before the packet is forwarded to ReDigi's server). In other words, as each packet "leaves the station," ReDigi deletes it from the original purchaser's device such that it "no longer exists" on that device. *Id.* As a result, the [\*\*654] entire file never exists in two places at once. *Id.*

After the file has reached ReDigi's server but before it has been resold, the user may continue to listen to it by streaming audio from the user's Cloud Locker on ReDigi's server. If the user later re-downloads the file from her Cloud [\*\*7] Locker to her computer, ReDigi will delete the file from its own server.

*3. Resale:* Once an Eligible File has "migrated" to ReDigi's server, it can be resold by the user utilizing ReDigi's market

<sup>3</sup>ReDigi was not making efforts in the shadows to infringe on copyrights. To the contrary, it invented a system designed in good faith to achieve a goal generally favored by the law of copyright, reasonably hoping the system would secure court approval as conforming to the demands of the Copyright Act.

<sup>4</sup>Music Manager will deem a file "Eligible" if it was purchased by the user from iTunes or it was purchased by the user through ReDigi, having been originally purchased lawfully by another from iTunes.

<sup>5</sup>It is unclear from the evidence cited in ReDigi's Rule 56.1 statement whether ReDigi purchases a new file from iTunes to effectuate resale, pays the user to offset the loss of her file, or otherwise bears the cost of the loss. *See* App'x 1489 at ¶ 35. These alternatives do not affect our decision.

function. If it is resold, ReDigi gives the new purchaser exclusive access to the file. ReDigi will (at the new purchaser's option) either download the file to the new purchaser's computer or other device (simultaneously deleting the file from its own server) or will retain the file in the new purchaser's Cloud Locker on ReDigi's server, from which the new purchaser can stream the music. ReDigi's terms of service state that digital media purchases may be streamed or downloaded only for personal use.

4. *Duplicates*: ReDigi purports to guard against a user's retention of duplicates of her digital music files after she sells the files through ReDigi. To that end, Music Manager continuously monitors the user's computer hard drive and connected devices to detect duplicates. When a user attempts to upload an Eligible File to ReDigi's server, ReDigi "prompt[s]" her to delete any pre-existing duplicates that Music Manager has detected. If ReDigi detects that the user has not deleted the duplicates, ReDigi [\*\*8] blocks the upload of the Eligible File. After an upload is complete, Music Manager continues to search the user's connected devices for duplicates. If it detects a duplicate of a previously uploaded Eligible File, ReDigi will prompt the user to authorize ReDigi to delete that duplicate from her personal device and, if authorization is not granted, it will suspend her account.

Plaintiffs point out, and ReDigi does not dispute, that these precautions do not *prevent* the retention of duplicates after resale through ReDigi. Suspension of the original purchaser's ReDigi account does not negate the fact that the original purchaser has both sold and retained the digital music file after she sold it. So long as the user retains previously-made duplicates on devices not linked to the computer that hosts Music Manager, Music Manager will not detect them. This means that a user could, prior to resale through ReDigi, store a duplicate on a compact disc, thumb drive, or third-party cloud service unconnected to the computer that hosts Music Manager and access that duplicate post-resale.<sup>6</sup> While ReDigi's suspension of the original purchaser's ReDigi account may be a disincentive to the retention of sold [\*\*9] files, it does not prevent the user from retaining sold files.

## II. Proceedings Below

On January 6, 2012, Plaintiffs brought this action, originally solely against ReDigi, Inc., alleging *inter alia*, that in the

<sup>6</sup>Defendants do not dispute that, under Apple iCloud's present arrangements, a user could sell her digital music files on ReDigi, delete Music Manager, and then re-download the same files to her computer for free from the Apple iCloud. Apple's iCloud service allows one who has purchased a file from iTunes to re-download it without making a new purchase. App'x 1292 at ¶ 62.

operation of ReDigi's system version 1.0, it infringed Plaintiffs' copyrights by unauthorized reproduction and distribution of Plaintiffs' copyrighted works. The parties cross-moved for summary judgment. On March 30, 2013, the district court granted partial summary judgment in Plaintiffs' favor [\*655] finding infringement. Plaintiffs subsequently filed a first amended complaint, adding Ossenmacher and Rudolph as individual defendants. On November 2, 2015, the parties proposed a joint stipulation in which Ossenmacher and Rudolph waived their right to contest liability independent of ReDigi, Inc. On June 6, 2016, the district court entered a stipulated final judgment awarding damages to Plaintiffs in the amount of three million five hundred thousand dollars (\$3,500,000) and permanently enjoining Defendants from operating the ReDigi system.<sup>7</sup> In the stipulation, Defendants reserved the right to appeal solely from the district court's finding of liability for reproduction and distribution as [\*\*10] set forth in the summary judgment order. Defendants timely filed notice of this appeal on July 1, 2016. On August 11, 2016, the appeal was stayed as a result of the Defendants' bankruptcy proceedings in the United States Bankruptcy Court for the Southern District of Florida. The stay was lifted on December 12, 2016.

## DISCUSSION

### I. The First Sale Doctrine

The primary issue on appeal is whether ReDigi's system version 1.0 lawfully enables resales of its users' digital files. Sections 106(1) and (3) of the Copyright Act respectively grant the owner of a copyright the exclusive right to control the reproduction and the distribution of the copyrighted work.<sup>8</sup> 17 U.S.C. § 106(1) & (3). Under the first sale doctrine,

<sup>7</sup>Notwithstanding that the operative complaint addressed only ReDigi's system version 1.0 (making no mention of version 2.0, which ReDigi launched on June 11, 2012), and the record before the district court did not address version 2.0, the stipulated judgment is binding as to version 2.0 against defendants and persons in specified relationships with ReDigi, as explained *supra* in footnote 2. Because neither we, nor the district court, have decided whether version 2.0 would infringe, this opinion does not decide on the lawfulness of the use—by persons who are independent of the Defendants—of systems functioning like version 2.0, at least to the extent that their systems differ from the aspects of version 1.0 that are adjudicated in this opinion.

<sup>8</sup>"Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords . . . [and] (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . ." 17 U.S.C. § 106(1), (3).

codified in § 109(a), the rights holder's control *over the distribution* of any particular copy or phonorecord that was lawfully made effectively terminates when that copy or phonorecord is distributed to its first recipient. Section 109(a) provides:

"Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

17 U.S.C. § 109(a).

Under **[\*\*11]** this provision, it is well established that the lawful purchaser of a copy of a book is free to resell, lend, give, or otherwise transfer that copy without violating the copyright holder's exclusive right of distribution. The copy so resold or re-transferred may be re-transferred again and again without violating the exclusive distribution right. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 530, 133 S. Ct. 1351, 185 L. Ed. 2d 392 (2013); *Quality King Distribs. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 152, 118 S. Ct. 1125, 140 L. Ed. 2d 254 (1998); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351, 28 S. Ct. 722, 52 **[\*656]** L. Ed. 1086, 6 Ohio L. Rep. 323 (1908); *see also* 4 Patry on Copyright § 13:15 ("Placing a lawful copy of a work in commerce exhausts the distribution and display rights with respect to that particular copy . . ."). It is undisputed that one who owns a digital file from iTunes of music that is fixed in a material object qualifies as "the owner of a particular . . . phonorecord lawfully made," 17 U.S.C. § 109(a), and is thus entitled under § 109(a) "to sell or otherwise dispose of the possession of *that* . . . phonorecord," *id.* (emphasis added), without violating § 106(3). On the other hand, § 109(a) says nothing about the rights holder's control under § 106(1) over *reproduction* of a copy or phonorecord.

The district court found that resales through ReDigi were infringing for two reasons. The first reason was that, in the course of ReDigi's transfer, the phonorecord has been reproduced in a manner that violates the Plaintiffs' **[\*\*12]** exclusive control of *reproduction* under § 106(1); the second was that the digital files sold through ReDigi, being unlawful reproductions, are not subject to the resale right established by § 109(a), which applies solely to a "particular . . . phonorecord . . . lawfully made." 17 U.S.C. § 109(a). We agree with the first reason underlying the district court's finding of infringement. As that is a sufficient reason for affirmance of the judgment, we make no ruling on the district court's second reason.

ReDigi argues on appeal that its system effectuates transfer of the *particular* digital file that the user lawfully purchased

from iTunes, that it should not be deemed to have reproduced that file, and that it should therefore come within the protection of 17 U.S.C. § 109(a). ReDigi makes two primary contentions in support of these arguments.

First, ReDigi asserts—as it must for its first sale argument to succeed—that the digital files should be considered "material objects" and therefore, under 17 U.S.C. § 101's definition of "phonorecords" as "material objects," should qualify as "phonorecords" eligible for the protection of § 109(a).

Second, ReDigi argues that from a technical standpoint, its process should not be seen as making a reproduction. ReDigi emphasizes **[\*\*13]** that its system simultaneously "causes [packets] to be removed from the . . . file remaining in the consumer's computer" as those packets are copied into the computer buffer and then transferred to the ReDigi server, Appellants Br. 24, so that the complete file never exists in more than one place at the same time, and the "file on the user's machine continually shrinks in size while the file on the server grows in size." App'x 691.<sup>9</sup> ReDigi points out that the "sum of the size of the data" stored in the original purchaser's computer and in ReDigi's server never exceeds the "size of the original file," which, according to ReDigi, "confirms that no reproductions are made during the transfer process." Appellants Br. 25.

As for ReDigi's first argument, that the digital file it transfers is a phonorecord protected by § 109(a), we do not decide this issue because we find that ReDigi effectuates an unlawful reproduction even if the digital file itself qualifies as a phonorecord.<sup>10</sup>

**[\*657]** As for ReDigi's second argument, we reject it for the following reasons. The Copyright Act defines phonorecords as "material objects in which sounds . . . are fixed by any method now known or later developed, and from which the **[\*\*14]** sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101. Accordingly, when the purchaser of a digital music file from iTunes possesses that file, embodied "for a period of more than transitory duration" in a computer or other physical storage device, *Cartoon Network LP v. CSC*

<sup>9</sup>From October 13, 2011 until March 2012, ReDigi's system sometimes made temporary archival copies that were deleted as soon as the migration process was complete. Those backup files have not been put at issue in this appeal.

<sup>10</sup>A conclusion that a digital file cannot be a phonorecord would have decisive implications for a system functioning like ReDigi's version 2.0, as well as its version 1.0. Because our understanding of the technology is limited, as is our ability to appreciate the economic implications, we find it preferable to rule more narrowly.

*Holdings, Inc.*, 536 F.3d 121, 127 (2d Cir. 2008) (quoting 17 U.S.C. § 101), that device—or at least the portion of it in which the digital music file is fixed (e.g., the location on the hard drive)—becomes a phonorecord. See *London-Sire Records, Inc. v. Doe*, 542 F. Supp. 2d 153, 171 (D. Mass. 2008) (holding that the segment of a hard disc on which an electronic music file is encoded is a "phonorecord" under the Copyright Act). In the course of transferring a digital music file from an original purchaser's computer, through ReDigi, to a new purchaser, the digital file is first received and stored on ReDigi's server and then, at the new purchaser's option, may also be subsequently received and stored on the new purchaser's device.<sup>11</sup> At each of these steps, the digital file is fixed in a new material object "for a period of more than transitory duration." *Cartoon Network*, 536 F.3d at 127. The fixing of the digital file in ReDigi's server, as well as in the new purchaser's device, creates a new phonorecord, which is a reproduction. ReDigi version **[\*\*15]** 1.0's process for enabling the resale of digital files thus inevitably involves the creation of new phonorecords by reproduction, even if the standalone digital file is deemed to be a phonorecord.

As for the argument that, as ReDigi copies a packet of data, it deletes the equivalent packet in the user's device so that the amount of data extant in the transfer process remains constant, this does not rebut or nullify the fact that the eventual receipt and storage of that file in ReDigi's server, as well as in the new purchaser's device (at his option), does involve the making of new phonorecords. Unless the creation of those new phonorecords is justified by the doctrine of fair use, which we discuss and reject in a later portion of this opinion, the creation of such new phonorecords involves unauthorized reproduction, which is not protected, or even addressed, by § 109(a).

ReDigi makes several additional arguments designed to characterize its process as involving the transfer of its users' lawfully made phonorecords, rather than the creation of new phonorecords. None of these arguments negates the crucial fact that each transfer of a digital music file to ReDigi's server and each new purchaser's **[\*\*16]** download of a digital music file to his device creates new phonorecords. ReDigi argues, for example, that during a transfer through ReDigi's data migration technology, each packet of data from the original source file resides in a buffer "for less than a second" before being overwritten, Appellants Br. 27, and thus fails to satisfy the requirement that a sound recording must be embodied "for a period of more than transitory duration" to qualify as a phonorecord, 17 U.S.C. § 101; *Cartoon Network*, 536 F.3d at

127. Even if, during transfer, ReDigi's system retains each digital file *in* **[\*658]** a computer buffer for a period of no more than transitory duration, those files subsequently become embodied in ReDigi's server and in the new purchaser's device, where they remain for periods "of more than transitory duration." *Cartoon Network*, 536 F.3d at 127. ReDigi's server and the resale purchaser's device on which the digital music files are fixed constitute or contain new phonorecords under the statute.

ReDigi next argues that, in the course of transferring a user's file to ReDigi's own server, and to the resale purchaser's device, ReDigi sees to it that all of the original purchaser's preexisting duplicates are destroyed. As an initial matter, as noted above, ReDigi here overclaims. **[\*\*17]** It does not ensure against retention of duplicate phonorecords created by the original owner. ReDigi's assertion that "there is never an instance when [an] Eligible File could exist in more than one place or be accessed by more than one user" is simply not supported by ReDigi's own evidence. Def. 56.1 Statement, App'x 1490. In addition, even if ReDigi effectively compensated (by offsetting deletions) for the making of unauthorized reproductions in violation of the rights holder's exclusive reproduction right under § 106(1), nonetheless ReDigi's process itself involves the making of unauthorized reproductions that infringe the exclusive reproduction right unless justified under fair use.<sup>12</sup> We are not free to disregard the terms of the statute merely because the entity performing an unauthorized reproduction makes efforts to nullify its consequences by the counterbalancing destruction of the preexisting phonorecords.

ReDigi further argues, citing *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60 (2d Cir. 1996), that the computer hard drive into which the original purchaser's digital file is embedded cannot be her lawfully made phonorecord. A computer hard drive, **[\*\*18]** ReDigi argues, cannot qualify as a phonorecord under § 101 because it contains more than a sound recording. This argument misinterprets *ABKCO*. We

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<sup>12</sup>We recognize that the use of computers with digital files of protected matter will often result in the creation of innocuous copies which we would be loath to consider infringements because doing so would effectively bar society from using invaluable computer technology in relation to protected works. We believe this precedent will not have that undesirable effect for reasons discussed below in the section on fair use. What we consider here is that the making of unauthorized reproductions *in pursuit of an objective to distribute protected matter in competition with the rights holder*. The production of innocuous, unauthorized reproductions through the unavoidable function of a computer, when done for purposes that do not involve competing with the rights holder in its exclusive market, is outside the scope of this dispute.

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<sup>11</sup>The new purchaser at his option may alternatively choose to leave the digital file in the new purchaser's storage locker on ReDigi's server and stream it for access.

held in *ABKCO* that a license to publish a phonorecord did not authorize the publication of compact discs for use in karaoke that contained both sound recordings and visual depictions of song lyrics. 96 F.3d at 64. The *ABKCO* opinion undertook to construe the breadth of a compulsory license. The opinion does not support the conclusion that a compact disc that stores visual depictions of words as well as recorded music does not *contain* a phonorecord. To be sure, a license to distribute phonorecords of a particular song would not by its terms authorize the distribution of whatever other copyrighted content is contained in a computer hard drive that also contains the recording of the song. But it does not follow that a device or other "material object[] in which sounds . . . are fixed . . . and from which the sounds can be perceived, reproduced, or otherwise communicated," 17 U.S.C. § 101, is not a phonorecord, merely because it contains [\*659] other matter as well. We reject ReDigi's argument.<sup>13</sup>

Finally, ReDigi argues that the district court's conclusion makes no sense because [\*\*19] it would "require a customer to sell her [valuable] computer in order to be able to sell a[n] . . . iTunes music file" that was lawfully purchased for under \$1.00. Appellants Br. 28. Of course it would make no economic sense for a customer to sell her computer or even a \$5.00 thumb drive in order to sell "a[n] . . . iTunes music file" purchased for \$1.00. But ReDigi far overstates its economic argument when it asserts that the "district court's ruling . . . eliminat[es] any meaningful competition from resellers" as "no secondary market . . . can ever develop if consumers are required to give away their computer hard disks as part of any resale." Appellants Br. 35. A secondary market can readily be imagined for first purchasers who cost-effectively place 50 or 100 (or more) songs on an inexpensive device such as a thumb drive and sell it. *See* U.S. Copyright Office, Library of Cong., Digital Millennium Copyright Act § 104 Report 78 (2001) ("DMCA Report 2001") ("Physical copies of works in a digital format, such as CDs or DVDs, are subject to section 109 in the same way as physical copies of works in analog form."); 4 Patry on Copyright § 13:23 (observing that § 109

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<sup>13</sup> ReDigi also draws our attention to the Ninth Circuit's decision in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999). In *Diamond*, the Ninth Circuit held that "a hard drive is excluded from the definition of digital music recordings" under the Audio Home Recording Act ("AHRA") because § 1001(5)(B) expressly provides that a "digital music recording" does *not* include material objects "in which one or more computer programs are fixed," and "a hard drive is a material object in which one or more [computer] programs are fixed." *Id.* at 1076. Even if we were to accept the Ninth Circuit's construction of the term "digital music recording" under the AHRA, that would not alter the meaning of the term "phonorecord" under § 101 of the Copyright Act. *See id.* at 1077 n.4.

permits the sale of an iPod that contains lawfully [\*\*20] made digital music files). Furthermore, other technology may exist or be developed that could lawfully effectuate a digital first sale.

We conclude that the operation of ReDigi version 1.0 in effectuating a resale results in the making of at least one unauthorized reproduction. Unauthorized reproduction is not protected by § 109(a). It violates the rights holder's exclusive reproduction rights under § 106(1) unless excused as fair use. For reasons explained below, we conclude that the making of such reproductions is not a fair use.

Our conclusion is supported by the fact that the Copyright Office also concluded that the resale of digital files is infringing. In 1998, Congress mandated that the Register of Copyrights evaluate "the relationship between existing and emergent technology and the operation of section[] 109 . . ." Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860, 2876 (1998). The Copyright Office conducted a multi-year evaluation, including review of comments and testimony from the public, academia, libraries, copyright organizations and copyright owners. DMCA Report 2001 at vi. The Register concluded that § 109 does not apply to otherwise unauthorized digital transmissions of a copyrighted work, reasoning that such transmissions [\*\*21] cause the recipient to obtain a new copy of the work. *Id.* at 79-80. The Register reasoned that the creation of a new copy of the work would constitute an unauthorized reproduction falling outside the authorization of § 109(a). *Id.*; *see also* 2 Nimmer on Copyright § 8.13[A] (describing the Register's "recommend[ation] [\*660] against amending the Copyright Act to facilitate a digital *first sale*").

ReDigi argues that the Register's 2001 report is obsolete because it presumed that the only way to transfer digital files over the Internet was by the traditional "copy and delete" method, whereas new technologies either have been or might be developed that transfer digital files over the Internet using a non-infringing method. Plaintiffs counter that, in 2016, the Register again asserted that "a digital file transfer creates a new copy or phonorecord on the transferee's computer" and thus does not qualify for first sale protection. U.S. Copyright Office, Library of Cong., The Making Available Right in the United States 22, n.94 (2016) (quoting the district court's decision in this action with approval). We need not pronounce upon the ongoing relevance of the Register's 2001 report, or decide whether *all* digital file transmissions over the Internet [\*\*22] make reproductions, to determine that ReDigi's system version 1.0 does so.<sup>14</sup>

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<sup>14</sup> Having rejected ReDigi's arguments for the reasons explained above, we have no need to consider whether an electronic digital

## II. Fair Use

ReDigi argues that, regardless of whether what it does is protected by § 109(a), its actions are protected under the doctrine of fair use. We evaluate ReDigi's claim in accordance with the fair use statute. Section 107 of the Copyright Act provides:

[T]he fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107.

ReDigi's argument for [\*\*23] fair use in its opening brief did not address the statutory factors. Nonetheless, we consider each in turn.

### A. Factor One

Factor One considers "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." § 107(1). The Supreme Court has observed that this factor favors secondary uses that are transformative, meaning that the use "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message[,]" rather than merely superseding the original work. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579, 114 S. Ct. 1164, 127 L. Ed. 2d 500 (1994). Uses that criticize, comment on, provide information about, or provide new uses for the copyrighted work are those likely to be [\*\*661] deemed transformative. *See, e.g., Campbell*, 510 U.S. at 580-81 ("Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim's . . . imagination, whereas satire

can stand on its own two feet and so requires justification for the very act of borrowing.") (internal citations and footnote omitted). Similarly, a secondary use may be transformative if it provides information about the original, "or expands its utility." *Authors Guild v. Google, Inc.*, 804 F.3d 202, 214 (2d Cir. 2015) ("Google Books"). Examples of such utility-expanding [\*\*24] transformative fair uses have included scanning books to create a full-text searchable database and public search function (in a manner that did not allow users to read the texts), *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 97-98 (2d Cir. 2014); copying works into a database used to detect plagiarism, *A.V. ex rel. Vanderhuyse v. iParadigms, LLC*, 562 F.3d 630, 639 (4th Cir. 2009); displaying tiny, low-resolution "thumbnail" reproductions of art works to provide links serving as Internet pathways to the appropriate websites containing the originals, *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818-19 (9th Cir. 2003), and copying by one who has acquired the right to view the content of a telecast to enable a single, noncommercial home viewing at a more convenient time, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421, 448-55, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984). In *Sony*, the "apparent reasoning was that a secondary use may be a fair use if it utilizes technology to achieve the transformative purpose of improving the efficiency of delivering content without unreasonably encroaching on the commercial entitlements of the rights holder" because the improved delivery was to one entitled to receive the content. *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169, 177 (2d Cir. 2018).

ReDigi makes no change in the copyrighted work. It provides neither criticism, commentary, nor information about it. Nor does it deliver the content in more convenient and usable form to one who has acquired an entitlement to receive the [\*\*25] content. What ReDigi does is essentially to provide a market for the resale of digital music files, which resales compete with sales of the same recorded music by the rights holder. These characteristics of ReDigi's use favor Plaintiffs under Factor One.

In addition, while the mere fact of a commercial motivation rarely pushes the first factor determination against fair use (as so many of the canonical fair uses, such as book reviews; quotation of prominent figures in news reports, news commentary, and history books; the performance of parodic plays; and the sale of parodic books, are all commercial, *see Google Books*, 804 F.3d at 219), in some circumstances a commercial motive will weigh against a finding of fair use under Factor One. As noted in *Campbell*, the less a use provides transformative value, the more its commercialism will weigh against a finding of fair use. *See* 510 U.S. at 579. Here, ReDigi hosts a remunerative marketplace that enables

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music file, independent of any physical storage device in which the file is fixed, can qualify as a phonorecord in view of § 101's definition of phonorecords as "material objects." 17 U.S.C. § 101.

resale by purchasers of digital music files, which is a commercial purpose. Especially in view of the total absence (or at least very low degree) of transformative purpose, the commercial motivation here argues against ReDigi with respect to Factor One.

#### B. Factor Two

The second fair use [\*26] factor concerns "the nature of the copyrighted work." 17 U.S.C. § 107(2). Except to the extent that the nature of the copyrighted [\*662] work is necessarily considered alongside the character and purpose of the secondary use in deciding whether the secondary use has a transformative purpose, it rarely, by itself, furnishes any substantial reasoning for favoring or disfavoring fair use. See *Google Books*, 804 F.3d at 220. This case is no exception.

#### C. Factor Three

The third factor considers "the amount and substantiality of the portion [of the original] used in relation to the copyrighted work as a whole." 17 U.S.C. § 107(3). ReDigi's system makes identical copies of the whole of Plaintiffs' copyrighted sound recordings. Although use of the entirety of a digital file is not necessarily inconsistent with a finding of fair use, see *Google Books*, 804 F.3d at 221-22; *HathiTrust*, 755 F.3d at 98; *iParadigms*, 562 F.3d at 642; *Perfect 10*, 508 F.3d at 1165; *Arriba Soft*, 336 F.3d at 818-19, it tends to disfavor a finding of fair use.

#### D. Factor Four

The fourth statutory factor is "the effect of the [copying] use upon the potential market for or value of the copyrighted work." § 107(4). When a secondary use competes in the rightsholder's market as an effective substitute for the original, it impedes the purpose of copyright to incentivize new creative works by enabling their creators to profit from [\*27] them. For this reason, the Supreme Court in *Harper & Row Publishers, Inc. v. Nation Enterprises* described the fourth factor as "undoubtedly the single most important element of fair use." 471 U.S. 539, 566, 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985) (relying on the Nimmer treatise).<sup>15</sup> Factor Four "focuses on whether the copy brings

<sup>15</sup>*Harper & Row* cited 3 Nimmer § 13.05[A]. See 4 Nimmer § 13:05[A] ("The fourth factor . . . emerges as the most important, and indeed, central fair use factor."). To be clear, a secondary use may seriously harm the value of the copyright for the quoted material and yet be a clear case of fair use, such as where a critic pans a new

to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood that potential purchasers may opt to acquire the copy in preference to the original." *TVEyes*, 883 F.3d at 179 (quoting *Google Books*, 804 F.3d at 223). Factor Four is necessarily intertwined with Factor One; the more the objective of secondary use differs from that of the original, the less likely it will supplant the commercial market for the original. See *Google Books*, 804 F.3d at 223.

As Plaintiffs argue, ReDigi made reproductions of Plaintiffs' works for the purpose of resale in competition with the Plaintiffs' market for the sale of their sound recordings.<sup>16</sup> ReDigi's replicas were sold to the same consumers whose objective in purchasing was to acquire Plaintiffs' music. It is also of possible relevance that there is a distinction between ReDigi's resales and resales of physical books and records. The [\*28] digital files resold by ReDigi, although used, do not deteriorate the way printed books and physical records deteriorate. As the district court observed, the principal difference between the "product [\*663] sold in ReDigi's secondary market" and that sold by Plaintiffs or their licensees in the primary market was its lower price. *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 654 (S.D.N.Y. 2013).

Factor Four weighs powerfully against fair use.

#### E. Four Factors Weighed Together

The Supreme Court has instructed that, to ascertain whether there is fair use, all four of the statutory factors must be weighed together. *Campbell*, 510 U.S. at 577-78. Our consideration is informed by our recent holding in *TVEyes*, 883 F.3d at 175. *TVEyes* copied all televised video programming throughout the nation, together with its accompanying closed-captioned text, into a database. It offered a commercial subscription service through which business and professional clients could search the transcripts, receive a list of video segments that mentioned the searched terms, and then view up to ten minutes of each video segment.

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book, quoting passages to show its absurdity. See Pierre N. Leval, *Fair Use Rescued*, 44 UCLA L. REV. 1449, 1459 (1997). In such circumstances, a secondary use's infliction of harm on the value of the copyright does not enlist the fourth factor against the copying use, as it would where the copying work offers a substitute for the original.

<sup>16</sup>To the extent a reproduction was made solely for cloud storage of the user's music on *ReDigi's* server, and not to facilitate resale, the reproduction would likely be fair use just as the copying at issue in *Sony* was fair use.



*Id.* Fox News Network, a producer of televised content, sued, claiming that TVEyes's distribution of Fox's programming to TVEyes's subscribers infringed Fox's copyright. *Id.* We found that TVEyes's secondary [\*\*29] use deployed modestly transformative technology (akin to the time shifting technology of *Sony*) in that "it enable[d] nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means." *Id.* at 177. As in *Sony*, it enabled its customers to view "programming they want at a time and place that is convenient to them, rather than at the time and place of broadcast." *Id.* at 177-78. Nonetheless, we held that TVEyes's use was not a fair use because it substantially competed with the rights holders' legitimate market. *Id.* at 180. By providing Fox's copyrighted programming to its clients "without payment to [the rights holder], TVEyes . . . usurped a market that properly belong[ed] to the copyright-holder." *Id.* (internal quotation marks and alteration omitted).

*TVEyes* is a substantial precedent for our holding here. The transformative purpose and character of TVEyes's use, while modest, was far more transformative than what ReDigi has shown here. TVEyes's transformative uses were nonetheless easily outweighed by the harm to the rights holders' market considered under Factor Four. *Id.* at 181. Even if ReDigi [\*\*30] is credited with some faint showing of a transformative purpose, that purpose is overwhelmed by the substantial harm ReDigi inflicts on the value of Plaintiffs' copyrights through its direct competition in the rights holders' legitimate market, offering consumers a substitute for purchasing from the rights holders. We find no fair use justification.

\* \* \*

We conclude by addressing policy-based arguments raised by ReDigi and its amici. They contend that ReDigi's version 1.0 ought to be validated as in compliance with § 109(a) because it allows for realization of an economically beneficial practice, originally authorized by the courts in the common law development of copyright, *see Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S. Ct. 722, 52 L. Ed. 1086, 6 Ohio L. Rep. 323 (1908), and later endorsed by Congress. They also contend that the Copyright Act must be read to vindicate purchasers' ability to alienate digital copyrighted works under the first sale doctrine—emphasizing that § 109(a) is styled as an entitlement rather than a defense to infringement—without regard to technological medium. *See* Copyright Law Professors Br. 4, 12, 14; *see also* Appellants Br. 38-41. On this score, they rely heavily on the breadth of the common law first sale doctrine, and on a purported [\*\*664] imperative, described as the [\*\*31] "principle of technological neutrality"

by amici and the "equal treatment principle" by ReDigi, not to disadvantage purchasers of digital copyrighted works, as compared with purchasers of physical copyrighted works. *See* Copyright Law Professors Br. 14; Appellants Br. 36-42.

As for whether the economic consequences of ReDigi's program are beneficial and further the objectives of copyright, we take no position. Courts are poorly equipped to assess the inevitably multifarious economic consequences that would result from such changes of law. So far as we can see, the establishment of ReDigi's resale marketplace would benefit some, especially purchasers of digital music, at the expense of others, especially rightsholders, who, in the sale of their merchandise, would have to compete with resellers of the same merchandise in digital form, which, although second hand, would, unlike second hand books and records, be as good as new.

Furthermore, as to the argument that we should read § 109(a) to accommodate digital resales because the first sale doctrine protects a fundamental entitlement, without regard to the terms of § 109(a) (and incorporated definitions), we think such a ruling would exceed the proper exercise [\*\*32] of the court's authority. The copyright statute is a patchwork, sometimes varying from clause to clause, as between provisions for which Congress has taken control, dictating both policy and the details of its execution, and provisions in which Congress approximatively summarized common law developments, implicitly leaving further such development to the courts. The paradigm of the latter category is § 107 on fair use. *See Campbell*, 510 U.S. at 577 ("Congress meant § 107 'to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way' and intended that courts continue the common-law tradition of fair use adjudication." (quoting H.R. Rep. No. 94-1476, 66 (1976)); *see also Google Books*, 804 F.3d at 213 ("[I]n passing the statute, Congress had no intention of normatively dictating fair use policy."). In the provisions here relevant, Congress dictated the terms of the statutory entitlements. Notwithstanding the purported breadth of the first sale doctrine as originally articulated by the courts, *see Bobbs-Merrill Co.*, 210 U.S. at 350 ("[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the book shall be sold at retail [\*\*33] by future purchasers . . ."); *Bureau of Nat'l Literature v. Sells*, 211 F. 379, 381-82 (W.D. Wash. 1914) (finding no infringement, in light of first sale doctrine, where reseller rebound used books and held them out as new books), Congress, in promulgating § 109(a), adopted a narrower conception, which negates a claim of unauthorized *distribution* in violation of the author's exclusive right under § 106(3), but not a claim of unauthorized *reproduction* in

violation of the exclusive right provided by § 106(1). If ReDigi and its champions have persuasive arguments in support of the change of law they advocate, it is Congress they should persuade. We reject the invitation to substitute our judgment for that of Congress.

#### CONCLUSION

We have considered ReDigi's remaining arguments against the district court's ruling and find them to be without merit. The judgment of the district court is **AFFIRMED**.

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# Code Revision Comm'n v. Public.Resource.Org, Inc.

United States Court of Appeals for the Eleventh Circuit

October 19, 2018, Decided

No. 17-11589

## Reporter

906 F.3d 1229 \*; 2018 U.S. App. LEXIS 29511 \*\*; 128 U.S.P.Q.2D (BNA) 1338 \*\*\*; 27 Fla. L. Weekly Fed. C 1461; 2018 WL 5093234 Stanford Law School, STANFORD, CA.

CODE REVISION COMMISSION, for the Benefit of and on behalf of General Assembly of Georgia, STATE OF GEORGIA, Plaintiffs - Counter Defendant - Appellees, versus PUBLIC.RESOURCE.ORG, INC., Defendant - Counter Claimant - Appellant.

For THE ORGANIZATION FOR TRANSFORMATIVE WORKS: Charles Duan, R Street Institute, WASHINGTON, DC.

For THE OPENGOV FOUNDATION, RAVEL, CASETEXT, FREE LAW PROJECT, JUDICATA: Phillip R. Malone, Jeffrey Theodore Pearlman, Stanford Law School, STANFORD, CA; Erica Sollazzo, Juelsgaard IP & Innovation Clinic, Stanford Law School, STANFORD, CA.

**Prior History:** [\*\*1] Appeal from the United States District Court for the Northern District of Georgia. D.C. Docket No. 1:15-cv-02594-RWS.

Code Revision Comm'n v. Public.Resource.Org, Inc., 244 F. Supp. 3d 1350, 2017 U.S. Dist. LEXIS 55161 (N.D. Ga., Mar. 23, 2017)

**Judges:** Before MARCUS and HULL, Circuit Judges, and BUCKLEW,\* District Judge.

**Disposition:** REVERSED IN PART, VACATED IN PART AND REMANDED.

**Opinion by:** MARCUS

**Counsel:** For CODE REVISION COMMISSION, for the Benefit of and on behalf of General Assembly of Georgia, STATE OF GEORGIA, Plaintiffs - Appellees: Anthony B. Askew, Lisa Pavento, Warren James Thomas, Meunier Carlin & Curfman, LLC, ATLANTA, GA.

For PUBLIC.RESOURCE.ORG, INC., Defendant - Appellant: Elizabeth Hannah Rader, Alston & Bird, LLP, WASHINGTON, DC; Sarah Parker LaFantano, Jason Demian Rosenberg, Alston & Bird, LLP, ATLANTA, GA.

For AMERICAN CIVIL LIBERTIES UNION FOUNDATION, Amicus Curiae: Esha Bhandari, ACLU Foundation, NEW YORK, NY.

For AMERICAN CIVIL LIBERTIES UNION OF GEORGIA, Amicus Curiae: Esha Bhandari, Vera Eidelman, ACLU Foundation, NEW YORK, NY.

For PUBLIC KNOWLEDGE, THE AMERICAN LIBRARY ASSOCIATION, THE ASSOCIATION OF RESEARCH LIBRARIES, THE INSTITUTE OF INTELLECTUAL PROPERTY AND SOCIAL JUSTICE, Amicus Curiae: Charles Duan, R Street Institute, WASHINGTON, DC.

For NEXT GENERATION LEGAL RESEARCH PLATFORMS, Amicus Curiae: Phillip R. Malone, Jeffrey Theodore Pearlman, Stanford Law School, STANFORD, CA; Erica Sollazzo, Juelsgaard [\*\*2] IP & Innovation Clinic,

## Opinion

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[\*\*\*1338] [\*1231] MARCUS, Circuit Judge:

Today, we are presented with the question of whether the annotations contained in the Official Code of Georgia Annotated (OCGA), [\*1232] authored by the Georgia General Assembly and made an inextricable part of the official codification of Georgia's laws, may be copyrighted by the State of Georgia. Answering this question means confronting profound and difficult issues about the nature of law in our society and the rights of citizens to have unfettered access to the legal edicts that govern their lives. After a thorough review of the law, and an examination of the annotations, we conclude that no valid copyright interest can be asserted in any part of the OCGA.

[\*\*\*1339] From the earliest day of the Republic, under federal [\*\*3] copyright law, copyright interests have vested in the author of the work. Authorship, therefore, is central to many questions that arise under the Copyright Act, 17 U.S.C. § 101 et seq. This case is no exception. In most states the "official" code is comprised of statutory text alone, and all

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\* Honorable Susan C. Bucklew, United States District Judge for the Middle District of Florida, sitting by designation.

agree that a state's codification cannot be copyrighted because the authorship is ultimately attributable to the People. Conversely, all agree that annotations created by a private party generally can be copyrighted because the annotations are an original work created by a private publisher. But the annotations in the OCGA are not exactly like either of these two types of works. Rather, they fall somewhere in between -- their legal effect and ultimate authorship more indeterminate. To resolve this question, then, we reason by analogy, and drill down on the core attributes that make the OCGA annotations what they are -- namely an exercise of sovereign power.

The general rule that legislative codifications are uncopyrightable derives from an understanding of the nature of law and the basic idea that the People, as the reservoir of all sovereignty, are the source of our law. For purposes of the Copyright Act, this means [\*\*4] that the People are the constructive authors of those official legal promulgations of government that represent an exercise of sovereign authority. And because they are the authors, the People are the owners of these works, meaning that the works are intrinsically public domain material and, therefore, uncopyrightable.

That the law itself, whether it takes the form of a legislative enactment or of a judicial opinion, is subject to the rule is clear and not contested. This is because these works represent the quintessential exercise of sovereign power. When a legislature enacts a law, or a court writes an opinion rendering an official interpretation of the law in a case or controversy, they are undisputedly speaking on behalf of the People, who are properly regarded as the author of the work. The task we face today is whether we should similarly treat Georgia's entire official code, which expressly merges its statutes and their official annotations, as the sovereign expression of the People by their legislature, as public domain material.

To navigate the ambiguities surrounding how to characterize this work, we resort to first principles. Because our ultimate inquiry is whether a work [\*\*5] is authored by the People, meaning whether it represents an articulation of the sovereign will, our analysis is guided by a consideration of those characteristics that are the hallmarks of law. In particular, we rely on the identity of the public officials who created the work, the authoritativeness of the work, and the process by which the work was created. These are critical markers. Where all three point in the direction that a work was made in the exercise of sovereign power -- which is to say where the official who created the work is entrusted with delegated sovereign authority, where the work carries authoritative weight, and where the work was created through the procedural channels in which sovereign [\*1233] power ordinarily flows -- it follows that the work would be attributable to the constructive authorship of the People, and

therefore uncopyrightable.

The question is a close one -- and important considerations of public policy are at stake on either side -- but, at the end of the day, we conclude that the annotations in the OCGA are sufficiently law-like so as to be properly regarded as a sovereign work. Like the statutory text itself, the annotations are created by the duly constituted [\*\*6] legislative authority of the State of Georgia. Moreover, the annotations clearly have authoritative weight in explicating and establishing the meaning and effect of Georgia's laws. Furthermore, the procedures by which the annotations were incorporated bear the hallmarks of legislative process, namely bicameralism and presentment. In short, the annotations are legislative works created by Georgia's legislators in the exercise of their legislative authority.

As a consequence, we conclude that the People are the ultimate authors of the annotations. As a work of the People the annotations are inherently public domain material and therefore uncopyrightable. Because we conclude that no copyright can be held in the annotations, we have no occasion to address the parties' other arguments regarding originality and fair use.

I.

A.

The Official Code of Georgia Annotated (OCGA or the Code) is an annotated compilation of Georgia statutes that has been published annually since 1982. The statutory text contained in the OCGA has been "enacted and [has] the effect of statutes enacted by the General Assembly of Georgia." O.C.G.A. § 1-1-1. As the Code itself explains, the statutory [\*\*\*1340] text in the OCGA is the official published [\*\*7] version of Georgia's laws, and when the Georgia General Assembly enacts a new law, the bill typically reads "An Act... To amend... the Official Code of Georgia Annotated."

Appearing alongside the statutory text are various annotations, consisting of history lines, repeal lines, cross references, commentaries, case notations, editor's notes, excerpts from law review articles, summaries of opinions of the Attorney General of Georgia, summaries of advisory opinions of the State Bar, and other research references. The Code itself makes clear that these annotations are a part of the official Code, stating that the statutory portions of the Code "shall be merged with annotations... and [are] published by authority of the state ...and when so published [are to] be known and may be cited as the 'Official Code of Georgia Annotated.'" O.C.G.A. § 1-1-1.

Despite the fact that they are part of the official Code, Georgia law says that the annotations themselves do not have

the force of law in the way that the statutory portions of the Code do. One provision of the Code explains that:

Unless otherwise provided in this Code, the descriptive headings or catchlines immediately preceding or within the text of the individual **[\*\*8]** Code sections of this Code, except the Code section numbers included in the headings or catchlines immediately preceding the text of the Code sections, and title and chapter analyses do not constitute part of the law and shall in no manner limit or expand the construction of any Code section. All historical citations, title and chapter analyses, and notes set out in this Code are given for the purpose of convenient reference and do not constitute part of the law.

O.C.G.A. § 1-1-7. Laws passed during each session of the Georgia General Assembly that reenact the OCGA as the state's official code similarly provide that the annotations **[\*1234]** "contained in the Official Code of Georgia Annotated are not enacted as statutes by the provisions of this Act." See, e.g., 2015 Ga. Laws 9, § 54.

The annotations were initially prepared by Mathew Bender & Co., Inc., an operating division of the LexisNexis Group, (Lexis), pursuant to an agreement it entered into with the State of Georgia. Under the terms of the agreement, Lexis is responsible for the ongoing publication and maintenance of the Code, and all editorial, publication, and distribution costs. In exchange, Lexis was given the exclusive right of publication by Georgia. **[\*\*9]** But, notably, Georgia holds the copyright in the annotations in its own name. The publication agreement also specifies what types of annotations should appear alongside the statutory text, and provides detailed and specific directions as to how Lexis is to generate and arrange this content. The agreement also provides that the Code Revision Commission (the "Commission") supervises the work of Lexis and has final editorial control over the contents of the OCGA.

The Commission is a body established by the Georgia General Assembly in 1977 that was originally tasked with undertaking the recodification of all of Georgia's laws, a project that had not been done since 1933. The Commission is comprised of Georgia officials, including the Lieutenant Governor, four members of the Georgia Senate, the Speaker of the Georgia House of Representatives, four additional members of the Georgia House of Representatives, and five members appointed by the president of the State Bar of Georgia. Following its successful recodification of Georgia law and the publication of the OCGA in 1982, the Commission is now responsible for updating the OCGA and supervising Lexis's editing and publication of the OCGA.

**[\*\*10]** In addition to providing instructions to Lexis about how the annotations should be created, compiled, and arranged, the publication agreement establishes a number of other conditions governing the relationship between Lexis and the State of Georgia. First, the agreement requires that Lexis create a free, unannotated, online version of the Code for use by the general public. Second, the agreement limits the price that Lexis can charge for the OCGA. While other commercial annotations of the Georgia Code can cost as much as \$2,570, the price of the OCGA is currently \$404. Third, it grants Lexis the exclusive right to produce and sell print, CD-ROM, and online versions of the OCGA. Finally, it provides that the Commission shall receive royalties on the sale of CD-ROM and online versions of the OCGA, but shall not receive royalties from the sale of print volumes.

The publication agreement also provides that "[a]ll the contents of the Code... shall be copyrighted in the name of the State of Georgia... [and] [t]he copyrights shall cover all copyrightable parts of the Code." The Commission asserts a copyright in all portions of the OCGA except for the statutory text, which it recognizes cannot **[\*\*11]** be copyrighted.

**[\*\*1341]** Despite the copyright and the exclusive publishing rights granted to Lexis, the State of Georgia makes the CD-ROM version of the OCGA available to the general public at over 60 state and county-operated facilities throughout Georgia, such as libraries and universities. In addition, state agencies are granted the right to print and distribute or sell to the public portions of the OCGA that they are responsible for administering.

B.

Public.Resource.Org (PRO) is a non-profit organization with a mission of improving public access to government records and primary legal materials. Thus for **[\*1235]** example, PRO has been responsible for the free, online publication of all U.S. Supreme Court opinions and every post-1950 U.S. Court of Appeals opinion. PRO has also been responsible for the online publication of various state statutory codes.

In 2013 PRO purchased all 186 volumes of the print version of the OCGA and its supplements, scanned them, and uploaded them to its website to be freely accessible to the public. It also placed digital copies of the OCGA onto USB drives and mailed them to various Georgia legislators. Additionally, PRO distributed copies of the OCGA to other organizations **[\*\*12]** and on other websites in order to facilitate its further dissemination by other parties.

On multiple occasions the Commission sent letters to PRO demanding that it cease and desist from publishing the OCGA on the grounds that publication infringes on the State of Georgia's copyright in the work. PRO refused to comply,

arguing that there was no valid copyright in the OCGA because the law cannot be copyrighted. The Commission, acting on behalf of the Georgia General Assembly and the State of Georgia, sued PRO on July 21, 2015 in the United District Court for the Northern District of Georgia. The complaint sought injunctive relief against PRO's "widespread and unauthorized copying and distribution of the copyrighted annotations in the Official Code of Georgia Annotated through the distribution of thumb drives containing copies of the O.C.G.A. and the posting of the O.C.G.A. on various websites." On September 14, 2015, PRO filed its answer to the complaint, acknowledging its widespread publication of the OCGA, but denying that the State of Georgia holds an enforceable copyright in the Code. PRO also asserted the defense of fair use. Finally, PRO counterclaimed seeking a declaratory judgment [\*\*13] that "the State of Georgia has no valid copyright in any portion of the O.C.G.A. because the O.C.G.A. is in the public domain."

Following briefing and argument, the district court granted the Commission's motion for partial summary judgment and denied PRO's motion. The court concluded that because the annotations in the OCGA lack the force of law, they are not public domain material. Also, it rejected PRO's other challenges to the validity of Georgia's copyright as well as its fair use defense. Soon thereafter, the district court entered a permanent injunction against PRO enjoining it "from all unauthorized use, including through reproduction, display, distribution, or creation of derivative works, of the Official Code of Georgia Annotated (O.C.G.A.)." The injunction also ordered PRO to "remove all versions of the O.C.G.A. from its website," and to cease any fundraising activities connected with PRO's publication of the OCGA.

This timely appeal ensued.

## II

We review the grant of summary judgment de novo, applying the same legal standards which bound the district court. Whatley v. CNA Ins. Cos., 189 F.3d 1310, 1313 (11th Cir. 1999). In doing so, we consider "the evidence and all factual inferences therefrom in the light most favorable to the party [\*\*14] opposing the motion." Shaw v. Conn. Gen. Life Ins. Co., 353 F.3d 1276, 1282 (11th Cir. 2003). Summary judgment is proper only where there is no genuine issue of material fact. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). A genuine issue of material fact exists where the dispute is "over facts that might affect the outcome of the suit under the governing law" and where the "evidence is such that a reasonable jury could return a verdict for the nonmoving party." Id. We also review a district court's decision to grant [\*1236] equitable relief for abuse of discretion, considering questions of law de

novo and findings of fact for clear error. Preferred Sites, LLC v. Troup Cty., 296 F.3d 1210, 1220 (11th Cir. 2002).

In order to establish a prima facie case of copyright infringement, "a plaintiff must show that (1) it owns a valid copyright in the [work] and (2) defendants copied protected elements from the [work]." Peter Letterese And Assocs., Inc. v. World Inst. of Scientology Enters., 533 F.3d 1287, 1300 (11th Cir. 2008). A valid copyright registration "constitute[s] prima facie evidence of the validity [\*\*\*1342] of the copyright." 17 U.S.C. § 410 (c). Once the plaintiff has produced a valid copyright registration, the burden shifts to the defendant to establish that the copyright is invalid. See Latimer v. Roaring Toyz, Inc., 601 F.3d 1224, 1233 (11th Cir. 2010). There is no dispute that the State of Georgia has a registered copyright in the OCGA annotations. Nor do the parties contest that PRO copied the OCGA in its entirety. Thus, at the heart of this case is the question whether [\*\*15] Georgia's copyright in the OCGA is valid; on this issue PRO carries the burden of proof.

## A.

The Constitution grants Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Art. I, Sec. 8, cl. 8. Congress has exercised this power by passing the Copyright Act. 17 U.S.C. § 101 et seq. Under the Copyright Act:

Copyright protection subsists... in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

17 U.S.C. § 102.

As this provision makes clear, "authorship" is central to the statutory scheme. Only "original works of authorship" are eligible for copyright protection. What's more, authorship generally determines who has a possessory interest in a work. "Copyright in a work... vests initially in the author or authors of the work." 17 U.S.C. § 201(a). Indeed, authorship allows a person to claim copyright protection regardless of whether the work has been registered with the United States Copyright Office. As we have explained, "[c]opyright inheres [\*\*16] in authorship and exists whether or not it is ever registered." Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc., 29 F.3d 1529, 1531 (11th Cir. 1994). In consequence, to ascertain who holds a copyright in a work, we ordinarily must ascertain the identity of the author.

The meaning of authorship takes on special significance in cases like this where we consider the copyrightability of a government edict. A long line of authority, stretching back

more than 180 years, establishes that, with respect to certain governmental works, the term "author" should be construed to mean "the People," so that the general public is treated as the owner of the work. This means that a work subject to the rule is inherently public domain material and thus not eligible for copyright protection. The foundations of the case law establishing this doctrine are far from clear. Few courts have fully explained the basis for this idea and the Supreme Court last addressed the question in 1888. Thus, before explaining why we construe the "author" of the OCGA to mean "the People," it's worth examining the principal cases in some detail in order to understand the considerations that guided them.

[\*1237] The Supreme Court first addressed whether a government edict can be copyrighted in Wheaton v. Peters, 33 U.S. 591, 8 L. Ed. 1055 (1834). The Court unanimously [\*\*17] held that "no reporter has or can have any copyright in the written opinions delivered by this Court; and that the judges thereof cannot confer on any reporter any such right." Id. at 668. The Court was interpreting the Copyright Act of 1790, but it did not explain the foundations for the rule that "the law" was excluded from copyright protection. See id. at 593.

The Court revisited the question in Banks v. Manchester, 128 U.S. 244, 9 S. Ct. 36, 32 L. Ed. 425 (1888), and held that the opinions of state court judges, just like Supreme Court opinions, were not copyrightable. In Banks the Court considered an infringement suit filed by a publishing firm that had published official reports containing the decisions of the Supreme Court of Ohio against a defendant who had published the same material in the American Law Journal. Id. at 249. An Ohio statute provided for the appointment of an official reporter for the Supreme Court of Ohio, and tasked him with compiling the decisions and other materials authored by the judges and securing "for the benefit of the state" a copyright on the compilations. Id. at 245, 249. The Ohio statute also required the Secretary of State to contract with a publisher, who would be given the exclusive right to publish the reports compiled by the official court reporter "so [\*\*18] far as the state can confer [such right]." Id. at 246. The plaintiff publishing firm in Banks was the chosen publisher, and, in suing, was attempting to enforce a copyright interest in the work of the Ohio judges assigned to it by the State of Ohio.

The Court found the copyright invalid. Id. at 252. It emphasized that under then-extant copyright law only "authors" could obtain a copyright in their work. The Court determined [\*\*\*1343] that the reporter who had created the compilations did not qualify as the author of the opinions or the other materials written by the judges since he had not

created the works. Id. Moreover, the Supreme Court explained that "[i]n no proper sense can the judge who, in his judicial capacity, prepares the opinion or decision, the statement of the case, and the syllabus, or head-note, be regarded as their author." Id. at 253. Thus, the Court rested its decision on a construction of the statutory term "author" that excluded both the judges and the reporter from qualifying as authors of the material in question, which in turn meant that neither the judges nor the reporter could have conveyed a valid copyright interest to the publishing firm bringing suit.

The Court offered a number of reasons for holding [\*\*19] that the judges could not be considered the "authors" of their work. In the first place judges "receive from the public treasury a stated annual salary, fixed by law," and therefore can "have no pecuniary interest or proprietorship, as against the public at large, in the fruits of their judicial labors." Id. Furthermore, although the Court said that it was only construing the statutory meaning of the term "author," it also acknowledged that, fundamentally, "[t]he question is one of public policy." Id. In articulating this public policy interest, the Court explained that "[t]he whole work done by the judges constitutes the authentic exposition and interpretation of the law, which, binding every citizen, is free for publication to all, whether it is a declaration of unwritten law, or an interpretation of a constitution or a statute." Id. Banks expressly relied on a ruling of the Massachusetts Supreme Judicial Court in Nash v. Lathrop, 142 Mass. 29, 6 N.E. 559 (1886), which had similarly observed that "it needs no argument to [\*1238] show that justice requires that all should have free access to the opinions, and that it is against sound public policy to prevent this, or to suppress and keep from the earliest knowledge of the public the statutes, [\*\*20] or the decisions and opinions of the justices." Id. at 35.

The next, and to date last time the Supreme Court considered the rule that government edicts cannot be copyrighted came less than a month after the Court had decided Banks, in Callaghan v. Myers, 128 U.S. 617, 9 S. Ct. 177, 32 L. Ed. 547, 1889 Dec. Comm'r Pat. 304 (1888). There, a publisher of a set of reports containing the opinions of the Supreme Court of Illinois, known as the Illinois Reports, brought suit for copyright infringement against a rival publisher that had copied and published the reports. Id. at 619-22. The original publisher had obtained a proprietary interest in the reports from a salaried official of the State of Illinois whose duties, defined by statute, consisted of compiling the Illinois Reports; organizing the cases; writing annotations such as headnotes and syllabi to appear alongside the opinions in the reports; and providing a certain number of copies of the final product to the Secretary of State of Illinois. Id. at 645-46. Having fulfilled his statutory duties, the reporter sold whatever proprietary interest he had in the Illinois Reports to the

publishing firm. When the firm sued for copyright infringement, the alleged infringer attempted to defend, claiming that the reports were public property because they had been created by a state-employed [\*\*21] reporter who could himself have no proprietary interest in the work since he created the reports as part of his public duties and therefore was not their "author." Id. at 645-47.

The Court began its analysis by reinforcing the basic rule announced in Banks that "there can be no copyright in the opinions of the judges, or in the work done by them in their official capacity as judges." Id. at 647. Nevertheless it rejected the claim that the copyright in the Illinois Reports was invalid. It explained that the underlying rationale of Banks did not apply, observing that "there is no ground of public policy on which a reporter who prepares a volume of law reports, of the character of those in this case, can... be debarred from obtaining a copyright for the volume which will cover the matter which is the result of his intellectual labor." Id. The Court further suggested that, since the court reporter was a "sworn public officer, appointed by the authority of the government... [and] paid a fixed salary for his labors," the state government might have taken any proprietary interest in his work for itself, but the fact that it had not done so suggested that there was "a tacit assent by the government to his exercising [\*\*22] such privilege" on his own. Id. The Court thus reasoned that federal copyright law as explicated in Banks did not prevent the reporter from holding a valid copyright in the work and that the state had not reserved the copyright to itself. As a result, the copyright the reporter obtained and conveyed to the publishing firm was valid. The compilation of judicial decisions and other explanatory material like headnotes, tables, and indices, was different from Banks in two ways: first, the reporter, who had been appointed by the Illinois Supreme Court, and not the judges, had written [\*\*\*1344] the material accompanying the opinion; and, second, the reporter, and not the State of Illinois, claimed to hold the copyright.

The Supreme Court has not examined the doctrine since it decided Callaghan in 1888. However, since Banks and Callaghan the lower courts have further explored the nature and application of the rule. Thus, for example, the Sixth Circuit, in an opinion authored by Justice Harlan, applied the rule to state statutes. Howell v. Miller, [\*1239] 91 F. 129 (6th Cir. 1898). The Fifth Circuit has extended the rule to encompass regulatory materials. Veeck v. S. Bldg. Code Cong. Int'l, Inc., 293 F.3d 791 (5th Cir. 2002) (en banc). However, other courts have declined to extend the rule in other, related contexts. [\*\*23] See, e.g., CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61 (2d Cir. 1994) (declining to apply the rule to a privately prepared listing of automobile values that several states required

insurance companies to use in calculating insurance payouts); Practice Mgmt. Info. Corp. v. AMA, 121 F.3d 516 (9th Cir. 1997), amended, 133 F.3d 1140 (9th Cir. 1998) (declining to apply the rule to a privately authored coding system that was incorporated into a government reimbursement scheme through publication in the Federal Register); Cty. of Suffolk v. First Am. Real Estate Sols., 261 F.3d 179, 193 (2d Cir. 2001) (declining to apply the rule to tax maps created by a county assessor's office); John G. Danielson, Inc. v. Winchester-Conant Properties, Inc., 322 F.3d 26 (1st Cir. 2003) (declining to apply the rule to the terms of a restrictive covenant a town entered into as part of a zoning scheme).

It is also worth observing that Congress has partially codified the rule announced in Banks. Specifically, the 1909 version of the Copyright Act provided that "no copyright shall subsist in the original text of any work which is in the public domain... or in any publication of the United States Government, or any reprint, in whole or in part, thereof." 17 U.S.C. § 8 (repealed 1976). This prohibition persists under current copyright law, enacted in 1976, which, in turn, provides that "[c]opyright protection under this title is not available for any work of the United States Government." 17 U.S.C. § 105. This partial codification of Banks for works created [\*\*24] by the federal government leaves unmodified the rule as it applies to works created by the states. As the Copyright Office's 1961 Register's Report stated, even though Congress enacted a prohibition that only applies to the federal government, "the judicially established rule [] still prevent[s] copyright in the text of state laws, municipal ordinances, court decisions, and similar official documents." 1961 Register's Report, at 129-30.

Although case precedent and congressional enactments have long established the rule that government works are not copyrightable, the foundations of the rule are generally implicit and unstated. Since the Court in Banks was not especially clear about the legal source of the rule it had announced and since the issue has not been raised before in our Court, we start with a relatively clean canvas. What is clear, however, is that the rule enunciated in Banks was grounded on the Court's interpretation of the term "author" in the Copyright Act of 1790, that works created by courts in the performance of their official duties did not belong to the judges, and that public policy compelled the conclusion that these works were in the public domain and uncopyrightable. [\*\*25]

Thus, we understand the rule in Banks to derive from first principles about the nature of law in our democracy. Under democratic rule, the People are sovereign, they govern themselves through their legislative and judicial representatives, and they are ultimately the source of our law.



Under this arrangement, lawmakers and judges are draftsmen of the law, exercising delegated authority, and acting as servants of the People, and whatever they produce the People are the true authors. When the legislative or judicial chords are plucked it is in fact the People's voice that is heard. Not surprisingly, then, for purposes of copyright law, this means that the People, as the constructive authors are also the owners of the law. And in this way, any [\*1240] work of which the People are the constructive authors is intrinsically public domain material and is freely accessible to all so that no valid copyright can ever be held in it.

The concept of popular sovereignty is deeply rooted in our politics, our law, and our history. The seminal statement of America's political creed boldly proclaims that "[g]overnments . . . deriv[e] their just powers from the consent of the governed." THE DECLARATION OF INDEPENDENCE [\*\*26] para. 2 (U.S. 1776). During the ratification debates that followed the Revolution, James Madison similarly began with the foundational idea that the People were sovereign, and that under the proposed [\*\*\*1345] form of government "the public voice" was "pronounced by the representatives of the people." THE FEDERALIST No. 10 at 77 (James Madison) (Clinton Rossiter ed., 1961). Still again, in the midst of the Civil War, President Lincoln etched an indelible description of this form of government in the national memory, describing ours as a "government of the people, by the people, for the people." Abraham Lincoln, Gettysburg Address (November 19, 1863).

In fact, the United States Reports are filled with invocations of the sovereignty of the People. As Chief Justice Marshall expressed the fundamental idea many years ago: "[t]he government proceeds directly from the people; is 'ordained and established,' in the name of the people... [and] is emphatically and truly, a government of the people. In form, and in substance, it emanates from them. Its powers are granted by them, and are to be exercised directly on them, and for their benefit." McCulloch v. Maryland, 17 U.S. 316, 403-05, 4 L. Ed. 579 (1819); see also Chisholm v. Georgia, 2 U.S. 419, 1 L. Ed. 440, 2 Dall. 419 (1793); Luther v. Borden, 48 U.S. 1, 12 L. Ed. 581 (1849). See also TOCQUEVILLE, DEMOCRACY IN AMERICA 53 [\*\*27] (Mansfield ed. 2002). ("In America, the principle of the sovereignty of the people... is recognized by mores, proclaimed by laws; [] spreads with freedom and reaches its final consequences without obstacle... when one wants to speak of the political laws of the United States, it is always with the dogma of the sovereignty of the people that one must begin.").

While Banks is not explicit in grounding its holding in this conception of sovereignty, other federal courts have ruled that government works are intrinsically public domain material

precisely because the People are sovereign and are therefore the authors and owners of the law. Thus, for example, in Banks & Bros. v. W. Pub. Co., 27 F. 50 (C.C.D. Minn. 1886), the court justified the rule on the grounds that "[e]ach citizen is a ruler,—a law-maker,—and as such has the right of access to the laws he joins in making and to any official interpretation thereof. If the right of property enters into the question, he is a part owner, and as such cannot be deprived of equal access by his co-owners." Id. at 57.

In the same vein, and more recently, several courts have applied the rule announced in Banks and understood the rule to rest on foundational principles about the nature of law in a democratic society. [\*\*28] Thus, in Veeck, the Fifth Circuit, sitting en banc, confronted the question of whether a model building code, once adopted by two municipalities, lost its copyright protection. Veeck, 293 F.3d at 796. In concluding that the work was uncopyrightable, the court asserted as a basic principle that the law is in "the public domain and thus not amenable to copyright," and that cases like Wheaton and Banks evince a "broad understanding of what constitutes 'the law'" so as to make judicial opinions in addition to statutes ineligible for copyright protection. Id. at 795-96. On this basis, the court held that, "[a]s governing law," the municipal building codes also could not be copyrighted. Id. at 796.

[\*1241] The court went on to explain that its holding rested on a deeper principle, a "metaphorical concept of citizen authorship." Id. at 799. As the court reasoned, "[l]awmaking bodies in this country enact rules and regulations only with the consent of the governed. The very process of lawmaking demands and incorporates contributions by 'the people,' in an infinite variety of individual and organizational capacities... In performing their function, the lawmakers represent the public will, and the public are the final 'authors' of the law." Id. The court [\*\*29] discerned that there are strong public policy interests in giving the public unfettered access to the law. "[P]ublic ownership of the law means precisely that 'the law' is in the 'public domain' for whatever use the citizens choose to make of it. Citizens may reproduce copies of the law for many purposes, not only to guide their actions but to influence future legislation, educate their neighborhood association, or simply to amuse." Id. Thus, the "metaphorical concept of citizen authorship together with the need for citizens to have free access to the laws are the ultimate holding of Banks." Id. (quotation omitted).

The First Circuit has also emphasized popular sovereignty as being foundational to its understanding of the rule announced in Banks. In Building Officials & Code Adm. v. Code Technology, Inc., 628 F.2d 730 (1st Cir. 1980), the court considered, on an interlocutory appeal challenging the issue of a preliminary injunction, a copyright infringement suit

brought by the private sector author of a model building code against a publisher of the Massachusetts building code, which the Massachusetts legislature had based in large measure on the model code. The court ruled that the inclusion of the otherwise copyrightable model building code in the official Massachusetts **[\*\*30]** building code likely rendered those materials, just like the rest of the materials in the **[\*\*\*1346]** Massachusetts building code, "freely available for copying by anyone." *Id.* at 732.

After reviewing case precedent going as far back as *Wheaton*, a panel of the First Circuit asserted that "[t]he law thus seems clear that judicial opinions and statutes are in the public domain and are not subject to copyright." *Id.* at 734. The court reasoned that this principle extends to regulatory codes as much as it does to statutes and judicial opinions. While acknowledging that cases like *Banks* and *Wheaton* seemed to rest in part on the identity of the creators of the works in question, namely salaried public officials performing official duties, it explained that a more fundamental principle was at work. In particular, "citizens are the authors of the law, and therefore its owners, regardless of who actually drafts the provisions, because the law derives its authority from the consent of the public, expressed through the democratic process." *Id.* The reason why judges and legislators cannot copyright works they create, was not because they are working for the government rather than for themselves, but rather because of a "metaphorical **[\*\*31]** concept of citizen authorship," which means that, once it adopts a text as law, the body politic becomes the author of the work in question, leaving the original drafter with no proprietary interest. *Id.* The court reasoned that this was true even where the original creator of the work was a private sector actor.<sup>1</sup>

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<sup>1</sup> It is also worth observing that rooting *Banks* in this understanding of sovereignty helps make the rule congruent with other, closely related copyright doctrines. The work-for-hire doctrine, as well as §105 -- the partial codification of *Banks* -- are both operationalized by identifying a master-servant relationship and attributing authorship to the master. *See, e.g., Comty. For Creative Non-Violence v. Reid*, 490 U.S. 730, 109 S. Ct. 2166, 104 L. Ed. 2d 811 (1989); *United States v. First Tr. Co. of St. Paul*, 251 F.2d 686, 690 (8th Cir. 1958); *see also* H.R. Rep. No. 94-1476 at 58 (1976) ("Although the wording of the definition of 'work of the United States Government' differs somewhat from that of the definition of 'work made for hire,' the concepts are intended to be construed in the same way."). Similarly, under our view of *Banks*, the People are the master, and therefore the owners of the works created by their legislative and judicial agents. *See Veeck*, 293 F.3d at 797 ("*Banks* refers to the source of the judges' salary in order to explain that it is the public at large, not the judges, who have the 'pecuniary interest or proprietorship' in 'the fruits of their judicial labors.'").

**[\*1242]** III.

The ultimate inquiry posed by the rule in *Banks* is thus whether a work is attributable to the constructive authorship of the People, which is to say whether it was created by an agent of the People in the direct exercise of sovereign authority. Statutes and judicial opinions are the most obvious examples of what falls within the ambit of the rule. *See Veeck*, 293 F.3d at 796 ("*Banks* represents a continuous understanding that 'the law,' whether articulated in judicial opinions or legislative acts or ordinances, is in the public domain and thus not amenable to copyright.")

This does not mean that statutes, judicial opinions, and other texts that carry the clear force of law are the only works that may be subject to the rule. For one thing, relying, as the district court did, on a bright line distinction between edicts that have the force of law and those **[\*\*32]** that do not to apply the *Banks* rule simply does not work in some cases. This is one of them. It is clear to us that there exists a zone of indeterminacy at the frontier between edicts that carry the force of law and those that do not. *See Jean v. Nelson*, 711 F.2d 1455, 1480-83 (11th Cir. 1983), *on reh'g*, 727 F.2d 957 (11th Cir. 1984), *aff'd*, 472 U.S. 846, 105 S. Ct. 2992, 86 L. Ed. 2d 664 (1985). In this small band of cases a government work may not be characterized as law, and yet still be so sufficiently law-like as to implicate the core policy interests undergirding *Banks*.

Statutory texts are the kinds of works most obviously subject to the rule announced in *Banks*. Because statutes are the prototypical works to which the rule applies, we rely on the statutory example as the lodestar for our inquiry. Whether or not a work is subject to the rule is dependent on whether the work is the law, or sufficiently like the law, so as to be deemed the product of the direct exercise of sovereign authority, and therefore attributable to the constructive authorship of the People. Basing the inquiry on whether a work is similar enough to the law so as to be attributable to the People, of course, does little to diminish the difficulty of applying the *Banks* rule in the unique circumstances presented here. *See John G. Danielson, Inc. v. Winchester-Conant Properties, Inc.*, 322 F.3d 26, 38 (1st Cir. 2003) ("[The] straightforward **[\*\*33]** general rule [of *Banks*] has proven difficult to apply when the material in question does not fall neatly into the categories of statutes or judicial opinions."). But it does point us toward the right way of structuring our analysis.

Put simply, there are certain things that make the law what it is. The law is written by particular public officials who are entrusted with the exercise of legislative power; the law

[\*\*\*1347] is, by nature, authoritative; and the law is created through certain, prescribed processes, the deviation from which would deprive it of legal effect. Each of these attributes is a hallmark of law. These characteristics distinguish written works that carry the force of law from all other works. Since we are concerned here with whether a work is attributable to the [\*1243] constructive authorship of the People, these factors guide our inquiry into whether a work is law or sufficiently law-like so as to be subject to the rule in Banks.

An analysis of these factors yields the conclusion that the annotations in the OCGA, while not having the force of law, are part and parcel of the law. They are so enmeshed with Georgia's law as to be inextricable. The annotations are themselves law-like [\*\*34] insofar as we examine who made them, how they were made, and the role they play in the legislative and jurisprudential spheres of Georgia's public life. In consequence, they too represent a work, like the statutes themselves, that is constructively authored by the People. They are therefore uncopyrightable.

A.

First, and of critical importance to our analysis is that the Georgia General Assembly is the driving force behind their creation. The Code Revision Commission exerts authoritative influence over the creation of the annotations and the Commission indisputably is an arm of the General Assembly. Thus, just as the uncopyrightable works in Banks were created by the Ohio Supreme Court, the annotations are, in a powerful sense, a work created by the Georgia state legislature.

While it is true that the annotations were initially prepared by a private party, in this case Lexis, it is also the case that Lexis drafts the annotations pursuant to highly detailed instructions contained in the contract it entered into with the Code Revision Commission. In particular, the publication agreement not only lists the types of materials that Lexis must include in the OCGA, but also provides punctiliously [\*\*35] specific instructions on how these materials are to be prepared. Thus, by way of example, in addition to instructing Lexis to include annotations summarizing court decisions that are relevant to various statutory provisions in the OCGA, the publication contract tells Lexis which court decisions to include. Moreover, the contract specifies the content of these summaries, instructing Lexis to include discussion of those portions of judicial opinions that involve "direct constructions" of a statute, including "constructions concerning constitutionality, purpose, intent, and the meaning of words and phrases as well as illustrations as to what a particular provision applies and to what a particular provision does not apply." Leaving even less to Lexis's independent judgment, the contract also instructs Lexis what not to include

in the judicial summaries, ordering Lexis's editors to "avoid long factual annotations where they do not bear directly upon the statute involved." Further, the agreement tells Lexis the order in which the various case annotations are to be arranged.

The annotations containing summaries of judicial opinions are not the only ones for which the publication contract provides [\*\*36] highly specific directions. The agreement also requires Lexis to include research references in the annotations, and names the specific reference sources that must be included. Similarly, the contract directs Lexis to include annotations dealing with legislative history and specifies just how far back into a statutory provision's history the annotations may go.

In addition to providing detailed instructions that guide the creation of the OCGA annotations, the Commission acts in a supervisory capacity as well, monitoring Lexis's work throughout the process. The contract says that the annotations are prepared under the "direct supervision" of the Commission. The contract spells out in some detail what this supervision means. In addition to including the research references listed in the publication agreement, Lexis is required to "include any new [references]... as required by the Commission." Sections of the agreement dealing [\*\*1244] with other annotations similarly allow the Commission to direct the inclusion of new material. Indeed, the very first section of the agreement states that the OCGA shall include, in addition to the various, specified annotations, "other material related to or included [\*\*37] in such Code at the direction of the Commission."

Finally, the publication agreement describes in detail how the Commission is to give its final assent to the annotations. First, as for each type of annotation, the agreement affirms the Commission's role in approving Lexis's work. Thus, with respect to the summaries of judicial opinions, the agreement provides that "the form of the annotations shall be subject to the approval of the Commission." The agreement contains similar provisions with respect to the other annotations. More generally, the agreement provides that the "ultimate [\*\*\*1348] right of editorial control over all material contained in the Code shall be in the Commission, and in the event of any disagreement between the Commission and the Publisher over the material to be included, the decision of the Commission shall control." A separate provision of the agreement similarly provides that in the event of any disagreement "the Commission shall prevail." Moreover, the agreement requires that the Commission have an opportunity to conduct pre-publication review of all subsequent supplements, replacement volumes, and other updates to the OCGA.

In short, the Commission exercises direct, **[\*\*38]** authoritative control over the creation of the OCGA annotations at every stage of their preparation. The Commission provides initial instructions to Lexis, directly supervises Lexis's work throughout the preparation process, and must give its final editorial assent to the annotations before they can become part of the OCGA. In this way, the Commission undeniably controls the creation of the OCGA annotations.

The Commission's intimate involvement in the creation of the annotations is of great significance. This is because a close examination of the nature of the Commission confirms that it is for all intents and purposes an arm of the Georgia General Assembly. As we've noted, the Commission is composed of fifteen members, nine of whom are sitting members of the Georgia General Assembly, along with the Lieutenant Governor of the State. Further, funding for the Commission comes directly from appropriations "provided for the legislative branch of state government." O.C.G.A. § 28-9-2. In addition, Georgia law provides that "[t]he Office of Legislative Counsel shall serve as staff for the commission." O.C.G.A. § 28-9-4. This is notable because, under Georgia law, the Office of Legislative Counsel is tasked with providing **[\*\*39]** various advisory and legal services "for the legislative branch of government" and is therefore properly seen as an adjunct to the General Assembly. O.C.G.A. § 28-4-3. Thus, not only is the Commission funded by legislative branch appropriations, but its staff is drawn from an office that is itself an agency of the Georgia General Assembly.

Further confirming the Commission's deep connection to the Georgia General Assembly, the Georgia Supreme Court has held that the Commission's work is properly characterized as "legislative" in nature, and that it is therefore proper for the Commission to be largely composed of officials from the legislative branch. Harrison Co. v. Code Revision Com., 244 Ga. 325, 260 S.E.2d 30 (1979). Thus, in light of how it is funded and staffed, and since its work is legislative in nature, it is abundantly clear that the Commission is a creation and an agent of the Georgia General Assembly.

Indeed, the connection between the Commission and the elected legislators **[\*1245]** who make up the General Assembly is so close that the Commission may be properly regarded as one in the same with the legislators for our purposes. As the Supreme Court has explained in another context, "it is literally impossible, in view of the complexities of the modern legislative process... **[\*\*40]** for [legislators] to perform their legislative tasks without the help of aides and assistants...the day-to-day work of such aides is so critical to the Members' performance that they must be treated as the latter's alter egos." Gravel v. United States, 408 U.S. 606,

616-17, 92 S. Ct. 2614, 33 L. Ed. 2d 583 (1972). In consequence, the Court has held that legislative immunity "applies not only to a Member but also to his aides insofar as the conduct of the latter would be a protected legislative act if performed by the Member himself." Id. at 618; see also Ellis v. Coffee Cty. Bd. of Registrars, 981 F.2d 1185, 1192 (11th Cir. 1993) ("To the extent that a legislator is cloaked with legislative immunity, an adjunct to that legislative body possesses the same immunity."). "The test for applicability of this derivative legislative immunity is whether the legislator, counsel or aide was engaged within a legitimate sphere of legislative activity." Id.

The basic intuition underlying cases applying the Speech and Debate Clause seems to us equally instructive in identifying which entity in the Georgia state government is the creative force behind the OCGA annotations. While the Commission's staff and six of its fifteen members are not Georgia legislators, the Commission is plainly an adjunct of the General Assembly. As we have detailed, its staff, funding, and responsibilities all fall **[\*\*41]** under the legislative umbrella. The Commission is therefore, in a real sense, the "alter ego" of the General Assembly, meaning that the creative force behind the annotations are Georgia's elected legislators. Acting through the Commission, the legislators closely supervise and direct the production of the annotations.

Moreover, and of even greater importance to our analysis, the OCGA annotations, once completed, are subject to the approval not only of the Commission, but also to the approval of the Georgia General Assembly. The **[\*\*\*1349]** General Assembly actually votes (and must vote) to make the OCGA the official codification of Georgia's laws and, in doing so, also votes to incorporate the annotations as part of the OCGA. O.C.G.A. § 1-1-1 ("The statutory portion of such codification shall be merged with annotations, captions, catchlines, history lines, editorial notes, cross-references, indices, title and chapter analyses, and other materials pursuant to the contract and shall be published by authority of the state pursuant to such contract and when so published shall be known and may be cited as the 'Official Code of Georgia Annotated.'"). In other words, the OCGA annotations are not only authored at the **[\*\*42]** direction and under the close supervision of the Georgia General Assembly, but they also obtain their peculiar status as official annotations because they are adopted annually by the General Assembly.

That Georgia's legislators are in a very real way the creators of the annotations is a powerful indication that the annotations are subject to the Banks rule. To begin, it is apparent that the rule established by Banks that government edicts cannot be copyrighted, as applied to the works of state governments, is more limited than the statutory prohibition on copyright

protection for works of the federal government. As we have explained, § 105 states that "[c]opyright protection... is not available for any work of the United States Government," and § 101 defines a "work of the United States Government" as "a work prepared by an officer or employee of the United States Government [\*1246] as part of that person's official duties." Thus, under this prohibition, the work of any federal employee, made in his capacity as a government employee, is uncopyrightable. See, e.g., *Scherr v. Universal Match Corp.*, 417 F.2d 497 (2d Cir. 1969); *United States v. First Tr. Co. of St. Paul*, 251 F.2d 686, 690 (8th Cir. 1958); *Pub. Affairs Assocs., Inc. v. Rickover*, 268 F. Supp. 444, 448 (D.D.C. 1967). By contrast, the rule in *Banks* is more circumscribed, applying to a limited subclass of government works. Thus, some works made by state [\*\*43] employees, that would be subject to § 105 if made by a federal employee, are nevertheless copyrightable under *Banks*. See, e.g., *Callaghan*, 128 U.S. at 645-46 (upholding the validity of a copyright in the work created by a state employee that was created pursuant to his statutorily imposed duties); *County of Suffolk*, 261 F.3d at 193 (declining to apply the rule in *Banks* to tax maps created by a county assessor's office).

The reasoning of *Banks* points to why the rule it has announced is applicable to a more limited class of public officials than those governed by § 105's prohibition. The Court in *Banks* explained, "[i]n no proper sense can the judge who, in his judicial capacity, prepares the opinion or decision, the statement of the case, and the syllabus, or head-note, be regarded as their author or their proprietor...Judges, as is well understood, receive from the public treasury a stated annual salary, fixed by law, and can themselves have no pecuniary interest or proprietorship, as against the public at large, in the fruits of their judicial labors... The whole work done by the judges constitutes the authentic exposition and interpretation of the law, which, binding every citizen, is free for publication to all." *Banks*, 128 U.S. at 253. Thus, like § 105, the *Banks* decision emphasizes [\*\*44] the fact that judges are producing works in their capacity as employees, but it also goes further than § 105 and emphasizes that judges are unique among government employees. In addition to receiving "from the public treasury a stated annual salary," judges are empowered to create "authentic exposition[s] and interpretation[s] of the law, which[] bind[] every citizen." *Id.*

As a result, the mere fact that a work was created by a state-paid employee in his capacity as an employee is not enough to trigger the rule in *Banks*. Something more is needed. Specifically, the government official must be entrusted with unique powers beyond those possessed by the typical government employee, such as the power to pronounce official interpretations of the law.

In short, it is clear that the rule in *Banks* is not concerned, as § 105 is, with the works of all government employees, but rather only with the works of certain government employees, which is to say government employees who are possessed of particular powers, namely the ability to promulgate official, binding edicts. This distinction between the rules is no doubt attributable to the difference in their underlying rationales. Section 105's prohibition is justified [\*\*45] on the grounds that the public paid for the work and is therefore entitled to access it, and because wide dissemination of federal government materials strengthens democratic discourse. See *Scherr*, 297 F. Supp. at 110 ("[The]fundamental purpose underlying the prohibition [] is based on the necessity of wide public dissemination of the contents of materials produced by and relating [\*\*\*1350] to issues and problems of national interest, which policy is unquestionably a desirable one in a democracy, much of whose success is dependent on a well-informed public.") (quotations omitted and alterations adopted); Hearings on H.R. 4347, H.R. 5680, H.R. 6831, H.R. 6835, before Subcomm. No. 3 of the House Comm. on the Judiciary, 89th Cong., 1st Sess. 1924 (1965) [\*1247] (statement of Sen. Russell Long) ("The original and continuing purpose of this prohibition is to assure maximum availability and dissemination of informational material prepared by or for the Government at the expense of the public.").

On the other hand, the rule in *Banks* derives more directly from the concept of popular sovereignty. As a result, while § 105 is concerned with any work created by a federal employee, since all government works are paid for by the taxpayer and, as [\*\*46] a policy matter, are potentially useful to conscientious and informed citizens, the rule in *Banks* is concerned with works created by a select group of government employees, because only certain public officials are empowered with the direct exercise of the sovereign power.<sup>2</sup>

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<sup>2</sup> Among other things, there is a substantial public policy interest in public access to state-created legal edicts for many of the same reasons that Congress decided to make all works of the federal government uncopyrightable under § 105, namely because providing free access to such works promotes an informed citizenry. See *Veeck*, 293 F.3d at 799 ("Citizens may reproduce copies of the law for many purposes, not only to guide their actions but to influence future legislation, educate their neighborhood association, or simply to amuse."). And it is worth remembering that the Supreme Court grounded the meaning of the word "author" in *Banks* on its understanding of public policy.

Appellees suggest, nevertheless, that Georgia's citizens can access the OCGA in over 60 libraries, so we ought not to be concerned about public access. Moreover, they say, citizens can access the

This explains why the state-paid court reporter acting pursuant to his statutory duties in Callaghan did not run afoul of the rule in Banks and could hold a valid copyright in his work even though the work he created likely would fall within § 105's prohibition if he had been a federal employee. See Callaghan, 128 U.S. at 645-47. Though paid by the state, and acting pursuant to his official duties, the court reporter was tasked with essentially administrative and clerical responsibilities, to wit compiling and summarizing judicial decisions, rather than the promulgation of binding legal edicts. Id. at 646. There was therefore "no ground of public policy" standing in the way of his works' copyrightability. Id. at 647.

In contrast, the judges in Banks, when considered in their relationship to the sovereignty of the People, fulfill a different function than the court reporter in Callaghan. Legislators and judges, unlike other government workers, are peculiarly [\*\*47] entrusted with the exercise of sovereign power to write or officially interpret the law. Since the power to make law rests ultimately and exclusively with the People, the primary, official duty of lawmakers and judges is therefore to act as agents of the People. While government workers like the reporter in Callaghan might also be said to be engaged in conducting the People's business, their relation to the exercise of sovereign power is more attenuated. As a result, if a government work is created by a public official who is so empowered, it is substantially more likely that the work is constructively authored by the people.<sup>3</sup>

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unannotated version of the Code on a free LexisNexis webpage provided pursuant to Georgia's contact with LexisNexis. We are unpersuaded. In the first place public ownership of the law by Georgia's ten and a half million citizens means, as the Fifth Circuit put it, "'the law' is in the 'public domain' for whatever use the citizens choose to make of it." Id. at 799. As for access to an unannotated version of the Code, the unannotated version is not the authoritative law in Georgia and may not be cited as such. Indeed, as the appellees themselves acknowledge, the OCGA "contains the official, or State of Georgia-approved, codified statutory text."

<sup>3</sup>It is also worth remarking that basic principles of republican government show why the identity of the official who created the work matters. Sovereign power isn't delegated to the government at large -- it is given to specific public officials to exercise in particular ways. See Marbury v. Madison, 5 U.S. 137, 176, 2 L. Ed. 60 (1803) ("[The] original and supreme will organizes the government, and assigns, to different departments, their respective powers."). As a consequence, whether an act represents a valid exercise of sovereign power depends on who undertook it. See, e.g., A.L.A. Schechter Poultry Corp. v. United States, 295 U.S. 495, 55 S. Ct. 837, 79 L. Ed. 1570 (1935); Bowsher v. Synar, 478 U.S. 714, 106 S. Ct. 3181, 92 L. Ed. 2d 583 (1986); Mistretta v. United States, 488 U.S. 361, 109 S. Ct. 647, 102 L. Ed. 2d 714 (1989); Commodity Futures Trading Comm'n v. Schor, 478 U.S. 833, 106 S. Ct. 3245, 92 L. Ed.

In light of these considerations, that the Georgia General Assembly is the driving [\*1248] force behind and ultimately adopts the OCGA annotations is significant. Like the Ohio Supreme Court in Banks, the Georgia General Assembly is not simply composed of ordinary government employees but rather of public officials [\*\*\*1351] whose official duties peculiarly include the direct exercise of sovereign power. See Ga. Const. Art. III, § I, Para. I ("The legislative power of the state shall be vested in a General Assembly which shall consist of a Senate and a House of Representatives."). Of the many [\*\*48] government workers employed by the state of Georgia, the creators of the OCGA annotations are unique insofar as they are entrusted by the sovereign with legislative power.

This is not to say that every work produced by a legislative body is automatically uncopyrightable. As we detail below, still more is necessary to demonstrate that the OCGA annotations are the kind of work that is attributable to the constructive authorship of the People. However, because the OCGA annotations were created by public officials entrusted with sovereign, legislative authority, just like the opinions in Banks were created by justices on the Ohio Supreme Court entrusted with sovereign, judicial authority, this weighs in favor of a determination that the OCGA annotations belong in the public domain.

## B.

We are also persuaded because, while not carrying the force of law in the way that the statutory portions of the OCGA do, the annotations are "law-like" in the sense that they are "authoritative" sources on the meaning of Georgia statutes. Having been merged by the General Assembly with the statutory text into a single, unified edict, stamped with the state's imprimatur, and created and embraced by the same [\*\*49] body that wrote the text that they explicate, the annotations have been suffused with powerful indicia of legal significance that is impossible to ignore. The annotations cast an undeniable, official shadow over how Georgia laws are interpreted and understood. Indeed, Georgia's courts have cited to the annotations as authoritative sources on statutory meaning and legislative intent. The annotations' authoritativeness makes them closely analogous to the types of works that ordinarily represent an exercise of sovereign authority. The nature of the work, like the identity of its creator, therefore impels us further toward the conclusion that these annotations are attributable to the constructive authorship of the People.

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2d 675 (1986). Reasoning from this proposition, it takes only a small leap to recognize that the identity of the officials who created the work is an important factor to consider in applying Banks.

The nature of the OCGA annotations is spelled out in some detail by Georgia's General Assembly. While disclaiming any legal effect in the annotations, the Georgia law providing for the creation of the OCGA also states that the "statutory portion of such codification shall be merged with annotations, captions, catchlines, history lines, editorial notes, cross-references, indices, title and chapter analyses, and other [\*1249] materials." O.C.G.A. § 1-1-1 (emphasis added). This language is telling. [\*50] In various dictionaries, the word "merge" is defined as meaning to combine or unite, often in such a way that the constituent elements of the merger lose their distinct identity or characteristics and become one. The Random House Dictionary of the English Language defines "merge" as "to lose or cause to lose identity by uniting or blending" and "to combine or unite into a single unit." RANDOM HOUSE DICTIONARY OF THE ENGLISH LANGUAGE 550 (1980). Similarly, Webster's Third New International Dictionary defines "merge" as "to become combined into one" and to "lose identity by absorption or intermingling." WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 1414 (1981). And the Oxford English Dictionary variously defines "merge" as "to be absorbed and disappear, to lose character or identity by absorption into something else; to join or blend," and "to combine to form a single entity." OXFORD ENGLISH DICTIONARY (3rd ed. 2001). The use of the word "merge" thus carries with it strong connotations of unification or combination of disparate elements into a single whole in which the previously distinct attributes of each element become intermingled and shared.

The question then becomes, what is the [\*51] nature of the new thing created when the Georgia General Assembly explicitly chose to merge the annotations with statutory text? Here too Georgia law supplies an answer. In particular, Georgia law provides that the merged text "shall be published by authority of the state ... and when so published shall be known and may be cited as the 'Official Code of Georgia Annotated.'" O.C.G.A. § 1-1-1. Thus, the product of the merger is an official state publication, labelled and cited as the authoritative embodiment of the laws of the State of Georgia.

It of course remains true that portions of the OCGA clearly carry the force of law while O.C.G.A. § 1-1-7 disclaims any legal effect in the annotations. Yet the significance of the legislature's decision to "merge" these two things into a single edict remains. The Georgia legislature was not required to merge the annotations with the statutes in order to create the OCGA, which it then stamped with the imprimatur of the State. But the bicameral legislature chose to do so. By combining these two components into a unified whole, their attributes [\*52] have been intermingled and their distinct character altered. While this does not mean that the

annotations, by virtue of appearing alongside [\*52] statutory text, are suddenly possessed of binding legal effect, it does mean that their combination with the statutory text imbues them with an official, legislative quality.

The statutory text, having been merged with these legislatively authored expositions on the meaning of Georgia law, must be read in *pari materia* with them. The annotations' combination with the statutes means that any understanding of the statutory text arrived at without reference to the annotations is axiomatically incomplete. Because Georgia law tells us that the official codification of Georgia statutes contains not only statutory text but also annotations that have been combined and unified with the statutory text into a single edict, a full understanding of the laws of Georgia necessarily includes an understanding of the contents of the annotations. In this way, the annotations are clearly laden with legal significance.

Their significance is strengthened further by the legislature's decision to label the unified whole "Official." The OCGA is not simply one of a number of competing annotated codifications of Georgia laws. It does not stand on equal footing with West's annotated Georgia code. Rather, it is the [\*53] official codification of Georgia laws, stamped with the imprimatur of the state. [\*1250] This status necessarily causes the annotations to cast a long shadow over how the statutory portions of the OCGA are understood. Because these are the official comments to the Code, they are to be read as authoritative in a way that annotations ordinarily are not.

Indeed, demonstrating the importance of the state's decision to stamp the OCGA with its imprimatur, the very first annotation in the very first section of the OCGA favorably cites to a court case that warns that "[a]ttorneys who cite unofficial publication of 1981 Code do so at their peril." O.C.G.A. § 1-1-1 (citing Georgia on behalf of General Assembly v. Harrison Co., 548 F. Supp. 110 (N.D. Ga. 1982)). Similarly, the importance the Georgia legislature attached to its branding of the Code as "Official" is further demonstrated by its enactment of a law allowing the publisher of the "official Code... to use the state emblem on the cover of the publication," whereas all other private parties are prohibited from using the state emblem in any context. O.C.G.A. § 50-3-8. Thus, while stamping the annotations with the state's imprimatur and labelling it official does not suddenly elevate the annotations to the status of binding law, it too enhances their already potent [\*54] cachet in a way that is undeniable and also impossible to ignore.

Moreover, as we have already noted, the annotations are not simply adopted by the legislature as an official reference

work, but also, in a very meaningful sense, are written by the General Assembly -- a fact that further accentuates their legal significance. The annotations are not merely expositions on the meaning of statutes, but rather are official comments authored by the same body that also wrote the statutes. Thus, it would be only natural for the citizens of Georgia to consider the annotations as containing special insight into the meaning of the statutory text, and to therefore confer upon the annotations a special status. Cf. Stigars v. State, 674 A.2d 477, 483 (Del. 1996) ("In the search for legislative intent, considerable weight is given to an official commentary written by the drafters of the statute."); Horenkamp v. Van Winkle And Co., 402 F.3d 1129, 1132 (11th Cir. 2005) ("Although not binding, the interpretations in the Advisory Committee Notes [in the Federal Rules of Civil Procedure] are nearly universally accorded great weight in interpreting federal rules."); Tome v. United States, 513 U.S. 150, 167, 115 S. Ct. 696, 130 L. Ed. 2d 574 (1995) (Scalia, J., dissenting) ("Having been prepared by a body of experts, the [official Notes to the Federal Rules of Evidence] are assuredly persuasive scholarly [\*\*55] commentaries—ordinarily the most persuasive—concerning the meaning of the Rules."); Schiavone v. Fortune, 477 U.S. 21, 31, 106 S. Ct. 2379, 91 L. Ed. 2d 18 (1986) ("Although the Advisory Committee's comments [to the Federal Rules of Civil Procedure] do not foreclose judicial consideration of the Rule's validity and meaning, the construction given by the Committee is 'of weight.'"); Auer v. Robbins, 519 U.S. 452, 461, 117 S. Ct. 905, 137 L. Ed. 2d 79 (1997) (giving substantial deference to an agency's interpretation of a regulation that the agency itself authored).

Our view is reinforced by an examination of how the annotations have been treated by Georgia's courts. In particular, the state courts frequently have characterized OCGA comments as conclusive statements about statutory meaning and legislative intent. See, e.g., Jackson v. S. Pan & Shoring Co., 258 Ga. 401, 369 S.E.2d 239 (1988) (explaining that "[t]he express intent of [the statutory provision] ... [\*\*\*1353] is set out in the Comment to O.C.G.A. § 14-2-86"); Cox v. Fowler, 279 Ga. 501, 614 S.E.2d 59 (2005) (citing OCGA comments as showing the "legal effect" of and "the General Assembly's intention" with respect to a statutory provision); Prodigy Centers/Atlanta [\*1251] No. 1 L.P. v. T-C Assocs., Ltd., 269 Ga. 522, 501 S.E.2d 209 (1998) (citing OCGA comment as establishing the scope of a statutory definition); Quinn v. Cardiovascular Physicians, P.C., 254 Ga. 216, 326 S.E.2d 460 (1985) (citing OCGA comment as stating "the purpose" of a statutory provision); Chaney v. Burdett, 274 Ga. 805, 560 S.E.2d 21 (2002) (citing OCGA comment as stating the purpose behind a revision to a statutory provision); Grace Bros. v. Farley Indus., Inc., 264 Ga. 817, 450 S.E.2d 814 (1994) (citing OCGA comment as defining the

nature [\*\*56] of a statutory remedy); Magner v. One Secs. Corp., 258 Ga. App. 520, 574 S.E.2d 555 (2002) (citing OCGA comment as giving the definition of a statutory term); VSI Enters., Inc. v. Edwards, 238 Ga. App. 369, 518 S.E.2d 765 (1999) (citing OCGA comment as stating the "intent of the legislature" and what the "legislature expected" when enacting a statutory provision); Leventhal v. Post Properties, Inc., 276 Ga. App. 742, 624 S.E.2d 223 (2005) (citing OCGA comment as showing the meaning of statutory provision); Rosenfeld v. Rosenfeld, 286 Ga. App. 61, 648 S.E.2d 399 (2007) (citing OCGA comments as establishing the burden of proof that a party must carry under a statutory provision); Weir v. Kirby Constr. Co., 213 Ga. App. 832, 446 S.E.2d 186 (1994) (citing OCGA comment as stating the purpose of a statutory provision).

The nature and authoritativeness of the work, like the identity of the author, are material in determining whether the work is attributable to the constructive authorship of the People. After all, the decision in Banks not only emphasized the identity of the creator of the work but also the nature of the work, reasoning that the work was uncopyrightable precisely because it was an "authentic exposition and interpretation of the law [] binding [on] every citizen." Banks, 128 U.S. at 253. Many other courts applying the rule in Banks, or a rule like it, have emphasized that the law, as an authoritative work that governs people's lives, is uncopyrightable. See, e.g., Nash v. Lathrop, 142 Mass. 29, 6 N.E. 559 (1886) ("The decisions and opinions of the justices are the authorized [\*\*57] expositions and interpretations of the laws, which are binding upon all the citizens... justice requires that all should have free access to the opinions, and [] it is against sound public policy to prevent this, or to suppress and keep from the earliest knowledge of the public the statutes, or the decisions and opinions of the justices."); West Publishing, 27 F. at 57 ("But it is a maxim of universal application that every man is presumed to know the law, and it would seem inherent that freedom of access to the laws, or the official interpretation of those laws, should be co-extensive with the sweep of the maxim. Knowledge is the only just condition of obedience."); State of Connecticut v. Gould, 34 F. 319, 319 (C.C.N.D.N.Y. 1888) ("[C]onsiderations of public policy which, it is said, demand, in a country where every person is presumed and required to know the law, that the fullest and earliest opportunity of access to the expositions of the judicial tribunals should be afforded to all.").

By way of contrast, a judge might create a work in his capacity as an employee of the government that bears little relation to his role as an official expositor of the law. A speech delivered by a judge, depending on the circumstances of the address, may or may not count as a work created [\*\*58] by a government employee. See Pub. Affairs



Assocs., Inc. v. Rickover, 268 F. Supp. 444 (D.D.C 1967). But such a work assuredly does not count as a work made in the exercise of the sovereign power to make or interpret the law. A judicial speech is assigned no authoritative weight -- it binds no one and has no official effect on the law or on how it is understood. Only those [\*1252] works that derive from the legitimate exercise of sovereign power, such as official interpretations of the law and the law itself, are assigned authoritative weight.

Put another way, whether or not a work is assigned the authoritative weight associated with law is deeply intertwined with the question of whether the work was made by the agents of the People in the legitimate exercise of delegated, sovereign power. As Hamilton explained during the ratification debates, "[n]o legislative act [] contrary to the Constitution, can be valid. To deny this, would be to affirm, that the deputy is greater than his principal; that the servant is above his master; that the representatives of the people are superior to the people themselves; that men acting by virtue of powers, may do not only what their powers do not authorize, but what they forbid." THE FEDERALIST No. 78 at 466 (Alexander Hamilton) [\*\*59] (Clinton Rossiter ed., 1961). As a result, the authoritativeness of a work is probative on the question of whether a work is [\*\*\*1354] created in an exercise of sovereign power, and is also probative on the question of whether a work falls within the scope of the rule in Banks. Thus, in addition to whether the work was prepared by a judicial or legislative body, an examination of the nature of the work, which is another way of asking whether it carries authoritative weight, may indicate whether the work is uncopyrightable.

These annotations carry authoritative weight and therefore make it more likely that the work is attributable to the constructive authorship of the People. Quite simply, they are much closer to resembling the judicially authored materials found in Banks than other works produced by state employees, such as the materials produced by the Court reporter in Callaghan.

C.

The final factor we consider is the process by which the annotations were created. While the process by which the annotations were made into an official edict of the State of Georgia is not identical to the process by which the statutory provisions were made into binding law, they are very closely related. As a result, [\*\*60] like the identity of the work's creator and the nature of the work, the process also weighs in favor of the conclusion that the work is uncopyrightable.

Both parties acknowledge that the Georgia General Assembly does not individually enact each separate annotation as part of

the ordinary legislative process. In this respect the annotations are different than the statutory portions of the OCGA. The statutory portions of the Code are introduced as bills in the Georgia legislature, generally pass through the committee process where legislators can directly influence the text of the bill, are voted on by both Houses, and are signed by the Governor. See Tracking a Bill Through the General Assembly, <http://www.legis.ga.gov/Legislation/en-US/default.aspx>.

The enacted laws of a session of the legislature are then "published in Georgia Laws as a collection of session laws, representing all of the acts and resolutions passed during that particular legislative session." Austin Williams, "Researching Georgia Law," 34 Ga. St. U.L. Rev. 741, 761 (2015). Later, the laws are incorporated into the OCGA. Id. Each year, the Georgia legislature then votes to "reenact the statutory portion of [the] Code as amended, in furtherance of the work [\*\*61] of the Code Revision Commission," thereby voting on the statutory text in the form in which it has been incorporated into the OCGA. See, e.g., 2017 Ga. Laws 275, § 54; 2016 Ga. Laws 625, § 54; 2015 Ga. Laws 9, § 54.

Further, under Georgia law, it is the responsibility of the Code Revision Commission to "prepare and have introduced at [\*1253] each regular session of the General Assembly one or more bills to reenact and make corrections in the Official Code of Georgia Annotated." O.C.G.A. § 28-9-5. In this way, the statutory portions of the OCGA are voted on at least twice, once when they are voted on as individual bills after having gone through the regular legislative process, and once as part of the Georgia legislature's vote to reenact the updated OCGA as prepared by the Commission. By contrast, the annotations are prepared by the Commission outside of the normal channels of the legislative process in the manner we have detailed, and are not voted on individually in the way that Georgia session laws are.

However, it is also the case that the Georgia General Assembly voted to adopt the annotations as prepared by the Commission as an integral part of the official Code. See O.C.G.A. § 1-1-1. Further, it did so through a legislative act [\*\*62] that necessarily passed both Houses of the legislature and was signed into law by the Governor. Moreover, and significant for our purposes, the General Assembly votes each year to amend the OCGA and reaffirm its status as the official codification of Georgia's laws.

Under the American system of government, the essential hallmarks of legislative process are bicameralism and presentment. See I.N.S. v. Chadha, 462 U.S. 919, 103 S. Ct. 2764, 77 L. Ed. 2d 317 (1983); see also Ga. Const. Art. V, § II, Para. IV; Ga. Const. Art. III, § V, Para. V. While

legislative processes may ordinarily include the introduction of an individual bill and its passage through the relevant committee before it receives a vote of the full House, those are not the essential steps that endow the bill with its legal status. Rather, the vote of both Houses of the legislature, and presentment to an executive are the defining moments in an exercise of the sovereign authority. This is so even when the legislature adopts as its own a work authored outside the normal channels of the legislative process. See Veck, 293 F.3d at 799 ("Even when a governmental body consciously decides to enact proposed model building codes, it does so based on various legislative considerations, the sum of which produce its version of 'the law.' In performing their function, the lawmakers represent [\*\*\*1355] [\*\*63] the public will, and the public are the final 'authors' of the law.").

That the process by which the OCGA annotations were created is similar to the ordinary process by which laws are enacted also is relevant to our inquiry. The importance of this consideration is apparent from well settled procedural mechanisms by which the power to make and interpret the law is exercised, and from the observation that deviating from the process may deprive the edict of its legal effect. As we've noted, bicameral passage of a bill and its presentment to the executive are the ordinary means by which a legislative body exercises the sovereign power entrusted to it. See Chadha, 462 U.S. at 957 (invalidating a purported exercise of the legislative power that failed to adhere to "the standards prescribed in Article I" for the exercise of such power); U.S. Const. art. I, § 7, cl. 2. Similarly, the judicial power to propound the meaning of the law must be exercised according to established procedures. In particular, judges issue official interpretations of the law as part of deciding a case or controversy, after considering the arguments made by both parties to the case. See Hayburn's Case, 2 U.S. 409, 1 L. Ed. 436, 2 Dall. 409 (1792). An exposition on the meaning of a law, even if written by a judge, would obviously [\*\*64] not qualify as an exercise of the sovereign power to interpret law if it were written outside the ordinary procedural channels by which that power is exercised. See Correspondence of the Justices (1793) (found in 3 [\*1254] Johnston, Correspondence and Public Papers of John Jay 486-89 (1891)).

In short, as is the case with the identity of the creator of the work and the nature of the work, fundamental principles that govern how sovereign power is exercised under a republican form of government suggest that the process by which an edict is promulgated is probative as well on the question of whether a work was created through the exercise of such power. Cf. Clinton v. City of New York, 524 U.S. 417, 118 S. Ct. 2091, 141 L. Ed. 2d 393 (1998) (invalidating the Line Item Veto Act on the grounds that it impermissibly deviated

from the "finely wrought" constitutional processes established for the exercise of legislative power). Just as an action is not deemed a legitimate exercise of sovereign power if it is undertaken by the wrong official, so too it may be invalid if undertaken outside the proper procedural channels. The converse follows naturally: if an action is undertaken through the ordinary procedural channels by which the sovereign power is exercised, it is more likely that [\*\*65] the action represents an exercise of sovereign power.

The importance of process was suggested long ago in Banks when the Supreme Court emphasized that only those works created by judges in "the discharge of their judicial duties" are uncopyrightable. Banks, 128 U.S. at 253. In other words, a work made by a judge outside the normal channels by which judicial action is taken would not be subject to the rule in Banks. See Veck, 293 F.3d at 799 ("The very process of lawmaking demands and incorporates contributions by 'the people.'"). It is therefore fair to say that, just as the Court in Banks emphasized that the justices of the Supreme Court of Ohio had authored the work in question "in the discharge of their judicial duties," the Georgia legislature's use of bicameralism and presentment to adopt the annotations as their own and merge them with statutory text indicates that the work was created by the legislators in the discharge of their official duties. This too bolsters our conclusion

#### IV.

Our inquiry has focused on whether the official annotations represent a direct exercise of sovereign power, and are therefore attributable to the constructive authorship of the People. In making this determination, we have compared the work in [\*\*66] question to works that represent the prototypical exercise of sovereign power, which is to say statutes and official interpretations of the law. We have been guided by three factors that may be regarded as the defining characteristics of law -- the identity of the public official who created the work; the nature of the work; and the process by which the work was produced.

When the wrong public official exercises a power delegated in the law, when the power exercised is of a type not contemplated by the law, or when the power is exercised outside the procedural channels prescribed by the law, the act cannot be considered a valid exercise of the sovereign power. From these principles, the corollary logically follows: when the action taken is of the type entrusted by the People to their agents, when it is wielded by a public official whose assigned duties include the exercise of sovereign power, and when it is exercised pursuant to constitutionally designated processes, it more likely represents an exercise of the sovereign authority. The reasoning found in Banks also suggests the importance of these factors.

[\*\*\*1356] All of them point strongly toward the conclusion that the OCGA annotations are [\*\*67] not copyrightable. The OCGA annotations are created by Georgia's legislative body, which has been entrusted with exercising [\*1255] sovereign power on behalf of the people of Georgia. While the annotations do not carry the force of law in the way that statutes or judicial opinions do, they are expressly given legal significance so that, while not "law," the annotations undeniably are authoritative sources on the meaning of Georgia statutes. The legislature has stamped them "official" and has chosen to make them an integral part of the official codification of Georgia's laws. By wrapping the annotations and the statutory text into a single unified edict, the Georgia General Assembly has made the connection between the two inextricable and, thereby, ensured that obtaining a full understanding of the laws of Georgia requires having unfettered access to the annotations. Finally, the General Assembly's annual adoption of the annotations as part of the laws of Georgia is effected by the legislative process -- namely bicameralism and presentment -- that is ordinarily reserved for the exercise of sovereign power.

Thus, we conclude that the annotations in the OCGA are attributable to the constructive [\*\*68] authorship of the People. To advance the interests and effect the will of the People, their agents in the General Assembly have chosen to create an official exposition on the meaning of the laws of Georgia. In creating the annotations, the legislators have acted as draftsmen giving voice to the sovereign's will. The resulting work is intrinsically public domain material, belonging to the People, and, as such, must be free for publication by all.

As a result, no valid copyright can subsist in these works. We, therefore, reverse the judgment of the district court, direct that judgment be entered for appellant PRO, vacate the district court's order granting the State of Georgia injunctive relief, and remand for further proceedings consistent with this opinion.

**REVERSED IN PART, VACATED IN PART AND REMANDED**

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# Fox News Network, LLC v. TVEyes, Inc.

United States Court of Appeals for the Second Circuit

March 7, 2017, Argued; February 27, 2018, Decided

Docket Nos. 15-3885(L), 15-3886(XAP)

## Reporter

883 F.3d 169 \*; 2018 U.S. App. LEXIS 4786 \*\*; 125 U.S.P.Q.2D (BNA) 1854 \*\*\*; Copy. L. Rep. (CCH) P31,234; 46 Media L. Rep. 1381; 2018 WL 1057178

FOX NEWS NETWORK, LLC, Plaintiff-Appellee-Cross-Appellant, -v.- TVEYES, INC., Defendant-Appellant-Cross-Appellee.

**Subsequent History:** US Supreme Court certiorari denied by TVEyes, Inc. v. Fox News Network, LLC, 2018 U.S. LEXIS 7049 (U.S., Dec. 3, 2018)

**Prior History:** [\*\*1] Defendant TVEyes, Inc. ("TVEyes") is a media company that continuously records the audiovisual content of more than 1,400 television and radio channels, imports that content into a database, and enables its clients, for \$500 per month, to view, archive, download, and email to others ten-minute clips. TVEyes also copies the closed-captioned text of the content it imports, allowing its clients to search for the clips that they want by keyword, as well as by date and time.

Plaintiff Fox News Network, LLC ("Fox") sued TVEyes for copyright infringement in the United States District Court for the Southern District of New York. The principal question on appeal is whether TVEyes's enabling of its clients to watch Fox's programming is protected by the fair use doctrine.

TVEyes's re-distribution of Fox's content serves a transformative purpose insofar as it enables TVEyes's clients to isolate from the vast corpus of Fox's content the material that is responsive to their interests, and to access that material in a convenient manner. But because that re-distribution makes available to TVEyes's clients virtually all of Fox's copyrighted content that the clients wish to see and hear, and because it [\*\*2] deprives Fox of revenue that properly belongs to the copyright holder, [\*\*\*1857] TVEyes has failed to show that the product it offers to its clients can be justified as a fair use.

Accordingly, we reverse the order of the district court to the extent that it found fair use. Our holding does not encompass the copying of Fox's closed-captioned text into a text-searchable database, which Fox does not challenge on appeal. We affirm the district court's order to the extent that it denied TVEyes's request for additional relief. We also remand for entry of a revised injunction.

Judge Kaplan concurs in a separate opinion.

Fox News Network v. TVEyes, Inc., 124 F. Supp. 3d 325, 2015 U.S. Dist. LEXIS 112836 (S.D.N.Y., Aug. 25, 2015)

Fox News Network, LLC v. TVEyes, Inc., 2015 U.S. Dist. LEXIS 163302 (S.D.N.Y., Nov. 6, 2015)

Fox News Network, LLC v. TVEyes, Inc., 2015 U.S. Dist. LEXIS 163301 (S.D.N.Y., Nov. 6, 2015)

Fox News Network, LLC v. TVEyes, Inc., 43 F. Supp. 3d 379, 2014 U.S. Dist. LEXIS 126138 (S.D.N.Y., Sept. 9, 2014)

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**Judges:** Before: NEWMAN, JACOBS, Circuit Judges, and KAPLAN, District Judge. \* KAPLAN, District Judge, concurring.

**Opinion by:** JACOBS

## Opinion

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[\*\*1856] [\*173] JACOBS, Circuit Judge:

In this copyright infringement suit, defendant TVEyes, Inc. ("TVEyes") offers a service that enables its clients to easily locate and view segments of televised video programming that are responsive to the clients' interests. It does so by continuously recording vast quantities of television programming, compiling the recorded [\*\*6] broadcasts into a database that is text-searchable (based primarily on the closed-captioned text copied from the broadcasts), and allowing its clients to search for and watch (up to) ten-minute video clips that [\*174] mention terms of interest to the clients.<sup>1</sup> Plaintiff Fox News Network, LLC ("Fox"), which has sued TVEyes in the United States District Court for the Southern District of New York, does not challenge the creation of the text-searchable database but alleges that TVEyes infringed Fox's copyrights by re-distributing Fox's copied audiovisual content, thereby enabling TVEyes's clients to access that content without Fox's permission. The principal question on appeal is whether TVEyes's enabling of its clients to watch Fox's programming is protected by the doctrine of fair use. See 17 U.S.C. § 107.

The district court held that fewer than all of the functions of TVEyes's service constitute a fair use. Specifically, the district court deemed a fair use the functions enabling clients of TVEyes to search for videos by term, to watch the resulting videos, and to archive the videos on the TVEyes servers; but the court held that certain other functions were not a fair use, such as those enabling TVEyes's [\*\*7] clients to download videos to their computers, to freely e-mail videos to others, or to watch videos after searching for them by date, time, and channel (rather than by keyword). The district court therefore dismissed Fox's challenge to important functions of TVEyes's service, but also held that TVEyes was liable to Fox for copyright infringement on account of other functions of that

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\* Judge Lewis A. Kaplan, United States District Court for the Southern District of New York, sitting by designation.

<sup>1</sup> TVEyes also captures radio content. For simplicity, this opinion will focus on only television broadcasts.

service. A permanent injunction limited various aspects of TVEyes's service.<sup>2</sup>

This appeal shares features with our decision in Authors Guild v. Google, Inc., 804 F.3d 202 (2d Cir. 2015) ("Google Books"). That case held that Google's creation of a text-searchable database of millions of books (including books under copyright) was a fair use because Google's service was "transformative" and because integral features protected the rights of copyright holders. However, we cautioned that the case "test[ed] the boundaries of fair use." Google Books, 804 F.3d at 206. We conclude that defendant TVEyes has exceeded those bounds.

TVEyes's re-distribution of Fox's audiovisual content serves a transformative purpose in that it enables TVEyes's clients to isolate from the vast corpus of Fox's content the material that is responsive to their interests, and to access that material in a convenient manner. [\*\*8] But because that re-distribution makes available virtually all of Fox's copyrighted audiovisual content--including all of the Fox content that TVEyes's clients wish to see and hear--and because it deprives Fox of revenue that properly belongs to the copyright holder, TVEyes has failed to show that the product it offers to its clients can be justified as a fair use.

Accordingly, we reverse the order of the district court to the extent it held that some of the challenged TVEyes functions constituted a fair use. We affirm the order to the extent that it denied TVEyes's request for additional relief. Furthermore, because the district court's issuance of an injunction was premised on the incorrect conclusion that much of what TVEyes offered was a fair use, we remand for the district court to revise the injunction in light of this opinion.

## I

TVEyes is a for-profit media company. It offers a service that allows its clients to [\*\*175] efficiently sort through vast quantities of television content in order to find clips that discuss items of interest to them. For example, a client in marketing or public relations interested in how a particular product is faring in the media can use the TVEyes service [\*\*9] to find, watch, and share clips of recent television broadcasts that mention that product.

The service works this way. TVEyes records essentially all television broadcasts as they happen, drawing from more than

1,400 channels, recording 24 hours a day, every day. By copying the closed-captioned text that accompanies the content it records (and utilizing speech-to-text software when necessary), TVEyes creates a text-searchable transcript of the words spoken in each video. The videos and transcripts are consolidated into a database. A client inputs a search term and gets a list of video clips that mention the term. A click on a thumbnail image of a clip plays the video, beginning fourteen seconds before the search term was spoken, and displays a segment of the transcript with the search term highlighted. The parties dispute the quality of the clips. Fox contends that the clips are high definition; TVEyes contends that the clips are grainier than the original broadcasts. The clips can be played for no more than ten minutes, but a user can play an unlimited number of clips. To prevent clients from watching entire programs, TVEyes (during the course of this litigation) implemented a device [\*\*10] that is claimed to prevent clients from viewing consecutive segments. The parties dispute whether this measure is effective.

TVEyes's service has ancillary functions. A TVEyes client may "archive" videos permanently on the TVEyes servers and may download videos directly to the client's computer. These services are useful because TVEyes otherwise deletes captured content after thirty-two days. Clients can also email the clips for viewing by others, including those who are not TVEyes clients. And clients can search for videos by date, time, and channel (rather than by keyword). The parties dispute whether clients can watch live broadcasts on TVEyes.

A TVEyes subscription costs approximately \$500 per month, is available for business and professional use, and is not offered to private consumers for personal use. Clients include journalists, government and political organizations, law enforcement, the military, for-profit companies, and non-profits.

TVEyes asserts that it restricts its clients' use of its content in various ways. For example, clients are required to sign a contract that limits their use of clips to "internal purposes only" and are warned upon downloading a clip that it is [\*\*11] to be used for only "internal review, analysis or research." Fox contends that these safeguards are ineffective and disputes the assertion by TVEyes that its service is primarily used for "internal" research and analysis.

Fox claims that at some point TVEyes unsuccessfully approached it to procure a license to use Fox programming. Fox demanded that TVEyes stop using its programming; when TVEyes refused, litigation ensued. The lawsuit focuses on nineteen copyrighted Fox broadcasts. The legal question is whether TVEyes has a "fair use" defense to Fox's copyright infringement claims. 17 U.S.C. § 107.

<sup>2</sup>Fox does not challenge on appeal the dismissal (on summary judgment) of its claims alleging "hot news" misappropriation and "direct competition" misappropriation.

## II

The Copyright Act provides:

[T]he fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching . . . , scholarship, or research, is not an infringement [\*176] of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include--

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;

[\*\*\*1858] (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; [\*12] and

- (4) the effect of the use upon the potential market for or value of the copyrighted work.

### Id.

In fair use litigation, courts undertake a "case-by-case analysis" in which each factor is considered, "and the results [are] weighed together, in light of the purposes of copyright." Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 577-78, 114 S. Ct. 1164, 127 L. Ed. 2d 500 (1994). The factors are non-exclusive, but consideration of each is mandatory.<sup>3</sup> Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P., 756 F.3d 73, 81 (2d Cir. 2014). Some of the factors are more important than others, with the fourth (market impact) being "the single most important element." Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566, 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985). Fair use is an affirmative defense, so TVEyes bears the burden of proving it. Am. Geophysical Union v. Texaco, Inc., 60 F.3d 913, 918 (2d Cir. 1994).

It is useful to analyze separately distinct functions of the secondary use (i.e., the use by TVEyes of Fox's copyrighted material), considering whether each independent function is a fair use. See Google Books, 804 F.3d at 216-18. TVEyes has two core offerings: the "Search function" and the "Watch function." The Search function allows clients to *identify* videos that contain keywords of interest. The Watch function

allows TVEyes clients to *view* up to ten-minute, unaltered video clips of copyrighted content. Fox does not challenge the Search function on appeal. Fox's challenge is to the Watch function, and we determine that its inclusion renders TVEyes's package [\*13] of services unprotected by the fair use doctrine. That conclusion subsumes and obviates consideration of certain functions that are subsidiary to the Watch function, such as archiving, downloading, and emailing the video clips.

Turning to the Watch function, we next consider each of the four factors listed in § 107.

### A

In considering the first statutory factor--the "purpose and character" of the secondary use, 17 U.S.C. § 107(1)--the primary inquiry is whether the use "communicates something new and different from the original or [otherwise] expands its utility," that is, whether the use is "transformative." Google Books, 804 F.3d at 214. To be transformative, a use must "do[] something more than repackage or republish the original copyrighted work"; it must "add[] something new, with a further purpose or different character, altering the first with new expression, meaning or message . . . ." Authors Guild, Inc. v. HathiTrust, 755 F.3d 87, 96 (2d Cir. 2014) (quoting Campbell, 510 U.S. at 579). [\*177] "Although . . . transformative use is not absolutely necessary for a finding of fair use, . . . [transformative] works . . . lie at the heart of the fair use doctrine," Campbell, 510 U.S. at 579, and "a use of copyrighted material that 'merely repackages or republishes the original' is unlikely to be deemed a fair use," Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 108 (2d Cir. 1998) (quoting Pierre N. Leval, Toward a Fair [\*14] Use Standard, 103 Harv. L. Rev. 1105, 1111 (1990)).

Precedent is helpful. Both parties rely most heavily on Google Books, which provides the starting point for analysis.

In Google Books, a consortium of libraries collaborated to make digital copies of millions of books, many of them under copyright. Google pooled these digital copies into a text-searchable database. 804 F.3d at 207. Anyone could search the database free. When a user entered a search term, Google returned a list of books that included the term, and, for each responsive book, Google provided a few "snippets" that contained the term. Id.

We held that Google's copying served a transformative purpose because it created a text-searchable database that "communicate[d] something new and different from the original." Id. at 214. "[T]he result of a word search is different in purpose, character, expression, meaning, and message from

<sup>3</sup> *Pace* Judge Kaplan's argument that our discussion of transformative use (which is integral to the first statutory factor) should be omitted from the fair-use analysis--or be deemed dicta. Whether the majority opinion's discussion "may contribute to confusion and uncertainty" (*Concurring Op.* at 3) is not for me to say.

the page (and the book) from which it is drawn." *Id.* at 217 (quoting *HathiTrust*, 755 F.3d at 97).

[\*\*\*1859] We also held that the "snippet view" of unaltered, copyrighted text "add[ed] important value to the basic transformative search function" by allowing users to verify that the list of books returned by the database was responsive to the user's search. *Id.* Thus, a user searching for the term "Hindenburg" [\*\*15] could infer from snippets whether the book was referencing the Weimar president or the exploded zeppelin. *See id.* at 217-18.

TVEyes's copying of Fox's content for use in the Watch function is similarly transformative insofar as it enables users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material--and to information about the material--that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means.

*Sony Corporation of America vs. Universal City Studios, Inc.* is instructive. *See* 464 U.S. 417, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984). In *Sony*, a television customer, who (by virtue of owning a television set) had acquired authorization to watch a program when it was broadcast, recorded it in order to watch it instead at a later, more convenient time. That was held to be a fair use. While *Sony* was decided before "transformative" became a term of art, the apparent reasoning was that a secondary use may be a fair use if it utilizes technology to achieve the transformative purpose of improving the efficiency of delivering content without unreasonably [\*\*16] encroaching on the commercial entitlements of the rights holder.

The Watch function certainly qualifies as technology that achieves the transformative purpose of enhancing efficiency: it enables TVEyes's clients to view all of the Fox programming that (over the prior thirty-two days) discussed a particular topic of interest to them, without having to monitor thirty-two days of programming in order to catch each relevant discussion; and it eliminates the clients' need even to view entire programs, because the ten most relevant minutes are presented to them. Much like the television customer in [\*\*178] *Sony*, TVEyes clients can view the Fox programming they want at a time and place that is convenient to them, rather than at the time and place of broadcast. For these reasons, TVEyes's Watch function is at least somewhat transformative.<sup>4</sup>

<sup>4</sup>TVEyes argues that the Watch function is transformative because it allows clients to conduct research and analysis of television content

The first statutory factor also implicates considerations distinct from whether the secondary use is transformative. In particular, Fox argues that the "commercial nature" of TVEyes's copying (its sale of access to Fox's content) weighs against a finding of fair use. 17 U.S.C. § 107(1).

The commercial nature of a secondary use weighs against a finding of fair use. *See Campbell*, 510 U.S. at 585. And [\*\*17] it does so especially when, as here, the transformative character of the secondary use is modest. *See id.* at 579 ("[T]he [less] transformative the new work, the [more] will be the significance of other factors, like commercialism . . ."). The Watch function has only a modest transformative character because, notwithstanding the transformative manner in which it delivers content, it essentially republishes that content unaltered from its original form, with no "new expression, meaning or message." *HathiTrust*, 755 F.3d at 96 (quoting *Campbell*, 510 U.S. at 579); *cf. Kirkwood*, 150 F.3d at 106 (service that transmits unaltered radio broadcasts in real time over telephone lines is not transformative); *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 199-200 (3d Cir. 2003) (service that streams short previews of movies without commentary is not transformative). The clients of TVEyes use Fox's news broadcasts for the same purpose that authorized Fox viewers use those broadcasts--the purpose of learning the information reported.

The first statutory factor therefore favors TVEyes, albeit slightly.

#### [\*\*\*1860] B

The second statutory factor is "the nature of the copyrighted work." 17 U.S.C. § 107(2). This factor "has rarely played a significant role in the determination of a fair use dispute," and it plays no significant role here. *Google Books*, 804 F.3d at 220.

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by enabling them to view clips responsive to their research needs. Research, TVEyes argues, is a purpose not shared by users of the original content. This argument proves too much.

That a secondary use can facilitate research does not itself support a finding that the secondary use is transformative. *See American Geophysical Union v. Texaco, Inc.*, 60 F.3d 913 (2d Cir. 1994). In *Texaco*, a company was allowing each of its 400 to 500 scientists to photocopy journal articles pertinent to their individual research projects, thus enabling three subscriptions to service the needs of hundreds of scientists. *Id.* at 915-16. We stated that if copying were deemed transformative "simply because [it was done] in the course of doing research," then "the concept of a 'transformative' use would be extended beyond recognition." *Id.* at 924.



TVEyes presses the argument that, since facts [\*\*18] are not copyrightable, the factual nature of Fox's content militates in favor of a finding of fair use. We have rejected this argument: "Those who report the news undoubtedly create factual works. It cannot seriously be argued that, for that reason, others may freely copy and re-disseminate news reports." *Id.* at 220.

## C

The third statutory factor is "the amount and substantiality of the portion [\*179] used in relation to the copyrighted work as a whole." 17 U.S.C. § 107(3). The relevant consideration is the amount of copyrighted material *made available to the public* rather than the amount of material *used by the copier*. Google Books, 804 F.3d at 222.

This factor clearly favors Fox because TVEyes makes available virtually the entirety of the Fox programming that TVEyes users want to see and hear. While "courts have rejected any categorical rule that a copying of the entirety cannot be a fair use," "a finding of fair use is [less] likely . . . when the copying is extensive, or encompasses the most important parts of the original." *Id.* at 221. In this respect, the TVEyes Watch function is radically dissimilar to the service at issue in Google Books.

Google's snippet function was designed to ensure that users could see only a very small piece of a book's contents. [\*\*19] Each snippet was three lines of text, constituting approximately one-eighth of a page; a viewer could see at most three snippets per book for any searched term, and no more than one per page. Users were prevented from performing repeated searches to find multiple snippets that could be compiled into a coherent block of text. Approximately 22% of a book's text was "blacklist[ed]": no snippet could be shown from those pages. *Id.* at 222. And snippets were not available at all for such books as dictionaries or cookbooks, in which a snippet might convey all the information that a searcher was likely to need. While the snippets allowed a user to judge whether a book was responsive to the user's needs, they were abbreviated to ensure that it would be nearly impossible for a user to see a meaningful exposition of what the author originally intended to convey to readers.

TVEyes redistributes Fox's news programming in ten-minute clips, which--given the brevity of the average news segment on a particular topic--likely provide TVEyes's users with all of the Fox programming that they seek and the entirety of the message conveyed by Fox to authorized viewers of the original. *Cf. Harper & Row Publishers, Inc. v. Nation*

*Enterprises*, 471 U.S. 539, 564-65, 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985) (finding no fair use when [\*\*20] the copying involved only about 300 words, but the portion copied was "the heart of the book"). TVEyes's use of Fox's content is therefore both "extensive" and inclusive of all that is "important" from the copyrighted work. Google Books, 804 F.3d at 221.

## D

The fourth statutory factor is "the effect of the [secondary] use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). This factor is "undoubtedly the single most important element of fair use." Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566, 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985). It "focuses on whether the copy brings to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood that potential purchasers may opt to acquire the copy in preference to the original." Google Books, 804 F.3d at 223. Critically, it requires consideration of "not only the . . . market harm caused by the particular actions of the alleged infringer," but also the market harm that would result from "unrestricted and widespread conduct of the [same] sort." Campbell, 510 U.S. at 590 (internal quotation marks and alteration omitted).

TVEyes argues that its service poses little risk of being a "competing substitute" for Fox's offerings. Google Books, 804 F.3d [\*180] at 223. Fox argues that TVEyes undercuts Fox's ability to profit from licensing searchable [\*\*21] access to its copyrighted content to third parties. Fox has much the stronger point.

[\*\*\*1861] "It is indisputable that, as a general matter, a copyright holder is entitled to demand a royalty for licensing others to use its copyrighted work, and that the impact on potential licensing revenues is a proper subject for consideration in assessing the fourth factor." Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 614 (2d Cir. 2006) (quoting Texaco, 60 F.3d at 929). However, "not every effect on potential licensing revenues enters the analysis under the fourth factor." Texaco, 60 F.3d at 929. A copyright owner has no right to demand that users take a license unless the use that would be made is one that would otherwise infringe an exclusive right. *See Bill Graham Archives*, 448 F.3d at 615. Even if a use does infringe an exclusive right, "[o]nly an impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets should be legally cognizable when evaluating a secondary use's effect upon the potential market for or value of the copyrighted work." Texaco, 60 F.3d at 930 (internal quotation

marks omitted).

That limitation does not restrict our analysis here. The success of the TVEyes business model demonstrates that deep-pocketed consumers are willing to pay well for a service that allows them to search for and view selected television [\*\*22] clips, and that this market is worth millions of dollars in the aggregate. Consequently, there is a plausibly exploitable market for such access to televised content, and it is proper to consider whether TVEyes displaces potential Fox revenues when TVEyes allows its clients to watch Fox's copyrighted content without Fox's permission.

Such displacement does occur. Since the ability to re-distribute Fox's content in the manner that TVEyes does is clearly of value to TVEyes, it (or a similar service) should be willing to pay Fox for the right to offer the content. By providing Fox's content to TVEyes clients *without* payment to Fox, TVEyes is in effect depriving Fox of licensing revenues from TVEyes or from similar entities. And Fox itself might wish to exploit the market for such a service rather than license it to others. TVEyes has thus "usurp[ed] a market that properly belongs to the copyright-holder." Kirkwood, 150 F.3d at 110. It is of no moment that TVEyes allegedly approached Fox for a license but was rebuffed: the failure to strike a deal satisfactory to both parties does not give TVEyes the right to copy Fox's copyrighted material without payment.

In short, by selling access to Fox's audiovisual content [\*\*23] without a license, TVEyes deprives Fox of revenues to which Fox is entitled as the copyright holder. Therefore, the fourth factor favors Fox.

## E

To ascertain whether TVEyes's service is protected as a fair use, the final step is to weigh the four statutory factors together, along with any other relevant considerations. The factors should not be "treated in isolation, one from another"; rather, "[a]ll are to be explored, and the results [are to be] weighed together, in light of the purposes of copyright." Campbell, 510 U.S. at 577-78. While the factors are not exclusive, in this case they provide sufficient guidance. See Kirkwood, 150 F.3d at 111.

We conclude that TVEyes's service is not justifiable as a fair use. As to the first factor, TVEyes's Watch function is at least somewhat transformative in that it renders convenient and efficient access to a subset [\*181] of content; however, because the function does little if anything to change the content itself or the purpose for which the content is used, its transformative character is modest at best. Accordingly--and because the service at issue is commercial--the first factor

favors TVEyes only slightly. The second factor is neutral in this case. The third factor strongly favors Fox because the [\*\*24] Watch function allows TVEyes's clients to see and hear virtually all of the Fox programming that they wish. And the fourth factor favors Fox as well because TVEyes has usurped a function for which Fox is entitled to demand compensation under a licensing agreement.

At bottom, TVEyes is unlawfully profiting off the work of others by commercially re-distributing all of that work that a viewer wishes to use, without payment or license. Having weighed the required factors, we conclude that the balance strongly favors Fox and defeats the defense of fair use.

## III

TVEyes challenges the district court's conclusion that it is liable to Fox under a theory [\*\*\*1862] of *direct* copyright infringement.<sup>5</sup> A direct infringer exercises "volitional conduct" to make the infringing copy. Cartoon Network LP, LLLP v. CSC Holdings, Inc. ("Cablevision"), 536 F.3d 121, 131 (2d Cir. 2008). The conduct at issue in Cablevision was *non-volitional*; however, it bears no resemblance to what TVEyes does. The Cablevision defendant provided a remote DVR service similar to the recording capability of a DVR in a television viewer's home. Unless the *subscriber* chose to record a program, it remained on the defendant's server for no more than .1 second. See *id.* at 124-25. By contrast, [\*\*25] TVEyes decides what audiovisual content to record, copies that content, and retains it for thirty-two days. And this copying, at least to the extent that it is done to enable the Watch function, is an infringement. Volitional conduct that infringes is clear.

## IV

The district court issued a permanent injunction prohibiting TVEyes from enabling its clients to download clips of Fox's programming or to search for such clips by date and time; the court also imposed restrictions on TVEyes's enabling of its clients to email clips or to post them to social media sites. We review the issuance of a permanent injunction "for abuse of discretion, which may be found where the Court, in issuing

<sup>5</sup> A party that has not committed direct copyright infringement may still be liable under the doctrine of contributory infringement, which allows a defendant to be held liable for infringing acts of third parties. See Sony, 464 U.S. at 435; Arista Records, LLC v. Doe 3, 604 F.3d 110, 117-18 (2d Cir. 2010). Fox asserted liability only on the ground of direct infringement, so we do not consider contributory infringement.

the injunction, relied on . . . an error of law." S.C. Johnson & Son, Inc. v. Clorox Co., 241 F.3d 232, 237 (2d Cir. 2001) (quoting Knox v. Salinas, 193 F.3d 123, 128-29 (2d Cir. 1999) (per curiam)).

The district court's injunction was shaped by an error of law: the mistaken assumption that the Watch function (and some features subsidiary to it) had fair-use protection. We therefore remand to the district court to revise the injunction in accordance with this opinion.

Because the product TVEyes currently offers includes the infringing Watch function and its subsidiary features (i.e., clients' ability to archive, download, and email [\*26] clips, as well as to view clips after [\*182] conducting a date/time search<sup>6</sup>), the court should enjoin TVEyes from offering that product. However, because Fox does not dispute TVEyes's right to offer its Search function, the court's injunction shall not bar TVEyes from offering a product that includes that function without making impermissible use of any protected audiovisual content.<sup>7</sup>

## CONCLUSION

The order of the district court is reversed to the extent it held that TVEyes's product was a fair use. The order is affirmed to the extent it denied TVEyes's request for additional relief. We remand for the district court to revise the injunction to conform with this opinion. Any further appeal will be assigned to this panel.

**Concur by:** KAPLAN

## Concur

KAPLAN, District Judge,\* concurring:

<sup>6</sup>There is no copyright infringement in the use of the date/time search function to discover the particular program that was playing on a certain channel at a certain time. That information is a historical fact, which is not copyrightable. See Arica Institute, Inc. v. Palmer, 970 F.2d 1067, 1075 (2d Cir. 1992). However, enabling a client to view a copied video located on the basis of a date/time search can constitute infringement, and it is not a fair use.

<sup>7</sup>Because Fox has not challenged the Search function on this appeal, and the parties have therefore presented no arguments about it, we express no views on it, neither upholding nor rejecting it.

\*Lewis A. Kaplan, United States District Judge for the Southern District of New York, sitting by designation.

I concur in the result as well as part I, the preamble to part II, and parts II.B, III and IV of the majority opinion. With great respect for my learned and distinguished colleagues, however, I do not join in their characterization of TVEyes' Watch function as "somewhat transformative." I decline for two reasons.

First, although the majority writes that it "is at least somewhat transformative," it holds that the Watch function nevertheless [\*27] is not a fair use of Fox's copyrighted material. Stated differently, it holds that the other factors relevant to the fair use determination carry the day in favor of Fox regardless of whether the Watch function is or is not transformative. The "somewhat transformative" characterization therefore is entirely immaterial to the resolution of this case — in a familiar phrase, it is *obiturn dictum*.<sup>1</sup> I would avoid [\*\*\*1863] any such characterization even if I agreed with it.

Second, while I prefer not to state a view as to whether the Watch function is transformative, I would be remiss, given the majority's opinion, if I did not express my doubt that the majority's view is correct. To the contrary, were we compelled to reach the point, I would be inclined to conclude that it is not.

I

I do not suggest that this or any appellate court should "purge dictum from [its] opinions."<sup>2</sup> But there are situations in which sound prudential reasons counsel against making statements that are "superfluous to the court's performance of its function."<sup>3</sup> I submit that this is one of them.

[\*183] 1. "[T]he goal of copyright, to promote science and the arts, is generally furthered [\*28] by the creation of transformative works. Such works thus lie at the heart of the fair use doctrine[.]"<sup>4</sup> "[T]he more transformative the new

<sup>1</sup>Contrary to the majority's suggestion, we are not obliged to reach a definitive decision as to each of the fair use factors in order to decide the fair use issue. Henley v. Devore, 733 F. Supp.2d 1144, 1155 (C.D. Cal. 2010) (assuming but not deciding that secondary use was transformative, but nevertheless rejecting fair use defense).

<sup>2</sup>Pierre N. Leval *Judging Under the Constitution: Dicta About Dicta*, 81 N.Y.U.L. Rev. 1249, 1282 (2006) (hereinafter "*Dicta*").

<sup>3</sup>*Id.* at 1257.

<sup>4</sup>Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579, 114 S. Ct. 1164, 127 L. Ed. 2d 500 (1994).

work, the less will be the significance of other factors."<sup>5</sup> It therefore is not at all surprising that attempts by alleged infringers to characterize their uses of copyrighted works as "transformative" have become a key battleground in copyright litigation, particularly as technological advances provide ever-new contexts in which the uncompensated use of copyrighted works is very attractive. And the law governing such controversies often is far from clear. As noted commentators have observed, courts "appear to label a use 'not transformative' as a shorthand for 'not fair,' and correlatively 'transformative' for 'fair.' Such a strategy empties the term of meaning."<sup>6</sup> Indeed, as will appear, some of our own decisions on the issue are at least in tension with one another.<sup>7</sup>

In these circumstances, a finding of transformative use, while "not absolutely necessary for a finding of fair use,"<sup>8</sup> is "of crucial importance to the fair use analysis."<sup>9</sup> And as the issue of fair use, in the words of a distinguished panel of this Court that remain apt despite intervening [\*\*29] years, is "the most troublesome in the whole law of copyright," it is one that "ought not to be resolved in cases where it may turn out to be moot, unless the advantage is very plain."<sup>10</sup> The majority's unnecessary characterization of the Watch function as "somewhat transformative" has no "advantage," let alone one that is "very plain." Indeed, I fear it may contribute to confusion and uncertainty regarding this central concept in the law of fair use. Moreover, it threatens to do so in circumstances in which there is no realistic possibility of further appellate review.<sup>11</sup> The determination of the transformative use issue should be left for a case in which the question necessarily is presented.

2. The advisability of expressing a view as to whether the Watch function is "transformative" is diminished further because this case passes judgment on a technological innovation. New efficiency-enhancing content delivery technologies that will seek to distribute copyrighted material owned by others doubtless now or soon will exist. Indeed, the

<sup>5</sup> *Id.*

<sup>6</sup> 4 MELVILLE B. NIMMER AND DAVID NIMMER, NIMMER ON COPYRIGHT § 13.05, at 13-169 (2017).

<sup>7</sup> *See id.* at 13-170.

<sup>8</sup> *Id.* at 13-166.

<sup>9</sup> *Id.* at 13-166 to 167.

<sup>10</sup> *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939) (per curiam) (L. Hand, A. Hand, Patterson, JJ).

<sup>11</sup> *Dicta*, 81 N.Y.U. L. Rev. at 1262.

efficiency enhancement that the Watch function allegedly provides appears to be, or to have become at least partly, available from Internet-based television [\*\*30] subscription services to which Fox News presumably licenses its content.<sup>12</sup> [\*\*184] Given (a) the rapid pace of technological [\*\*1864] change, (b) the importance of the concept of transformative purpose in fair use jurisprudence, and (c) the fact that it is unnecessary to address the question in this case, I respectfully disagree with the majority's decision to express a view as to whether the Watch function is transformative.

## II

In view of the majority's expression of its opinion that the Watch function is "somewhat transformative," I feel compelled to express my own doubts regarding that conclusion.

1. The majority's opinion begins its analysis by observing, correctly in my view, that "[i]t is useful to analyze separately distinct functions of the secondary use (i.e., the use by TVEyes of Fox's copyrighted material), considering whether each independent function is a fair use."<sup>13</sup> It then turns to the distinction between the Search function and the Watch function. The Search function "allows clients to *identify*

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<sup>12</sup> I understand that Internet-based cable subscription services now available allow a subscriber to record cable shows, store (some with limits on the amount that can be stored, some without), and re-watch those shows within a certain time frame (for example, within nine months of the recording). *See* Eric Liston, *How to Watch Fox News Without Cable — Your Top 5 Options*, Flixed (Dec. 6, 2017), <https://flixed.io/watch-fox-news-without-cable/>. Someone who wanted to "monitor" Fox News could DVR (i.e., direct video record) all Fox News shows using these paid services. Upon using TVEyes's Search function — the transformative nature of which was not challenged — to identify when a term was said in a broadcast, the user could click directly to that portion of the broadcast and watch it immediately online using their paid subscription service. It is unclear whether these services as they currently exist would allow a user to monitor all local broadcasts throughout the country, but they certainly diminish the Watch function's convenience value.

And technology will march on, perhaps soon eliminating altogether the efficiency the majority claims renders the Watch function transformative.

I recognize, of course, that there appears to be no discussion of these services in the record. This is at least partially attributable to the fact that the advent of some of these services post-date this litigation. But this demonstrates handily the point that technology is rapidly evolving, which is all the more reason to decline to pronounce a piece of technology transformative when it is not necessary to do so.

videos that contain keywords of interest"<sup>14</sup> — it "enables users to isolate, from an ocean of programming, material that is responsive to their [\*\*31] interests."<sup>15</sup> The Watch function, in contrast, "allows TVEyes clients to *view* up to ten-minute, unaltered video clips of copyrighted content."<sup>16</sup> In short, the Search function, which is not challenged here, is simply a vehicle that locates Fox's copyrighted works among other works of interest — it finds the desired species of fish in the majority's metaphorical sea. But the Watch function then catches those fish and delivers them to the fishmonger's stall where TVEyes lays them unchanged (one might say untransformed) on cracked ice for the inspection of its patrons.

Metaphor aside, the majority then proceeds to test the Watch function, "consider[ing] each of the four [fair use] factors."<sup>17</sup> It describes our decision in *Google Books*,<sup>18</sup> noting that we there "held that the 'snippet view' of unaltered, copyrighted text 'add[ed] important value to the basic transformative search function' by allowing users to verify that the list of books returned by the database was responsive to the user's search."<sup>19</sup> And it then goes on to say:

[\*185] "TVEyes's copying of Fox's content *for use in the Watch function* is similarly transformative insofar as it enables users [\*\*32] to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means."<sup>20</sup>

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<sup>13</sup> Op. at 13:9-11. See also *Craft v. Kobler*, 667 F. Supp. 120, 128 (S.D.N.Y. 1987) (Leval, J.) ("In assessing claims of fair use, we must consider the number, size and importance of appropriated passages, *as well as their individual justifications*." (emphasis added)); 4 William N. Patry, Patry on Copyright § 10.13, at 10-47 to 10-49 (2012).

<sup>14</sup> Op. at 13:13-14 (emphasis in original).

<sup>15</sup> *Id.* at 16:7-9.

<sup>16</sup> *Id.* at 13:14-15 (emphasis in original).

<sup>17</sup> *Id.* at 14:4-5.

<sup>18</sup> *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015) (hereinafter "*Google Books*").

<sup>19</sup> Op. at 16:1-4.

<sup>20</sup> *Id.* at 16:7-13 (emphasis added).

But, as the majority itself wrote earlier, it is the Search function that enables users to identify the desired fish in the ocean, not the Watch function. What the Watch function does is to enable instant access to digital recordings of Fox's content that have been identified by the Search function. And the majority's justification for concluding that the Watch function is "somewhat transformative" is that it "improve[s] the efficiency of delivering content."<sup>21</sup>

2. I am inclined to reject the idea that enhancing the efficiency with which copies of copyrighted material are delivered to secondary issuers, in the context in which the Watch function does so, is transformative.

The concept of transformation is a relatively recent addition to copyright jurisprudence, but its antecedents have been around for a [\*\*33] long time.

[\*\*\*1865] In 1841, Justice Story said that "no one can doubt that a reviewer may fairly cite largely from the original work, if his design be really and truly to use the passages for the purposes of fair and reasonable criticism," but use that "supersede[s] the original work" is not fair.<sup>22</sup> Building on that idea, Judge Leval's landmark article, which later was adopted substantially by the Supreme Court in the *Pretty Woman* case,<sup>23</sup> said:

"I believe the answer to the question of justification turns primarily on whether, and to what extent, the challenged use is *transformative*. The use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original. A quotation of copyrighted material that merely repackages or republishes the original is unlikely to pass the test; in Justice Story's words, it would merely 'supersede the objects' of the original. If on the other hand, the secondary use adds value to the original — if the quoted matters is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings — this is the very type of activity that the fair use doctrine intends to protect for [\*\*34] the enrichment of society.

Transformative uses may include criticizing the quoted work, exposing the character of the original author, proving a fact, or summarizing an idea argued in the original in order to defend or rebut it. They may also

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<sup>21</sup> *Id.* at 16:14-17:14.

<sup>22</sup> *Folsom v. Marsh*, 9 F. Cas. 342, 344, F. Cas. No. 4901 (No. 4,901).

<sup>23</sup> *Campbell*, 510 U.S. at 578-79.

include parody, symbolism, aesthetic declarations, and innumerable other uses."<sup>24</sup>

Even on the majority's view that TVEyes' Watch function substantially improves the efficiency with which TVEyes customers can access Fox copyrighted broadcasts of possible interest, it does no more than repackage and deliver the original [\*186] works. It adds no new information, no new aesthetics, and no new insights or understandings. I therefore doubt that it is transformative. Indeed, I regard *Infinity Broadcast Corp. v. Kirkwood* as having settled the question whether a use is transformative simply because it is more efficient or convenient than what preceded it.<sup>25</sup>

In that case, the defendant, Kirkwood, offered a service through which a Kirkwood customer, regardless of its physical location, could dial a Kirkwood device over a phone line, tune to the radio station of its choice in any of the nation's 10 largest radio markets, and listen to the broadcast [\*\*35] of its chosen station. Kirkwood marketed the service to "radio stations, advertisers, talent scouts, and others" for purposes such as "auditioning on-air talent, verifying the broadcast of commercials, and listing to a station's programming format and feel."<sup>26</sup> No doubt Kirkwood's service was convenient and efficiency-enhancing. It enabled interested clients who, by reason of distance, could not receive the radio stations of interest to them to (a) access those stations through Kirkwood, (b) listen to their broadcasts over telephone lines and (c) do so for reasons that, at least in many cases, had nothing to do with the purposes for which local listeners tuned their radios to their stations of choice. Nevertheless, this Court rejected Kirkwood's fair use defense, stating that there was a "total absence of transformativeness" in Kirkwood's retransmission of the broadcasts.<sup>27</sup> And the Watch function at issue here is essentially indistinguishable in principle.

We rejected the argument that convenience of accessing copyrighted material is a transformative purpose in *American Geophysical Union, et al. v. Texaco*<sup>28</sup> as well. That involved photocopying of scientific journal articles for use in laboratories. [\*\*36] Texaco there argued that "its conversion of the individual [journal] articles through photocopying into

a form more easily used in a laboratory might constitute transformative use."<sup>29</sup> Notwithstanding the fact that the photocopies often were more convenient or efficient than, for example, buying, borrowing, shelving and carrying about bound volumes of journals, we wrote that "Texaco's photocopying merely transforms the material object embodying the intangible article that is the copyrighted original work. Texaco's making of copies cannot [\*\*\*1866] properly be regarded as a transformative use of the copyrighted material."<sup>30</sup>

Also closely aligned with this case are others that dealt with technologies relating to digitized music, mp3s, and music sharing. Defendants in those cases argued that their technologies should be considered fair use because they permitted "space-shifting"—they allowed users to store music in different, more convenient forms that allowed them to listen to it in venues more desirable to them.<sup>31</sup> In other words, the technology enhanced efficiency and convenience. But courts presented with this argument either rejected the idea that space-shifting is a transformative purpose or considered [\*\*37] the space-shifting argument [\*187] relevant only to the question of the commercial nature of the use.<sup>32</sup>

These cases support my inclination to conclude that a technological means that delivers copies of copyrighted material to a secondary user more quickly, efficiently or conveniently does not render the distribution of those copies transformative, at least standing alone.

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<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 923 (citations omitted).

<sup>31</sup> See *A&M Records, Inc. v. Napster, Inc.* 239 F.3d 1004, 1019 (9th Cir. 2001), *as amended* (Apr. 3, 2001), *aff'd sub nom. A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir. 2002).

<sup>32</sup> See *A&M Records, Inc.*, 239 F.3d at 1019 (cases holding space-shifting or time-shifting to be fair use inapposite "because the methods of shifting in [those] cases did not also simultaneously involve distribution of the copyrighted material to the general public"); *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999) ("The [device at issue] merely makes copies in order to render portable, or 'space-shift,' those files that already reside on a user's hard drive. Such copying is paradigmatic noncommercial personal use entirely consistent with the purposes of the Act." (citation omitted)); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y. 2000) (considering the argument that space-shifting is transformative to be "simply another way of saying that the unauthorized copies are being retransmitted in another medium—an insufficient basis for any legitimate claim of transformation").

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<sup>24</sup> Pierre N. Leval, *Toward a Standard of Fair Use*, 103 Harv. L. Rev. 1105, 1111 (1990).

<sup>25</sup> 150 F.3d 104 (2d Cir. 1998).

<sup>26</sup> *Id.* at 106 (internal quotation marks omitted).

<sup>27</sup> *Id.* at 109.

<sup>28</sup> 60 F.3d 913 (2d Cir. 1994).

Nor does *Google Books* support the conclusion that efficiency-enhancing delivery technology is transformative in the circumstances of this case. *Google Books*, like this case, involved two features: a searchable database and the display of "snippets" from the books containing the search term.<sup>33</sup> We held that copying the books to enable the search function had the transformative purpose of "identifying books of interest to the searcher." That purpose was different than the purpose of the books themselves, which served to convey their content to the reader, and it constituted fair use.<sup>34</sup> We held also that the snippets — "horizontal segment[s] comprising ordinarily an eighth of a page" — "add[ed] importantly to the highly transformative purpose of identifying books of interest [\*\*\*38] to the searcher."<sup>35</sup> But *Google Books* does not resolve this case.

Google designed the snippet feature "in a manner that substantially protects against its serving as an effectively competing substitute for Plaintiffs' books," employing safeguards such as "blacklisting" (making permanently unavailable for snippet view one snippet per page and one complete page out of every ten) and showing no snippets at all from the sorts of books for which a short snippet would represent all the content a searcher wanted to see (such as dictionaries and cookbooks).<sup>36</sup> Here, on the other hand, the Watch function shows ten minute clips, and parties can play unlimited numbers of ten minute clips. Certainly a ten minute clip in many, perhaps most, situations suffices for a user to view an entire news segment. And in situations in which that is not the case, the parties dispute the effectiveness of a preventive measure TVEyes introduced during the course of this litigation to stop users from watching consecutive clips.<sup>37</sup> Given the posture of this case — review of a summary judgment decision adverse to Fox on this point — we must view the facts presented by Fox as true and therefore base our decision on the premise [\*\*\*39] that users may access all of Fox's content by stringing clips together.<sup>38</sup>

<sup>33</sup> 804 F.3d at 206.

<sup>34</sup> *Id.* at 217-18.

<sup>35</sup> *Id.* at 209, 218.

<sup>36</sup> *Id.* at 222-23.

<sup>37</sup> *Op.* at 10:13-16.

<sup>38</sup> Fair use is an affirmative defense to Fox's infringement claim and thus a matter as to which TVEyes bears the burden of proof. Accordingly, in resisting a determination that TVEyes is entitled to judgment on the basis of fair use, Fox is entitled to the view of the evidence most favorable to it with respect to TVEyes' contention that the Watch function is transformative, as it is on all other aspects of

[\*\*\*1867] [\*188] The facts here thus differ from *Google Books* quite substantially. The snippet function considered there delivered much less copyrighted content than the Watch function at issue here. Nevertheless, we there concluded that the snippet function only "adds" to the transformative purpose of the Search function. Our conclusion with respect to the *Google Books* snippet feature therefore does not control the proper characterization of the Watch function at issue here. Moreover, we cautioned in *Google Books* that the case "test[ed] the boundaries of fair use."<sup>39</sup>

3. Nor am I persuaded by the majority's reliance on *Sony Corporation of America v. Universal City Studios, Inc.*<sup>40</sup>

*Sony* considered a claim that the manufacturer of Betamax video recorders was liable for contributory copyright infringement because its sale of the recorders facilitated copyright infringement by consumers by virtue of the consumers' recording of copyrighted broadcasts to enable them to view the programs at times more convenient to them.<sup>41</sup> The Court rejected the contributory infringement claim, essentially on the bases that (a) substantial numbers of copyright [\*\*\*40] holders would not object to the consumers' use of the Sony equipment for "time shifting," and (b) the plaintiffs had failed to prove any likelihood of consequent economic harm.<sup>42</sup>

The majority here reads *Sony* as reasoning "that a secondary use may be a fair use if it utilizes transformative technology to improve the efficiency of delivering content."<sup>43</sup> But *Sony* was decided before Judge Leval's article introduced the concept of transformative use or purpose into the copyright lexicon.<sup>44</sup> I thus find what *Sony* teaches about transformative

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that defense. *FDIC v. Giammettei*, 34 F.3d 51, 54 (2d Cir. 1994) ("whatever evidence *there is* to support an essential element of an affirmative defense will be construed in a light most favorable to the non-moving defendant") (emphasis in original); *Frankel v. ICD Holdings, S.A.*, 930 F. Supp. 54, 64-65 (S.D.N.Y. 1996) ("one who relies upon an affirmative defense to defeat an otherwise meritorious motion for summary judgment must adduce evidence which, viewed in the light most favorable to and drawing all reasonable inferences in favor of the non-moving party, would permit judgment for the non-moving party on the basis of that defense").

<sup>39</sup> *Google Books*, 804 F.3d at 206.

<sup>40</sup> 464 U.S. 417, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984).

<sup>41</sup> *Id.* at 419.

<sup>42</sup> *Id.* at 456.

<sup>43</sup> *Op.* at 17:1-3.

<sup>44</sup> *Op.* at 17:1-3.

purpose, if anything, to be less than perfectly clear. I certainly do not find within *Sony* the idea that efficiency-enhancing technology is transformative.

The efficiency enhancement at issue in *Sony* was "time-shifting" — the use by a consumer of a Betamax device to record a broadcast so that the consumer could watch that show at a later, presumably more convenient, time.<sup>45</sup> The Court asked whether time-shifting was a substantial noninfringing use; the answer to that question determined whether Sony could be liable for contributory infringement.<sup>46</sup> It was in that context that the Court found that unauthorized time shifting — consumers recording copyrighted shows without [\*\*41] authorization to watch the shows once at a [\*189] later time — was "not necessarily infringing."<sup>47</sup>

The Court's discussion of time-shifting focused on the non-commercial nature of in-home recording: "[R]espondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works. The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondent's copyrights."<sup>48</sup>

Perhaps the Court in *Sony* would have found efficiency-enhancing technology to be transformative for that reason alone had that argument been put to it. But I see no indication of that in the opinion. Rather, *Sony* turned on the question whether "time-shifting," on the facts presented in that case, was a commercial use that affected the broadcasters' ability to make a profit in the market. And the Court so concluded without considering, at least explicitly, whether the recordings served a purpose different from the original broadcasts. In fact, the Court said that "timeshifting merely enables a viewer to see such a work which he had been [\*\*42] invited to witness."<sup>49</sup> In other words, time-shifting allows a user to do exactly that which the user could have done with the original: watch the show for whatever entertainment, informational or other purpose it serves. No new purpose had been added. So I hesitate to conclude that *Sony* mandates, or even suggests, the idea that efficiency-enhancing technology is transformative.

<sup>45</sup> *Sony*, 464 U.S. at 423.

<sup>46</sup> *Id.* at 442.

<sup>47</sup> *Id.* at 447.

<sup>48</sup> *Id.* at 455.

<sup>49</sup> *Id.* at 449.

[\*\*1868] My hesitation in this regard is strengthened by this Court's subsequent treatment of *Sony*. No prior opinion of this Court says, or even suggests, that *Sony* stands for the proposition that time-shifting in particular, or efficiency-enhancing delivery technology in general, is transformative. In *Swatch Group Management Services Ltd v. Bloomberg L.P.*, we described *Sony* as a decision "finding a non-transformative use to be a fair use."<sup>50</sup> *Infinity Broadcast Corp.* described *Sony*'s discussion of time-shifting as a "determin[ation] that time-shifting of television programs by consumers in their homes was a non-commercial use."<sup>51</sup> Indeed, as noted, we there held that an efficiency promoting technology was not transformative and gave no sign that *Sony* was relevant to that conclusion.

Similarly, *Authors Guild, Inc. v. HathiTrust* [\*\*43]<sup>52</sup> and *Google Books*<sup>53</sup> cite *Sony* for various principles, but never for the proposition that efficiency-enhancing technology is transformative, despite that idea's obvious potential application in those cases. Because *HathiTrust* and *Google Books* so clearly confront an issue closely related to that here, I see as instructive their omission of the idea that *Sony* declared efficiency-enhancing delivery technology to be transformative. I would join those cases in declining to construe *Sony* as offering significant guidance regarding transformative use.

In sum, *Sony*'s relevance to transformative use is, at best, unclear. I decline to [\*190] join in the majority's novel interpretation of *Sony*.

### III

For the foregoing reasons, I concur in the judgment of this Court and in part I, the preamble to part II, and parts II.B, III and IV of the majority opinion. I decline to join in part II.A and its characterization of the Watch function as "somewhat transformative."

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<sup>50</sup> 756 F.3d 73, 84 (2d Cir. 2014) (emphasis added).

<sup>51</sup> 150 F.3d at 109 n.3.

<sup>52</sup> 755 F.3d 87 (2d Cir. 2014).

<sup>53</sup> 804 F.3d at 202.



# Goldman v. Breitbart News Network, LLC

United States District Court for the Southern District of New York

February 15, 2018, Decided; February 15, 2018, Filed

17-cv-3144 (KBF)

## Reporter

302 F. Supp. 3d 585 \*; 2018 U.S. Dist. LEXIS 25215 \*\*; 125 U.S.P.Q.2D (BNA) 1778 \*\*\*; Copy. L. Rep. (CCH) P31,230; 46 Media L. Rep. 1353; 2018 WL 911340

JUSTIN GOLDMAN, Plaintiff, -v- BREITBART NEWS NETWORK, LLC, HEAVY, INC., TIME, INC., YAHOO, INC., VOX MEDIA, INC., GANNETT COMPANY, INC., HERALD MEDIA, INC., BOSTON GLOBE MEDIA PARTNERS, INC., and NEW ENGLAND SPORTS NETWORK, INC., Defendants.

**Prior History:** Goldman v. Breitbart News Network, LLC, 2017 U.S. Dist. LEXIS 136270 (S.D.N.Y., Aug. 21, 2017)

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For Getty Images (US) Inc., American Society of Media Photographers, Digital Media Licensing Association, National Press Photographers Association, North American Nature Photography Association, Amicus: Kenneth Lewinn Doroshow, LEAD ATTORNEY, Jenner & Block, LLP (DC), Washington, DC.

**Judges:** KATHERINE B. FORREST, United States District Judge.

**Opinion by:** KATHERINE B. FORREST

## Opinion

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**[\*585] [\*\*\*1780] OPINION & ORDER**

KATHERINE B. FORREST, District Judge:

When the Copyright Act was amended in 1976, the words "tweet," "viral," and **[\*586]** "embed" invoked thoughts of a bird, a disease, and a reporter. Decades later, these same terms have taken on new meanings as the centerpieces of an interconnected world wide web in which images are shared with dizzying speed over the course of any given news day. That technology and terminology change means that, from time to time, questions of copyright law will not be altogether clear. In answering questions with previously un contemplated technologies, however, the Court must not be distracted by new terms or new forms of content, but turn instead to familiar guiding principles of copyright. In this **[\*\*3]** copyright infringement case, concerning a candid photograph of a famous sports figure, the Court must construe how images shown on one website but stored on another website's server implicate an owner's exclusive display right.

Today, many websites embed Twitter posts into their own content; for those familiar with digital news or other content, this is common knowledge. Here, plaintiff Justin Goldman's copyrighted photo of Tom Brady went "viral"—rapidly moving from Snapchat to Reddit to Twitter—and finally,

made its way onto the websites of the defendants, who embedded the Tweet alongside articles they wrote about Tom Brady actively helping the Boston Celtics recruit basketball player Kevin Durant.

Plaintiff, claiming he never publicly released or licensed his photograph, filed suit against the defendant websites, claiming a violation of his exclusive right to display his photo, under § 106(5) of the Copyright Act.

With the consent of the parties, this Court divided the litigation into two phases—the first to determine whether defendants' actions violate the exclusive right to display a work (here an embedded Tweet), and the second to deal with all remaining issues, such as the liability (or [\*\*4] non-liability) for other defendants and any defenses that have been raised.

Defendants filed a motion for partial Summary Judgment on October 5, 2017. (ECF No. 119.) The Court heard oral argument on January 16, 2018.

Having carefully considered the embedding issue, this Court concludes, for the reasons discussed below, that when defendants caused the embedded Tweets to appear on their websites, their actions violated plaintiff's exclusive display right; the fact that the image was hosted on a server owned and operated by an unrelated third party (Twitter) does not shield them from this result.

Accordingly, defendants' motion for partial Summary Judgment is DENIED. Partial Summary Judgment is GRANTED to the plaintiff.

## I. FACTUAL BACKGROUND

The parties agree that the principle issue briefed on this motion is a legal one and amenable to summary judgment. The following facts are materially undisputed and all inferences are drawn in favor of the plaintiff. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 255, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986).

### A. The Tom Brady Photo

On July 2, 2016, plaintiff Justin Goldman snapped a photograph of Tom Brady (the "Photo"), Danny Ainge, and others on the street in East Hampton. (ECF No. 149, Goldman Declaration ("Goldman Decl.") ¶ 2.) Shortly thereafter, [\*\*5] he uploaded the photograph to his Snapchat Story.<sup>1</sup> ([\*587] Id. ¶ 5.) The Photo then went "viral," traveling through

several levels of social media platforms—and finally onto Twitter, where it was uploaded by several users, including Cassidy Hubbarth (@cassidyhubbarth), Bobby Manning (@RealBobManning), Rob H (@rch111), and Travis Singleton (@SneakerReporter). (Id. ¶ 6-10; ECF No. 120, Defendants' Statement of Undisputed Facts Pursuant to Local Rule 56.1 ("Defs.' 56.1 Statement") ¶ 28.) These uploads onto Twitter are referred to as "Tweets."

Defendants in this case are online news outlets and blogs who published articles featuring the Photo. Each of defendants' websites prominently featured the Photo by "embedding" the Tweet into articles they wrote over the course of the next forty-eight hours; the [\*\*\*1781] articles were all focused on the issue of whether the Boston Celtics would successfully recruit basketball player Kevin Durant, and if Tom Brady would help to seal the deal.

It is undisputed that plaintiff holds the copyright to the Photo.

### B. Embedding

None of the defendant websites copied and saved the Photo onto their own servers. Rather, they made the Photo visible in their articles through a technical process known [\*\*6] as "embedding." Some background is helpful to an understanding of the embedding process.

A webpage is made up of a series of instructions usually written by coders in Hypertext Markup Language ("HTML"). These instructions are saved to a server (a computer connected to the internet), and when a user wishes to view a webpage, his or her computer's browser connects with the server, at which point the HTML code previously written by the coder instructs the browser on how to arrange the webpage on the user's computer. The HTML code can allow for the arrangement of text and/or images on a page and can also include photographs. When including a photograph on a web page, the HTML code instructs the browser how and where to place the photograph. Importantly for this case, the HTML code could instruct the browser either to retrieve the photograph from the webpage's own server or to retrieve it from a third-party server.

"Embedding" an image on a webpage is the act of a coder intentionally adding a specific "embed" code to the HTML instructions that incorporates an image, hosted on a third-party server, onto a webpage. To embed an image, the coder or web designer would add an "embed code" to the [\*\*7] HTML instructions; this code directs the browser to the third-party server to retrieve the image. An embedded image will then hyperlink (that is, create a link from one place in a hypertext document to another in a different document) to the third-party website. The result: a seamlessly integrated

<sup>1</sup> Snapchat is a social media platform where users share photographs and messages; a Snapchat story is a series of photos a user posts—each photo is available for twenty-four hours only.

webpage, a mix of text and images, although the underlying images may be hosted in varying locations. Most social media sites—Facebook, Twitter, and YouTube, for example—provide code that coders and web designers can easily copy in order to enable embedding on their own webpages.

Here, it is undisputed that none of the defendant websites actually downloaded the Photo from Twitter, copied it, and stored it on their own servers. Rather, each defendant website merely embedded the Photo, by including the necessary embed code in their HTML instructions. As a result, all of defendants' websites included articles about the meeting between Tom Brady and the Celtics, with the full-size Photo visible without the user having to click on a hyperlink, or a thumbnail, in order to view the Photo.

## [\*588] II. LEGAL PRINCIPLES

### A. Summary Judgment Standard

This Court applies the well-known summary judgment standard set [\*8] forth in Rule 56 of the Federal Rules of Civil Procedure. Summary Judgment may not be granted unless a movant shows, based on admissible evidence in the record, "that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). The moving party bears the initial burden of demonstrating "the absence of a genuine issue of material fact." Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986). When the moving party does not bear the ultimate burden on a particular claim or issue, it need only make a showing that the non-moving party lacks evidence from which a reasonable jury could find in the non-moving party's favor at trial. Id. at 322-23.

In making a determination on summary judgment, the court must "construe all evidence in the light most favorable to the non-moving party, drawing all inferences and resolving all ambiguities in its favor." Dickerson v. Napolitano, 604 F.3d 732, 740 (2d Cir. 2010) (citing LaSalle Bank Nat'l Ass'n v. Nomura Asset Capital Corp., 424 F.3d 195, 205 (2d Cir. 2005)). Once the moving party has discharged its burden, the opposing party must set out specific facts showing a genuine issue of material fact for trial. Wright v. Goord, 554 F.3d 255, 266 (2d Cir. 2009). "A party may not rely on mere speculation or conjecture as to the true nature of the facts to overcome a motion for summary judgment," as "mere conclusory allegations or denials cannot by themselves create a genuine issue of material fact where none [\*9] would otherwise exist." Hicks v. Baines, 593 F.3d 159, 166 (2d Cir. 2010) (internal quotation marks, citations, and alterations omitted).

[\*\*\*1782] "In considering a motion for summary judgment,

if our analysis reveals that there are no genuine issues of material fact, but that the law is on the side of the non-moving party, we may grant summary judgment in favor of the non-moving party even though it has made no formal cross-motion." Orix Credit Alliance, Inc. v. Horten, 965 F. Supp. 481, 484 (S.D.N.Y. 1997) (citing Int'l Union of Bricklayers v. Gallante, 912 F. Supp. 695, 700 (S.D.N.Y. 1996); see also Coach Leatherware Co. v. AnnTaylor, Inc., 933 F.2d 162, 167 (2d Cir. 1991) ("[I]t is most desirable that the court cut through mere outworn procedural niceties and make the same decision as would have been made had defendant made a cross-motion for summary judgment." (citing Local 33, Int'l Hod Carriers v. Mason Tenders Dist. Council, 291 F.2d 496, 505 (2d Cir. 1961))). "Summary judgment may be granted to the non-moving party in such circumstances so long as the moving party has had an adequate opportunity to come forward with all of its evidence." Orix Credit Alliance, 965 F. Supp. at 484. (citing Cavallaro v. Law Office of Shapiro & Kreisman, 933 F. Supp. 1148, 1152 (E.D.N.Y. 1996)).

### B. The Copyright Act

"From its beginning, the law of copyright has developed in response to significant changes in technology." Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 430, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984). Copyright protections "subsists . . . in original works of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102(a). The Copyright Act of 1976, enacted in response to changing technology, gives a copyright owner several "exclusive rights," including the exclusive right to "display [\*10] the copyrighted work publicly." 17 U.S.C. § 106(5). To display a work, under the Act, is to "show a copy of it, either directly or by means of a film, slide, television image, or any other device or process." [\*589] 17 U.S.C. § 101 (emphasis added). The Act's Transmit Clause defines that exclusive right as including the right to "transmit or otherwise communicate . . . a display of the work . . . to the public, by means of any device or process." Id. It further defines "device or process" as "one now known or later developed." Id.

A review of the legislative history reveals that the drafters of the 1976 Amendments intended copyright protection to broadly encompass new, and not yet understood, technologies. Indeed, on the first page of the House Report, the drafters proclaimed that the Amendments were necessary in part because "technical advances have generated new industries and new methods for the reproduction and dissemination of copyrighted works;" furthermore, Congress did "not intend to freeze the scope of copyrightable subject matter at the present stage of communications technology." H.R. Rep. 94-1476, 47, 51 (1976).

Specifically, in considering the display right, Congress cast a

very wide net, intending to include "[e]ach and every method [\*\*11] by which the images . . . comprising a . . . display are picked up and conveyed," assuming that they reach the public. *Id.* at 64 (emphasis added). It further noted that "'display' would include the projection of an image on a screen or other surface by any method, the transmission of an image by electronic or other means, and the showing of an image on a cathode ray tube, or similar viewing apparatus connected with any sort of information storage and retrieval system." *Id.* (emphasis added). Indeed, an infringement of the display right could occur "if the image were transmitted by any method (by closed or open circuit television, for example, or by a computer system) from one place to members of the public elsewhere." *Id.* at 80 (emphasis added).

The Register of Copyrights testified during hearings that preceded the passage of the Act: "[T]he definition [of the display right] is intended to cover every transmission, retransmission, or other communication of [the image]," beyond the originating source that might store the image, but including "any other transmitter who picks up his signals and passes them on." *H. Comm. On the Judiciary, 89th Cong., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill*, at 25 (Comm. Print. 1965). He highlighted the importance of the display right in light of changing technology, specifically warning that "information storage and retrieval devices . . . when linked together by communication satellites or other means . . . could eventually provide libraries and individuals throughout the world with access to a single copy of a work [\*\*\*1783] by transmission of electronic images" and therefore [\*\*12] that "a basic right of public exhibition should be expressly recognized in the statute." *Id.* at 20 (emphasis added).

#### C. *American Broadcasting Cos., Inc. v. Aereo, Inc.*

The Supreme Court most recently considered the intersection of novel technologies and the Copyright Act in the *Aereo* decision, rendered in 2014. *American Broadcasting Cos., Inc. v. Aereo, Inc.*, 134 S. Ct. 2498, 189 L. Ed. 2d 476 (2014). The issue in *Aereo* was the performance right; the Court was deciding whether Aereo "infringed this exclusive right by selling its subscribers a technologically complex service that allows them to watch television programs over the Internet at about the same time as the programs are broadcast over the air." *Id.* at 2503. Aereo charged a monthly fee to allow subscribers to watch broadcast television programming over the internet; it maintained a vast number of servers and antennas in a central warehouse. When a user wanted to [\*590] watch a program, he would visit Aereo's website and select a show; in turn, Aereo's servers would select an antenna, tune it to the on-air broadcast, and transmit it via the

internet to the subscriber. Aereo argued that since the user chose the programs and Aereo's technology merely responded to the user's choice, it was the user and not Aereo who was in fact "transmitting" the [\*\*13] performance.

The Court rejected this analysis, comparing Aereo to the cable companies that parts of the 1976 Amendments were intended to reach. When comparing cable technology (where the signals "lurked behind the screen") to Aereo's technology (controlled by a click on a website), the Court stated: "[T]his difference means nothing to the subscriber. It means nothing to the broadcaster. We do not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into 'a copy shop that provides its patrons with a library card.'" *Id.* at 2507.

Even the dissent, which would have found no liability based on the lack of Aereo's volition in choosing which programming to make available, stated that where the alleged infringer plays no role in selecting the content, it cannot be held directly liable when a customer makes an infringing copy: "Aereo does not 'perform' for the sole and simple reason that it does not make the choice of content." *Id.* at 2514 (Scalia, J., dissenting).

#### D. The "Server Test"

Defendants urge this Court to define the scope of the display right in terms of what they refer to as the "Server Test." [\*\*14] According to defendants, it is "well settled" law and the facts of this case call for its application. As set forth below, the Court does not view the Server Test as the correct application of the law with regard to the facts here. Nevertheless, it is useful to briefly chronicle the body of law that has developed in that area and explain why it is inapplicable.

In *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007) ("*Perfect 10 II*"), the Ninth Circuit considered a claim of direct infringement of the display right against Google based upon Google Image Search. The district court addressed two different questions: 1) did the thumbnail images that automatically pop up when a user types in a search term constitute direct infringements of the display right; and 2) did the full size images that appeared on the screen after a user clicked on a thumbnail constitute direct infringements of the same display right. In answer, the court made a sharp distinction between the two based upon where the images were hosted. *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 839 (C.D. Cal. 2006) ("*Perfect 10 I*"). First, it found the thumbnails to be infringing, based on the fact that they were stored on Google's server. *Id.* at 844. Conversely, it held that the full size images, which were stored on third-

party servers and accessed [\*\*15] by "in-line linking"—which works, like embedding, based upon the HTML code instructions—were not infringements. *Id.* In so doing, the court rejected the plaintiff's proposed Incorporation Test, which would define display as the "act of incorporating content into a webpage that is then pulled up by the browser." *Id.* at 839. It adopted instead the Server Test, where whether a website publisher is directly liable for infringement turns entirely on whether the image is hosted on the publisher's own server, or is embedded or linked from a third-party server.

[\*\*\*1784] On appeal, the Ninth Circuit affirmed.<sup>2</sup> In the Ninth Circuit, therefore, at least as [\*\*591] regards a search engine, the "Server Test" is settled law.

Defendants here argue that Perfect 10 is part of an "unbroken line of authority" on which this Court should rely in determining broadly whether a copyright owner's display right has been violated. Outside of the Ninth Circuit, however, the Server Test has not been widely adopted. Even a quick survey reveals that the case law in this area is somewhat scattered. Of the other Circuits, only the Seventh Circuit has weighed in thus far—in Flava Works, Inc. v. Gunter, 689 F.3d 754 (7th Cir. 2012), the question before the court was whether the defendant was a contributory [\*\*16] infringer. Defendant in that case, a "social bookmarker," whose service involved enabling individuals who share interests to point each other towards online materials (in this case, videos) that cater towards that taste, through embedding the code for the video onto its website. The videos remained hosted on the original servers. As with Perfect 10, upon arriving on defendant's website, thumbnails would appear; after clicking on one, the user would retrieve content from plaintiff's website. The Flava Works Court found that defendants were not contributory infringers; the question of direct infringement was never reached. The lower court, however, had opined that "[t]o the extent that Perfect 10 can be read to stand for the proposition that inline linking can never cause a display of images or videos that would give rise to a claim of direct copyright infringement, we respectfully disagree. In our view, a website's servers need not actually store a copy of the work in order to 'display' it." Flava Works, Inc. v. Gunter, 2011 U.S. Dist. LEXIS 98451, 2011 WL 3876910, at \*4 (N.D. Ill. Sept. 1, 2011), rev'd on other grounds, 689 F.3d 754 (7th Cir. 2012) (emphasis added).

Four courts in this District have discussed the Server Test and Perfect 10's holding; none adopted the Server Test for the display right. First, in Live Face On Web, LLC v. Biblio Holdings LLC, 2016 U.S. Dist. LEXIS 124198, 2016 WL

4766344 (S.D.N.Y. Sept. 12, 2016), the issue [\*\*17] before the court was the distribution right, not the display right. Defendant argued that a distribution had not occurred, since the alleged infringing content was hosted on a third-party server, and not its own. The court noted that defendant cited no legal authority for this proposition, but stated that "such authority may exist," citing Perfect 10. 2016 U.S. Dist. LEXIS 124198, [WL] at \*4. The court did not adopt the Server Test; rather, it held that additional discovery was necessary as the issue had "hardly" been briefed. 2016 U.S. Dist. LEXIS 124198, [WL] at \*5. Second, in MyPlayCity, Inc. v. Conduit Ltd., 2012 U.S. Dist. LEXIS 47313, 2012 WL 1107648 (S.D.N.Y. Mar. 30, 2012), the distribution right was again at issue. In that case, when the user clicked a "play now" button on the defendant's customized tool bar, it would be able to play games hosted on the plaintiff's servers. The court cited Perfect 10 and then found that, due to the fact that plaintiff's servers "actually disseminated" the copies of [plaintiff's] copyrighted games, [defendant] cannot be held liable for infringing on [plaintiff's] distribution rights." 2012 U.S. Dist. LEXIS 47313, [WL] at \*14. Third, in Pearson Education, Inc. v. Ishayev, 963 F. Supp. 2d 239 (S.D.N.Y. 2013), the court held that standard text hyperlinks (not including images) that users click in order to view and visit other sites were not a use of infringing content, relying in part on Perfect 10; the exclusive right at issue here, [\*\*18] too, was the distribution right.

Only the fourth case in this District, Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640 (S.D.N.Y. 2013) squarely dealt with the § 106(5) display right. There, however, the court did no more than offer a simple factual statement, "The Ninth Circuit has held that the display of a photographic image on a computer may [\*\*592] implicate the display right, though infringement hinges, in part, on where the image was hosted." *Id.* at 652 (emphasis added). It then proceeded to deny summary judgment based on material disputes as to the content of the allegedly infringing issues. *Id.*

Additionally, in a trademark decision rendered in this District prior to Perfect 10, when considering whether defendant Tunes was liable for trademark infringement to the Hard Rock Café for "framing" the Hard Rock logo on their website, the court held that it was. Hard Rock Cafe Int'l (USA) Inc. v. Morton, 1999 U.S. Dist. LEXIS 8340, 1999 WL 717995 (S.D.N.Y. Sept. 9, 1999). After considering both the fact that "it [was] not clear to the computer user that she or he has left the [plaintiff's] web site" and the fact that there was a "seamless presentation" on [\*\*\*1785] the website, the court found that "the only possible conclusion is that the Hard Rock Hotel Mark is used or exploited to advertise and sell CDS." 1999 U.S. Dist. LEXIS 8340, [WL] at \*25.

<sup>2</sup>It found, however, that "Google is likely to succeed in proving its fair use defense" as to the thumbnail images.

Only a handful of other district courts have considered the issue.<sup>3</sup> In Grady v. Iacullo, 2016 U.S. Dist. LEXIS 51584, 2016 WL 1559134 (D. Colo. Apr. 18, 2016), the court [\*\*19] considered the exclusive reproduction and distribution rights, and, relying on Perfect 10, reopened discovery in order to allow plaintiff an opportunity to show that defendant stored the allegedly infringing images on his own computer.<sup>4</sup> In another recent district court case, plaintiff survived the motion to dismiss stage in a distribution case, based on the theory that each time a user used defendant's website, it "cause[d] a copy of [plaintiff's] software to be distributed to the website visitor's computer in cache, memory, or hard drive" and that the "[defendant's] website distributed copies of the code to each of the website's visitors." Live Face on Web, LLC v. Smart Move Search, Inc., 2017 U.S. Dist. LEXIS 40247, 2017 WL 1064664 (D.N.J. Mar. 21, 2017), at \*2.

Finally, in The Leader's Inst., LLC v. Jackson, 2017 U.S. Dist. LEXIS 193555, 2017 WL 5629514 (N.D. Tex. Nov. 22, 2017), at issue on summary judgment was, *inter alia*, whether plaintiffs infringed defendant's exclusive display rights by "framing" defendant's websites. The court rejected Perfect 10, holding that by "framing the defendant's copyrighted works, the plaintiffs impermissibly displayed the works to the public." 2017 U.S. Dist. LEXIS 193555, [WL] at \*10. It distinguished Perfect 10 on its facts, noting that, "[U]nlike Google, [plaintiffs' website] did not merely provide a link by which users could access [defendant's] content but instead displayed [defendant's] content as [\*\*20] if it were its own." 2017 U.S. Dist. LEXIS 193555, [WL] at \*11. It further stated: "[T]o the extent Perfect 10 makes actual possession of a copy a necessary condition to violating a copyright owner's exclusive right to display the copyrighted works, the Court respectfully disagrees with the Ninth Circuit. . . . The text of the Copyright Act does not make actual possession of a work a prerequisite for infringement." *Id.*

In sum, this Court is aware of only three decisions outside of the Ninth Circuit considering the display right in light of Perfect 10; one from the Seventh Circuit which adopted the Server Test for contributory liability, one from the Southern District which stated as a factual matter only that Perfect 10 existed, and one from the Northern District of Texas rejecting Perfect 10.

### III. DISCUSSION

<sup>3</sup>The Court does not here review district court cases from the Ninth Circuit, as they are appropriately controlled by Perfect 10's analysis.

<sup>4</sup>It subsequently granted summary judgment to the plaintiff upon a showing that the defendant had, in fact, downloaded the images onto his computer.

Defendants' argument is simple—they have framed the issue as one in which the [\*\*593] physical location and/or possession of an allegedly infringing image determines liability under the § 106(5) exclusive display right. Defendants argue that—despite the seamless presentation of the Brady Photo on their webpages—they simply provided "instructions" for the user to navigate to a third-party server on which the photo resided. According to [\*\*21] defendants, merely providing instructions does not constitute a "display" by the defendants as a matter of law. They maintain that Perfect 10's Server Test is settled law that should determine the outcome of this case.

Plaintiff maintains both 1) that to apply the Server Test leads to results incongruous with the purposes and text of the Copyright Act; and 2) even if the Server Test is rightfully applied in a case such as Perfect 10, or another case in which the user takes a volitional action of his own to display an image, it is inappropriate in cases such as those here, where the user takes no action to "display" the image. He and his amici<sup>5</sup> caution that to adopt the Server Test broadly would have a "devastating" economic impact on photography and visual artwork licensing industries, noting that it would "eliminate" the incentives for websites to pay licensing fees, and thus "deprive content creators of the resources necessary to invest in further creation." (ECF No. 145-1 at 4.)

The Court agrees with plaintiff. The plain language of the Copyright Act, the legislative history undergirding its enactment, and subsequent Supreme Court jurisprudence provide no basis for a rule that allows [\*\*22] the physical location or possession of an image to determine who may or may not have "displayed" a work within the meaning of the Copyright Act. [\*\*\*1786] Moreover, the Court agrees that there are critical factual distinctions between Perfect 10 and this case such that, even if the Second Circuit were to find the Server Test consistent with the Copyright Act, it would be inapplicable here.

#### A. The Copyright Act

Nowhere does the Copyright Act suggest that possession of an image is necessary in order to display it. Indeed, the purpose and language of the Act support the opposite view. The definitions in § 101 are illuminating. First, to display a work publicly means to "to transmit . . . a . . . display of the work . . . by means of any device or process." 17 USC § 101. To transmit a display is to "communicate it by any device or

<sup>5</sup>Getty Images, the American Society of Media Photographers, Digital Media Licensing Association, National Press Photographers Association, and North American Nature Photography Association submitted an amicus brief supporting plaintiff. (ECF No. 145-1.)

process whereby images or sounds are received beyond the place from which they are sent." *Id.* (emphasis added). Devices and processes are further defined to mean ones "now known or later developed." *Id.* This is plainly drafted with the intent to sweep broadly.

Here, defendants' websites actively took steps to "display" the image. A review of just a few of the declarations proffered by defendants [\*\*23] illustrates the point. For defendant Heavy.com:

[I]n order to embed the SneakerReporter Tweet, Heavy.com navigated to Twitter and copied the SneakerReporter Tweet's URL. Heavy.com then used out of the box content management functionality provided by WordPress to embed the SneakerReporter Tweet within the Heavy.com Article.

(ECF No. 130, Nobel Decl. ¶ 5.).

Defendant Boston Herald "pasted a code line into its blog/article that contains Twitter HTML instructions." (ECF No. 137, Emond Decl. ¶ 16.)

Defendant The Big Lead submitted a declaration in which the managing editor [\*594] stated, "My entering the URL for the RealBobManningTweet into the field for embedded content in the CMS [content management system] caused this URL to be inserted into embedding code that became part of the HTML code for the Big Lead Article." (ECF No. 127, Lisk Decl. ¶ 7.)

Defendant Gannett submitted a declaration in which the Vice President stated that:

[I]f I wanted that web page to display a photo that a third party user had posted to a site like Twitter, I could do so without me ever having to make a copy of the photo. I would simply include in my HTML code some additional coding containing a link to the URL of the Twitter page where the photo appeared. [\*\*24]

(ECF No. 126, Hiland Decl. ¶ 6) (emphasis added).

It is clear, therefore, that each and every defendant itself took active steps to put a process in place that resulted in a transmission of the photos so that they could be visibly shown. Most directly this was accomplished by the act of including the code in the overall design of their webpage; that is, embedding. Properly understood, the steps necessary to embed a Tweet are accomplished by the defendant website; these steps constitute a process. The plain language of the Copyright Act calls for no more.

Indeed, and as discussed above, the Copyright Act's authors intended to include "each and every method by which images . . . comprising a . . . display are picked up and conveyed;" moreover they went as far as to note that an infringement of

the display right could occur "if the image were transmitted by any method (. . . for example, by a computer system) from one place to members of the public elsewhere." H.R. Rep. 94-1476, 64, 70 (1976). Persuasive as well is the warning of the Register of Copyrights that a "basic right of public exhibition" was necessary to the 1976 Amendments precisely because "information storage and retrieval devices [\*\*25] . . . when linked together by communication satellites or other means . . . could eventually provide libraries and individuals throughout the world with access to a single copy or a work by transmission of electronic images." H. Comm. On the Judiciary, 89th Cong., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, at 25 (Comm. Print. 1965).

In sum, this Court sees nothing in either the text or purpose of the Copyright Act suggesting that physical possession of an image is a necessary element to its display for purposes of the Act.

#### B. Aereo's Impact

Moreover, though the Supreme Court has only weighed in obliquely on the issue, its language in Aereo is instructive. At heart, the [\*\*\*1787] Court's holding eschewed the notion that Aereo should be absolved of liability based upon purely technical distinctions—in the end, Aereo was held to have transmitted the performances, despite its argument that it was the user clicking a button, and not any volitional act of Aereo itself, that did the performing. The language the Court used there to describe invisible technological details applies equally well here: [\*\*26] "This difference means nothing to the subscriber. It means nothing to the broadcaster. We do not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into a 'copy shop that provides patrons with a library card.'" Aereo, 134 S. Ct. at 2507.

Of course, in Aereo there was no argument about the physical location of the antennae, which were without dispute located in Aereo's warehouses; similarly [\*595] there was no dispute that Aereo's servers saved data from the on-air broadcasts onto its own hard drives. On the other hand, Aereo was arguably a more passive participant in transmitting the performance right than is a user in the case here—who has no choice in what is displayed to him when he navigates to one of defendant's webpages. Furthermore, the principles that undergird the Aereo decision—chief among them that mere technical distinctions invisible to the user should not be the lynchpin on which copyright liability lies—apply with equal vigor here.

As noted above, even the dissent implies that we Aereo to engage in any sort of curatorial process as to content, that liability might lie: "In sum, Aereo does [\*\*27] not perform for the sole and simple reason that it does not make the choice of content." Id. at 2514 (Scalia, J., dissenting). This adds credence to the notion that where, as here, defendants are choosing the content which will be displayed, that they would indeed be displaying.

In sum, this Court reads Aereo, while not directly on point, as strongly supporting plaintiff's argument that liability should not hinge on invisible, technical processes imperceptible to the viewer.

### C. Perfect 10

The Court declines defendants' invitation to apply Perfect 10's Server Test for two reasons. First, this Court is skeptical that Perfect 10 correctly interprets the display right of the Copyright Act. As stated above, this Court finds no indication in the text or legislative history of the Act that possessing a copy of an infringing image is a prerequisite to displaying it. The Ninth Circuit's analysis hinged, however, on making a "copy" of the image to be displayed—which copy would be stored on the server. It stated that its holding did not "erroneously collapse the display right in section 106(5) into the reproduction right in 106(1)." Perfect 10 II, 508 F.3d at 1161. But indeed, that appears to be exactly what was done.

The [\*\*28] Copyright Act, however, provides several clues that this is not what was intended. In several distinct parts of the Act, it contemplates infringers who would not be in possession of copies—for example in Section 110(5)(A) which exempts "small commercial establishments whose proprietors merely bring onto their premises standard radio or television equipment and turn it on for their customer's enjoyment" from liability. H.R. Rep. No. 94-1476 at 87 (1976). That these establishments require an exemption, despite the fact that to turn on the radio or television is not to make or store a copy, is strong evidence that a copy need not be made in order to display an image.

Second, even if it correctly interprets the Act, to the degree that defendants interpret Perfect 10 as standing for a broadly-construed Server Test, focusing on the physical location of allegedly infringing images, this Court disagrees. Rather, Perfect 10 was heavily informed by two factors—the fact that the defendant operated a search engine, and the fact that the user made an active choice to click on an image before it was displayed—that suggest that such a broad reading is neither appropriate nor desirable.

In Perfect 10, the district court's [\*\*29] Opinion, while not strictly cabining its adoption of the Server Test to a search

engine like Google, nevertheless relied heavily on that fact in its analysis. It stated, for example, that adopting the Server Test "will merely preclude search engines from being held directly liable for in-line linking and or framing infringing contents stored on third-party websites." Perfect 10 I, 416 F. Supp. 2d at 844 (emphasis added). It went on: "Merely to index the web so that users can more readily find the information they seek should not constitute direct [\*\*596] infringement [\*\*\*1788] . . . ." Id. (emphasis added). On appeal, the Ninth Circuit began its statement of the case by saying, "we consider a copyright owner's efforts to stop an Internet search engine from facilitating access to infringing images." Perfect 10 II, 508 F.3d at 1154.

In addition, the role of the user was paramount in the Perfect 10 case—the district court found that users who view the full-size images "after clicking on one of the thumbnails" are "engaged in a direct connection with third-party websites, which are themselves responsible for transferring content." Perfect 10 I, 416 F. Supp. 2d at 843.

In this Court's view, these distinctions [\*\*30] are critical. In Perfect 10, Google's search engine provided a service whereby the user navigated from webpage to webpage, with Google's assistance. This is manifestly not the same as opening up a favorite blog or website to find a full color image awaiting the user, whether he or she asked for it, looked for it, clicked on it, or not. Both the nature of Google Search Engine, as compared to the defendant websites, and the volitional act taken by users of the services, provide a sharp contrast to the facts at hand.

In sum, the Court here does not apply the Server Test. It is neither appropriate to the specific facts of this case, nor, this Court believes, adequately grounded in the text of the Copyright Act. It therefore does not and should not control the outcome here.

### D. Defenses

Defendants warn that to find for plaintiff here would "cause a tremendous chilling effect on the core functionality of the web." (ECF No. 121, Defs.' Mem. of Law in Supp. at 35) (quoting Perfect 10 I, 416 F. Supp. 2d at 840). Their amici<sup>6</sup> warn that not adopting the Server Test here would "radically change linking practices, and thereby transform the Internet as we know it."

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<sup>6</sup>The Electronic Frontier Foundation, a non-profit foundation dedicated to free expression, and Public Knowledge, a not-for-profit public interest advocacy and research organization, submitted an amicus brief at ECF No. 143-1. (Amicus Brief of the Electronic Frontier Foundation and Public Knowledge in Support of Defendants' Motion for Partial Summary Judgment.)



The Court does not view the results [\*\*31] of its decision as having such dire consequences. Certainly, given a number as of yet unresolved strong defenses to liability separate from this issue, numerous viable claims should not follow.

In this case, there are genuine questions about whether plaintiff effectively released his image into the public domain when he posted it to his Snapchat account. Indeed, in many cases there are likely to be factual questions as to licensing and authorization. There is also a very serious and strong fair use defense, a defense under the Digital Millennium Copyright Act, and limitations on damages from innocent infringement.

In sum, for all the reasons discussed above, the Court DENIES defendants' motion for partial summary judgment and GRANTS partial summary judgment to the plaintiff.

#### IV. CONCLUSION

For the reasons stated above, defendants' motion for partial Summary Judgment is DENIED. The Court GRANTS partial Summary Judgment to the plaintiff. The Clerk of Court is directed to terminate the motion at ECF No. 119.

SO ORDERED.

Dated: New York, New York

February 15, 2018

/s/ Katherine B. Forrest

KATHERINE B. FORREST

United States District Judge

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# Oracle Am., Inc. v. Google LLC

United States Court of Appeals for the Federal Circuit

March 27, 2018, Decided

2017-1118, 2017-1202

## Reporter

886 F.3d 1179 \*; 2018 U.S. App. LEXIS 7794 \*\*; 126 U.S.P.Q.2D (BNA) 1228 \*\*\*; Copy. L. Rep. (CCH) P31,248; 2018 WL 1473875 School of Law, New York, NY.

ORACLE AMERICA, INC., Plaintiff-Appellant v. GOOGLE LLC, Defendant-Cross-Appellant

**Prior History:** [\*\*1] Appeals from the United States District Court for the Northern District of California in No. 3:10-cv-03561-WHA, Judge William H. Alsup.

Oracle Am., Inc. v. Google Inc., 2016 U.S. Dist. LEXIS 74931 (N.D. Cal., June 8, 2016)

Oracle Am., Inc. v. Google Inc., 2016 U.S. Dist. LEXIS 145601 (N.D. Cal., Sept. 27, 2016)

**Disposition:** REVERSED AND REMANDED; CROSS-APPEAL DISMISSED.

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**Judges:** Before O'MALLEY, PLAGER, and TARANTO, Circuit Judges.

**Opinion by:** O'MALLEY

## Opinion

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[\*1186] [\*\*\*1229] O'MALLEY, *Circuit Judge*.

This copyright case returns to us after a second jury trial, this one focusing on the defense of fair use. Oracle America, Inc. ("Oracle") [\*\*\*1230] filed suit against Google Inc. ("Google")<sup>1</sup> in the United States District Court for the Northern District of California, alleging that Google's unauthorized use of 37 packages of Oracle's Java application programming interface ("API packages") in its Android operating system infringed Oracle's patents [\*\*7] and copyrights.

At the first trial, the jury found that Google infringed Oracle's copyrights in the Java Standard Edition platform, but deadlocked on the question of whether Google's copying was a fair use.<sup>2</sup> After the verdict, however, the district court found

<sup>1</sup> In September 2017, Google converted from a corporation to a limited liability company and changed its name to Google LLC, as reflected in the amended caption.

<sup>2</sup> The jury found no patent infringement, and the patent claims are not at issue on appeal.

that the API packages were not copyrightable as a matter of law and entered judgment for Google. *Oracle Am., Inc. v. Google Inc.*, 872 F. Supp. 2d 974 (N.D. Cal. 2012). Oracle appealed that determination to this court, and we reversed, finding that declaring code and the structure, sequence, and organization ("SSO") of the Java API packages are entitled to copyright protection. *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339, 1348 (Fed. Cir. 2014). We remanded with instructions to reinstate the jury's infringement verdict and for further proceedings on Google's fair use defense and, if appropriate, on damages. *Id.* at 1381.

Google subsequently filed a petition for certiorari on the copyrightability determination. The Supreme Court called for the views of the Solicitor General, who expressed agreement with our determination and recommended denying review. The Supreme Court denied certiorari in 2015. *Google Inc. v. Oracle Am., Inc.*, 135 S. Ct. 2887, 192 L. Ed. 2d 948 (2015) (Mem.).

At the second jury trial, Google prevailed on its fair use defense. After the jury verdict, the district court denied Oracle's motion for judgment as a matter of law ("JMOL") [\*\*8] and entered final judgment in favor of Google. *Oracle Am., Inc. v. Google Inc.*, No. C 10-03561, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206 (N.D. Cal. June 8, 2016) ("*Order Denying JMOL*"); Final Judgment, *Oracle Am., Inc. v. Google Inc.*, No. 3:10-cv-3561 (N.D. Cal. June 8, 2016), ECF No. 1989. Oracle filed a renewed motion for JMOL and separately moved for a new trial. The district court denied both motions in a single order. *Oracle Am., Inc. v. Google Inc.*, No. C 10-03561, 2016 U.S. Dist. LEXIS 145601, 2016 WL 5393938 (N.D. Cal. Sept. 27, 2016) ("*Order Denying Renewed JMOL/New Trial*"). Consistent with these determinations, no damages verdict was rendered.

Oracle now appeals from the district court's final judgment and its decisions denying Oracle's motions for JMOL and motion for a new trial. Google cross-appeals from the final judgment purportedly to "preserv[e] its claim that the declarations/SSO are not protected by copyright law," but advances no argument for why this court can or should revisit our prior decision on copyrightability. Cross-Appellant Br. 83.

Because we conclude that Google's use of the Java API packages was not fair as a matter of law, we reverse the district court's decisions denying Oracle's motions for JMOL and remand for a trial on damages. We also dismiss Google's cross-appeal.

## I. BACKGROUND

### A. The Technology

Oracle's predecessor, Sun Microsystems, Inc. ("Sun"), developed the Java platform for [\*\*9] computer programming in the 1990s, and Oracle purchased Sun in 2010. The Java platform is software used to write and run programs in the Java programming language. It allows programmers to write programs that "run on different types of computer hardware without having to rewrite them for each different type." *Oracle*, 750 F.3d at 1348. With Java, programmers can "write once, run anywhere." *Id.*

The Java 2 Standard Edition ("Java SE") of the platform includes, among other things, the Java Virtual Machine and the Java Application Programming Interface ("API"). The Java API is a collection of "pre-written Java source code programs for common and more advanced computer functions." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*3. These APIs "allow programmers to use the prewritten code to build certain functions into their own programs rather than write their own code to perform those functions from scratch. They are shortcuts." *Oracle*, 750 F.3d at 1349. [\*\*\*1231] The prewritten programs are organized into packages, classes, and methods. Specifically, an API package is a collection of classes and each class contains methods and other elements. "Each method performs a specific function, sparing a programmer the need to write Java code from scratch to perform that function." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*3.

To include a particular [\*\*10] function in a program, the programmer invokes the Java "declaring code." As the district court explained, the declaring code is the line or lines of source code that "declares or defines (i) the method name and (ii) the input(s) and their type as expected by the method and the type of any outputs." 2016 U.S. Dist. LEXIS 74931, [wL] at \*4. After the declaring code, each method includes "implementing code," which takes the input(s) and gives the computer step-by-step instructions to carry out the declared function.

By 2008, Java SE included 166 API packages divided into 3,000 classes containing more than 30,000 methods. At issue in this appeal are 37 API packages from Java SE Version 1.4 and Version 5.0. We have already concluded that the declaring code and the SSO of the 37 Java API packages at issue are entitled to copyright protection. *Oracle*, 750 F.3d at 1348.

[\*1187] The Java programming language itself is free and available for use without permission. At this stage, it is undisputed that, to write in the Java programming language, "62 classes (and some of their methods), spread across three packages *within* the Java API library, *must* be used. Otherwise

the language itself will fail." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*5. It is also undisputed that anyone using the Java programming language [\*\*11] can write their own library of prewritten programs to carry out various functions.

Although Oracle makes the Java platform freely available to programmers building applications ("apps"), it devised a licensing scheme to attract programmers while simultaneously commercializing the platform. In relevant part, Oracle charges a licensing fee to those who want to use the APIs in a competing platform or embed them in an electronic device. To preserve the "write once, run anywhere" philosophy, Oracle imposes strict compatibility requirements on licensees. *Oracle*, 750 F.3d at 1350. Oracle also made available without charge under an open source license a version of Java called "Open-JDK." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*10. Oracle maintains, however, that OpenJDK came with an important catch: any company that improved on the packages in OpenJDK had to "give away those changes for free" to the Java community." Appellant Br. 53.

The evidence showed that Oracle licensed Java in 700 million PCs by 2005. Although Oracle never successfully developed its own smartphone platform using Java, it licensed Java SE for mobile devices. According to Oracle, the "mobile device market was particularly lucrative," and "Java quickly became the leading platform for developing [\*\*12] and running apps on mobile phones." Appellant Br. 9.

#### B. Google's Android Platform

In 2005, Google acquired Android, Inc. as part of a plan to develop a software platform for mobile devices. That same year, Google and Sun began discussing the possibility of Google taking a license to use and adapt the Java platform for mobile devices. *Oracle*, 750 F.3d at 1350. The parties were unable to reach an agreement, in part because Google wanted device manufacturers to be able to use Oracle's APIs in Android for free with no limits on modifying the code, which would jeopardize the "write once, run anywhere" philosophy.

The jury heard evidence that Google wanted to move quickly to develop a platform that would attract Java developers to build apps for Android. The Android team had been working on creating its own APIs, but was unable to do so successfully. After negotiations between the parties reached an impasse, Google elected to "[d]o Java anyway and defend [its] decision, perhaps making enemies along the way." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*6. It is undisputed that Google copied verbatim the declaring code of the 37 Java API packages—11,500 lines of Oracle's copyrighted code. It also copied the SSO of the

Java API packages. Google then wrote its own [\*\*13] implementing code.

Google announced its Android software platform for mobile devices in 2007, and the first Android phones went on sale the following year. Google provides the Android platform [\*\*\*1232] free of charge to smartphone manufacturers and publishes the source code for use without charge under an open source license. Although Google does not directly charge its users, Android has generated over \$42 billion in revenue from advertising. Oracle explains that Android was "devastating" to its licensing strategy and that many of its customers switched to Android. Appellant Br. 15. [\*\*1188] Even customers who stayed with Oracle cited Android as a reason to demand discounts. The jury heard evidence that Amazon, which had entered into a license to use Java for its Kindle tablet device, switched to Android for the subsequently released Kindle Fire and then used the existence of Android to leverage a steep discount from Oracle on the next generation Kindle.

#### C. Remand Proceedings

In the first appeal, we held that the declaring code and the SSO of the 37 API packages are entitled to copyright protection and ordered the district court to reinstate the jury's infringement finding. *Oracle*, 750 F.3d at 1381. We also considered Oracle's [\*\*14] argument that it was entitled to judgment as a matter of law on Google's fair use defense. Although we found that Oracle's position was "not without force," and that Google was overstating what could be fair use under the law, we found that the record evidence regarding the relevant fair use factors was insufficiently developed for us to resolve the issue on appeal. *Oracle*, 750 F.3d at 1376. In doing so, we pointed to sharp disputes between the parties, both legal and factual, including whether Google's use was transformative, whether "functional aspects of the package" and Google's "desire to achieve commercial 'interoperability'" weighed in favor of the second and third factors, and whether Android caused market harm to Oracle. *Id.* at 1376-77. We concluded that "due respect for the limit of our appellate function" required remand. *Id.* at 1376.

During the pendency of the first appeal, Google's Android business expanded significantly. Android gained new users and developers, and Google "released modified implementations and derivatives of Android for use in numerous device categories, including wearable devices with small screens (Android Wear), dashboard interfaces in cars (Android Auto), television sets (Android TV), and everyday [\*\*15] devices with Internet connectivity." *Oracle Am., Inc. v. Google Inc.*, No. C10-03561, 2016 U.S. Dist. LEXIS 58290, 2016 WL 1743111, at \*1 (N.D. Cal. May 2, 2016) ("*Order on Motion in Limine*").

When the case returned to the district court, Oracle filed a supplemental complaint adding allegations of market harm and damages resulting from new versions of Android released since the original complaint. Specifically, Oracle alleged that Google had launched new versions of Android for phones and tablets and had expanded Android into new device categories. *Id.* Google did not oppose the supplemental complaint, and the district court granted Oracle's motion to file it. But when Oracle served expert reports that addressed versions of Java SE that were not at issue in the first trial, Google moved to strike those reports. *Id.*

When the parties were unable to agree on the scope of the retrial, the district court limited it to: (1) the two versions of Java SE that Oracle asserted in the first trial; and (2) released versions of Android used in smartphones and tablets "which Google . . . agreed would be subject to the prior jury's adverse finding of infringement and which Oracle identified in its supplemental complaint." *Id.* The court explained that Oracle retained the right to sue Google for infringement with respect to **[\*\*16]** the other versions and implementations of Android in a separate trial or proceeding. Order re: Google's Motion to Strike at 2, *Oracle Am., Inc. v. Google Inc.*, No. 3:10-cv-3561 (N.D. Cal. Feb. 5, 2016), ECF No. 1479. The court also granted Google's motion in limine to exclude all evidence of the new Android products.

The district court bifurcated the issue of fair use from willfulness and monetary remedies, and the trial on fair use began **[\*1189]** on May 10, 2016. After roughly one week of evidence and several days of deliberations, the jury found that Google's use of the declaring lines of code and the SSO of the 37 API packages constituted fair use.

Oracle moved for JMOL, which the district court denied. At the outset, the court noted that Oracle stipulated before the jury "that it was fair to use the 62 'necessary' classes given that the Java programming language itself was free and open to use without a license." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL **[\*\*\*1233]** 3181206, at \*5. "That the 62 'necessary' classes reside without any identification as such within the Java API library (rather than reside within the programming language)," the court explained, "supports Google's contention that the Java API library is simply an extension of the programming language **[\*\*17]** itself and helps explain why some view the Java API declarations as free and open for use as the programming language itself." *Id.* Because Android and Java both "presupposed the Java programming language in the first place," the court noted that a jury reasonably could have found that it "was better for both to share the same SSO insofar as they offered the same functionalities, thus maintaining usage consistency across systems and avoiding

cross-system confusion." 2016 U.S. Dist. LEXIS 74931, [WL] at \*6.

The district court then considered each of the four statutory fair use factors. As to factor one—the purpose and character of the use—the court concluded that a reasonable jury could have found that, although Google's use was commercial, it was transformative because Google integrated only selected elements for mobile smartphones and added its own implementing code. 2016 U.S. Dist. LEXIS 74931, [WL] at \*7-9. With respect to factor two—the nature of the copyrighted work—the district court found that a reasonable jury could have concluded that, "while the declaring code and SSO were creative enough to qualify for copyright protection," they were not "highly creative," and that "functional considerations predominated in their design." 2016 U.S. Dist. LEXIS 74931, [WL] at \*10.

As to factor three—the amount **[\*\*18]** and substantiality of the portion used—the court concluded that a reasonable jury could have found that "Google copied only so much as was reasonably necessary for a transformative use," and that the number of lines duplicated was minimal. *Id.* Finally, as to factor four—market harm—the court concluded that the jury "could reasonably have found that use of the declaring lines of code (including their SSO) in Android caused no harm to the market for the copyrighted works, which were for desktop and laptop computers." *Id.* The court determined that, on the record presented, the jury could have found for either side and that the jury was "reasonably within the record in finding fair use." 2016 U.S. Dist. LEXIS 74931, [WL] at \*11.

Oracle subsequently renewed its motion for JMOL and separately moved for a new trial challenging several of the court's discretionary decisions at trial. The district court denied both motions in a single order. With respect to JMOL, the court simply stated that it denied Oracle's renewed motion for the same reasons it denied the original motion. With respect to the motion for a new trial, the court rejected Oracle's argument that the court abused its discretion by limiting the evidence at trial to Google's **[\*\*19]** use of Android in smartphones and tablets.

The court also rejected Oracle's allegation that Google engaged in discovery misconduct by withholding evidence during discovery relating to Google's App Runtime for Chrome ("ARC"), which enabled laptops and desktops running Google's computer operating system to run certain Android applications. *Order Denying Renewed JMOL/New Trial*, 2016 U.S. Dist. LEXIS 145601, 2016 WL **[\*1190]** 5393938, at \*5. The court found that Google had produced relevant documents during discovery and that, in any event, those documents pertained to issues beyond the scope of the

retrial. 2016 U.S. Dist. LEXIS 145601, [WL] at \*7-8.

Finally, the district court rejected Oracle's argument that certain of the court's evidentiary rulings were abuses of discretion. The court explained that it: (1) redacted one line from an email because it was "too inflammatory and without foundation;" and (2) excluded other documents because Oracle had withheld them as privileged until trial. 2016 U.S. Dist. LEXIS 145601, [WL] at \*9-12.

On June 8, 2016, the district court entered final judgment in favor of Google and against Oracle. Oracle timely appealed from the district court's judgment against it, including the court's underlying decisions denying its motions for JMOL and for a new trial. Google timely cross-appealed from all adverse orders and rulings underlying that **[\*\*20]** final judgment.

This court has exclusive jurisdiction over all appeals in actions involving patent claims, including where, as here, an appeal raises only non-patent issues. 28 U.S.C. § 1295(a)(1). Because copyright law is not within this court's exclusive jurisdiction, we apply the law of the regional circuit in which the district court sits; here, the Ninth Circuit. *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 837 (Fed. Cir. 1992).

## **[\*\*\*1234]** II. ORACLE'S APPEAL

### A. Legal Framework

It is undisputed that Google copied Oracle's declaring code and SSO for the 37 API packages verbatim. The question is whether that copying was fair. "From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose, 'to promote the Progress of Science and useful Arts.'" *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575, 114 S. Ct. 1164, 127 L. Ed. 2d 500 (1994) (quoting U.S. Const., art. I, § 8, cl. 8). As the Supreme Court noted in *Campbell*, "[i]n truth, in literature, in science and in art, there are, and can be, few, if any, things, which in an abstract sense, are strictly new and original throughout. Every book in literature, science and art, borrows, and must necessarily borrow, and use much which was well known and used before." *Id.* (quoting *Emerson v. Davies*, 8 F. Cas. 615, 619, F. Cas. No. 4436 (C.C.D. Mass. 1845)).

The fair use defense began as a judge-made doctrine and was codified in Section 107 of the 1976 Copyright Act. *Id.* at 576. It **[\*\*21]** operates as a limited exception to the copyright holder's exclusive rights and permits use of copyrighted work if it is "for purposes such as criticism, comment, news

reporting, teaching . . . , scholarship, or research." 17 U.S.C. § 107. The "such as" language confirms that the listing "was not intended to be exhaustive," but nevertheless "give[s] some idea of the sort of activities the courts might regard as fair use under the circumstances." *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 561, 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985) (citation omitted).

"Section 107 requires a case-by-case determination whether a particular use is fair, and the statute notes four nonexclusive factors to be considered." *Id.* at 549. Those factors include: (1) "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;" (2) "the nature of the copyrighted work;" (3) "the amount and substantiality of the portion used in relation to the copyrighted work as a whole;" and (4) "the effect of the use upon the potential market for or value of the copyrighted **[\*1191]** work." 17 U.S.C. § 107. The Supreme Court has cautioned against adopting bright-line rules and has emphasized that all of the statutory factors "are to be explored, and the results weighed together, in light of the purposes **[\*\*22]** of copyright." *Campbell*, 510 U.S. at 578.

The legislative history reveals that Congress intended § 107 "'to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way' and intended that courts continue the common-law tradition of fair use adjudication." *Id.* at 577 (quoting H.R. Rep. No. 94-1476, at 66 (1976), S. Rep. No. 94-473 at 62 (1975), U.S. Code Cong. & Admin. News 5659, 5679 (1976)). Accordingly, in balancing the four statutory factors, courts consider "whether the copyright law's goal of 'promot[ing] the Progress of Science and useful Arts,' U.S. Const., art. 1, § 8, cl. 8, 'would be better served by allowing the use than by preventing it.'" *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132, 141 (2d Cir. 1998) (quoting *Arica Inst., Inc. v. Palmer*, 970 F.2d 1067, 1077 (2d Cir. 1992)).

Despite this guidance, the doctrine of fair use has long been considered "the most troublesome in the whole law of copyright." *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1170 (9th Cir. 2012) (quoting *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939) (per curiam)). It both permits and requires "courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." *Campbell*, 510 U.S. at 577 (quoting *Stewart v. Abend*, 495 U.S. 207, 236, 110 S. Ct. 1750, 109 L. Ed. 2d 184 (1990)).

Because fair use is an affirmative defense to a claim of infringement, Google bears the burden to prove that the statutory factors weigh in its favor. *Id.* at 590. Not all of the four factors must favor Google, however. *See Wall Data Inc.*

v. *L.A. Cty. Sheriff's Dep't*, 447 F.3d 769, 778 (9th Cir. 2006). Instead, [\*\*23] "fair use is appropriate where a 'reasonable copyright owner' would have consented to the use, i.e., where the 'custom or public policy' at the time would have defined the use as reasonable." *Id.* (citation omitted).

[\*\*1235] On appeal, Oracle argues that each of the four statutory factors weighs against a finding of fair use. Specifically, it submits that: (1) the purpose and character of Google's use was purely for commercial purposes; (2) the nature of Oracle's work is highly creative; (3) Google copied 11,330 more lines of code than necessary to write in a Java language-based program; and (4) Oracle's customers stopped licensing Java SE and switched to Android because Google provided free access to it. In the alternative, Oracle argues that it is entitled to a new trial because the district court made several errors that deprived it of a fair opportunity to present its case. Because, as explained below, we agree with Oracle that Google's copying was not fair use as a matter of law, we need not address Oracle's alternative arguments for a new trial.

#### B. Standards of Review

Before turning to a consideration of the four statutory factors and any relevant underlying factual determinations, we first [\*\*24] address the standard of review we are to employ in that consideration. While this section of most appellate opinions presents easily resolvable questions, like much else in the fair use context, that is not completely the case here.

There are several components to this inquiry. First, which aspects of the fair use determination are legal in nature and which are factual? Particularly, is the ultimate [\*\*1192] question of fair use a legal inquiry which is to be reviewed de novo? Second, what factual questions are involved in the fair use determination and under what standard are those determinations to be reviewed? Finally, though neither party addresses the question in detail, we consider what, if any, aspects of the fair use determination are for the jury to decide.

The Supreme Court has said that fair use is a mixed question of law and fact. *Harper & Row*, 471 U.S. at 560 (citing *Pac. & S. Co. v. Duncan*, 744 F.2d 1490, 1495 n.8 (11th Cir. 1984)). Merely characterizing an issue as a mixed question of law and fact does not dictate the applicable standard of review, however. See *U.S. Bank Nat'l Ass'n ex rel. CWC Capital Asset Mgmt. LLC*, 138 S. Ct. 960, 200 L. Ed. 2d 218, 2018 WL 1143822, at \*5 (U.S. 2018).

The Supreme Court has recently explained how we are to determine what the standard of review should be in connection with any mixed question of law and fact. *Id.* Specifically, the Court made clear that an appellate [\*\*25]

court is to break mixed questions into their component parts and to review each under the appropriate standard of review. 200 L. Ed. 2d 218, *Id.* at \*5-7. In *U.S. Bank*, the Supreme Court considered the level of review to be applied to a Bankruptcy Court's determination of whether a creditor in a bankruptcy action qualified as a "non-statutory insider" for purposes of 11 U.S.C. § 1129(a). 200 L. Ed. 2d 218, *Id.* at \*3-4. The Court found that there were three components to that inquiry: (1) determining the legal standard governing the question posed and what types of historical facts are relevant to that standard; (2) finding what the historical facts in the case at hand are; and (3) assessing whether the historical facts found satisfy the legal test governing the question to be answered. 200 L. Ed. 2d 218, *Id.* at \*4-5. As the Court explained, the first of these three is a purely legal question to be reviewed de novo on appeal and the second involves factual questions which "are reviewable only for clear error." 200 L. Ed. 2d 218, *Id.* at \*4 (citing Fed. R. Civ. P. 52(a)(6) (clear error standard)). The third is what the Court characterized as the "mixed question." 200 L. Ed. 2d 218, *Id.* at \*5.

Importantly, the Court noted that "[m]ixed questions are not all alike." *Id.* The Court then held that "the standard of review for a mixed question all depends—on whether answering it [\*\*26] entails primarily legal or factual work." *Id.* Where applying the law to the historical facts "involves developing auxiliary legal principles of use in other cases—appellate courts should typically review a decision de novo." *Id.* (citing *Salve Regina College v. Russell*, 499 U.S. 225, 231-33, 111 S. Ct. 1217, 113 L. Ed. 2d 190 (1991)). But where the mixed question requires immersion in case-specific factual issues that are so narrow as to "utterly resist generalization," the mixed question review is to be deferential. *Id.* (quoting *Pierce v. Underwood*, 487 U.S. 552, 561-62, 108 S. Ct. 2541, 101 L. Ed. 2d 490 (1988)). Ultimately, the Court found that review of the mixed question at issue in that bankruptcy context should be deferential because de novo review of the question would do little to "clarify legal principles or provide guidance to other courts resolving other disputes." 200 L. Ed. 2d 218, *Id.* at \*7.

[\*\*1236] While this may be the first time the Supreme Court has so clearly explained how appellate courts are to analyze mixed questions of law and fact, it is not the first time the Supreme Court has told us how to analyze the particular mixed question of law and fact at issue here. In other words, while the Supreme Court has not previously broken the fair use inquiry into its three analytical components as expressly as it did the question in *U.S. Bank*, it has made [\*\*1193] clear that both the first and [\*\*27] third of those components are subject to de novo review.



In *Harper & Row*, the Court explained that, "[w]here the district court has found facts sufficient to evaluate each of the statutory factors, an appellate court 'need not remand for further factfinding but may conclude as a matter of law that the challenged use does not qualify as a fair use of the copyrighted work.'" 471 U.S. at 560 (quoting *Pac. & S. Co.*, 744 F.2d at 1495) (internal alterations omitted)). The Ninth Circuit has resolved the question in the same way. Where fair use is resolved on summary judgment, the Ninth Circuit reviews the district court's ultimate determination de novo. *SOFA Entm't, Inc. v. Dodger Prods., Inc.*, 709 F.3d 1273, 1277 (9th Cir. 2013) ("Whether Dodger's use of the clip constitutes fair use is a mixed question of law and fact that we review de novo."). That court has explained that, "as fair use is a mixed question of fact and law, so long as the record is 'sufficient to evaluate each of the statutory factors,' we may reweigh on appeal the inferences to be drawn from that record." *Mattel Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 800 (9th Cir. 2003) (quoting *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 942 (9th Cir. 2002)).

This treatment of the ultimate question posed when a fair use defense is raised makes sense. The fair use question entails, in the words of *U.S. Bank*, a primarily legal exercise. It requires a court to assess the inferences to [\*\*28] be drawn from the historical facts found in light of the legal standards outlined in the statute and relevant case law and to determine what conclusion those inferences dictate. Because, as noted below, the historical facts in a fair use inquiry are generally few, generally similar from case to case, and rarely debated, resolution of what any set of facts means to the fair use determination definitely does not "resist generalization." See *U.S. Bank*, 200 L. Ed. 2d 218, 2018 WL 1143822, at \*5. Instead, the exercise of assessing whether a use is fair in one case will help guide resolution of that question in all future cases.

For these reasons, we conclude that whether the court applied the correct legal standard to the fair use inquiry is a question we review de novo, whether the findings relating to any relevant historical facts were correct are questions which we review with deference, and whether the use at issue is ultimately a fair one is something we also review de novo.

We have outlined the legal standard governing fair use above. We consider below whether the court properly applied those standards in the course of its fair use analysis and whether it reached the correct legal conclusion with respect to fair use. Before doing so, [\*\*29] we briefly discuss the historical facts relevant to the fair use inquiry and consider the jury's role in determining those facts.

The Supreme Court has described "historical facts" as "a

recital of external events." *Thompson v. Keohane*, 516 U.S. 99, 110, 116 S. Ct. 457, 133 L. Ed. 2d 383 (1995); see also *U.S. Bank*, 200 L. Ed. 2d 218, 2018 WL 1143822, at \*4 (describing the historical facts at issue there as facts relating to "the attributes of a particular relationship or the circumstances and terms of a prior transaction"). In the fair use context, historical facts include the "origin, history, content, and defendant's use" of the copyrighted work. *Fitzgerald v. CBS Broad., Inc.*, 491 F. Supp. 2d 177, 184 (D. Mass. 2007); see also *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 788 F. Supp. 78, 95 (D. Mass. 1992) (defining historical facts to include "who did what, where, and when"). When asked at oral argument to identify historical facts relevant to the fair use inquiry, counsel for Oracle agreed that they are the "who, what, where, when, how, [and] how much." [\*\*1194] Oral Arg. at 3:28-54, available at <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2017-1118.mp3>. Google did not dispute this characterization. This is, in part, because, in most fair use cases, defendants concede that they have used the copyrighted work, and [\*\*\*1237] "there is rarely dispute over the history, content, or origin of the copyrighted work." See Ned Snow, *Judges Playing Jury: Constitutional Conflicts [\*\*30] in Deciding Fair Use on Summary Judgment*, 44 U.C. Davis L. Rev. 483, 493 (2010).

While some courts once treated the entire question of fair use as factual, and, thus, a question to be sent to the jury, that is not the modern view.<sup>3</sup> Since *Harper & Row*, the Ninth Circuit has described fair use as an "equitable defense." *Fisher v. Dees*, 794 F.2d 432, 435 (9th Cir. 1986) ("The fair-use doctrine was initially developed by courts as an equitable defense to copyright infringement."). Indeed, the Supreme Court referred to fair use as "an equitable rule of reason" in *Harper & Row*. 471 U.S. at 560. Congress did the same when it codified the doctrine of fair use in 1976. See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 65-66 (1976), U.S. Code Cong. & Admin. News 1976, 5659, 5679-80 ("[S]ince the doctrine [of fair use] is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts . . ."). If fair use is equitable in nature, it would seem to be a question for the judge, not the jury, to decide, even when there are factual disputes regarding its application. See *Granite State Ins. Co. v. Smart Modular Techs., Inc.*, 76 F.3d 1023, 1027 (9th Cir.

<sup>3</sup> In *DC Comics, Inc. v. Reel Fantasy, Inc.*, 696 F.2d 24, 28 (2d Cir. 1982), the Second Circuit found that "[t]he four factors listed in Section 107 raise essentially factual issues and, as the district court correctly noted, are normally questions for the jury." So too, Justice Joseph Story described fair use as a "question of fact to come to a jury" in 1845. *Emerson v. Davies*, 8 F. Cas. 615, 623-24, F. Cas. No. 4436 (C.C.D. Mass. 1845).

1996) ("A litigant is not entitled to have a jury resolve a disputed affirmative defense if the defense is equitable in nature."). In that instance, it would be the judge's **[\*\*31]** factual determinations that would receive a deferential review—being assessed for clear error on the record before the court.

That said, the Supreme Court has never clarified whether and to what extent the jury is to play a role in the fair use analysis. *Harper & Row* involved an appeal from a bench trial where the district court concluded that the use of the copyrighted material was not a fair use. *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 199 (2d Cir. 1983). The Court, thus, had no reason to discuss a jury determination of fair use and has not since taken an opportunity to do so.

Perhaps because of this silence, even after *Harper & Row*, several courts—including the Ninth Circuit—have continued to accept the fact that the question of fair use may go to a jury, albeit without analysis of why it may. *Compaq Comput. Corp. v. Ergonome Inc.*, 387 F.3d 403, 411 (5th Cir. 2004) ("The evidence presented at trial and the reasonable inferences therefrom, when viewed through the lens of the statutory fair use factors, support the jury's fair use finding."); *Jartech, Inc. v. Clancy*, 666 F.2d 403, 407-08 (9th Cir. 1982) (concluding that substantial evidence supported the jury's verdict on fair use); *Fiset v. Sayles*, No. 90-16548, 1992 U.S. App. LEXIS 12586, 1992 WL 110263, at \*4 (9th Cir. May 22, 1992) (finding that a reasonable jury could have concluded that "the evidence supporting fair use was not substantial"); see also *BUC Int'l Corp. v. Int'l Yacht Council*, 489 F.3d 1129, 1137 (11th Cir. 2007) (noting that the **[\*1195]** fair use defense went to the jury); *N.Y. Univ. v. Planet Earth Found.*, 163 F. App'x 13, 14 (2d Cir. 2005) ("As to the **[\*\*32]** copyright infringement claim, the evidence also supports the jury's finding of fair use, under the four-factored analysis prescribed by statute.").

The Ninth Circuit has clarified, however, that the jury role in this context is limited to determining disputed "historical facts," not the inferences or conclusions to be drawn from those facts. See *Fisher*, 794 F.2d at 436. In *Fisher*, for example, the court explained that "[n]o material historical facts are at issue in this case. The parties dispute only the ultimate conclusions to be drawn from the admitted facts. Because, under *Harper & Row*, these judgments are legal in nature, we can make them without usurping the function of the jury." *Id.*; see also *Seltzer v. Green Day, Inc.*, 725 F.3d 1170, 1175 (9th Cir. 2013) ("As in *Fisher*, [n]o material historical facts are at issue in this case. The parties dispute only the ultimate conclusion to be drawn from the admitted facts." (citing *Fisher*, 794 F.2d at 436)); *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 606 F. Supp. 1526, 1532

**[\*\*\*1238]** (C.D. Cal. 1985) (noting that "fair use normally is a question of fact for the jury," but concluding that "the issue of fair use, at least in the context of this case, presents primarily a question of law"). Accordingly, while inferences from the four-factor analysis and the ultimate question of fair use are "legal in nature," in the Ninth Circuit, disputed **[\*\*33]** historical facts represent questions for the jury. *Fisher*, 794 F.2d at 436. Where there are no disputed material historical facts, fair use can be decided by the court alone. *Id.*

Despite this case law, all aspects of Google's fair use defense went to the jury with neither party arguing that it should not. Thus, the jury was asked not just what the historical facts were, but what the implications of those facts were for the fair use defense. During the first appeal, Google argued to this court that there were disputed issues of material historical fact relevant to its fair use defense. As discussed below, the parties stipulated—or at least ceased to dispute—some of those facts, and presented the remaining disputed historical facts to the jury on remand. The jury returned a verdict in favor of Google on its fair use defense. Because the verdict form—though captioned as a "special verdict"—did not ask the jury to articulate its fact findings in any detail, we must assume that the jury resolved all factual issues relating to the historical facts in favor of the verdict.<sup>4</sup> Despite the posture of the fair use finding, we must break that finding into its constituent parts. We must then review the subsidiary and controverted **[\*\*34]** findings of historical fact for substantial evidence. See *Seltzer*, 725 F.3d at 1175; see also *Brewer v. Hustler Magazine, Inc.*, 749 F.2d 527, 528 (9th Cir. 1984) ("We may disturb a jury verdict only if the evidence was insufficient as a matter of law.").

**[\*1196]** All jury findings relating to fair use other than its implied findings of historical fact must, under governing Supreme Court and Ninth Circuit case law, be viewed as advisory only. Accordingly, while we might assess the jury's role in the assessment of fair use differently if not bound by

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<sup>4</sup> As counsel for Oracle noted at oral argument, this is similar to the standard we apply in obviousness cases. Oral Argument at 9:34-10:24. Because obviousness is a mixed question of law and fact, we "first presume that the jury resolved the underlying factual disputes in favor of the verdict [ ] and leave those presumed findings undisturbed if they are supported by substantial evidence. Then we examine the [ultimate] legal conclusion [of obviousness] de novo to see whether it is correct in light of the presumed jury fact findings." *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, 688 F.3d 1342, 1356-57 (Fed. Cir. 2012) (quoting *Jurgens v. McKasy*, 927 F.2d 1552, 1557 (Fed. Cir. 1991)). Likewise, Google cited our decision in *Kinetic Concepts* for the proposition that we must "presume that the jury made all findings in support of the verdict that are supported by substantial evidence." Cross-Appellant Br. 35.

Ninth Circuit law, we proceed on the assumption both that: (1) it was not error to send the question to the jury, because the Ninth Circuit has at least implicitly endorsed doing so; and (2) we must assess all inferences to be drawn from the historical facts found by the jury and the ultimate question of fair use de novo, because the Ninth Circuit has explicitly said we must do so.

The parties have identified the following historical facts relating to Google's use of the copyrighted work:

- the history and origin of the copyrighted work, including what declaring code is;
- how much of the copyrighted work was copied;
- whether there were other ways to write the API packages;
- whether the copied material was used for the same **[\*\*35]** purpose as in the original work;
- whether the use was commercial in nature;
- whether Google acted in bad faith in copying the work;
- whether there are functional aspects to the copyrighted work that make it less deserving of protection; and
- whether there was harm to the actual or potential markets for the copyrighted work.

The parties now agree on the resolution of the first four factual questions: (1) what the declaring code is and what it does in Java SE and Android, and that the code at issue was a work created by Oracle; (2) how many lines of code were copied; (3) that there were other ways for Google to write API packages; and (4) that Google used the API packages in Android for the same purpose they were created for in Java. The parties dispute, however, the **[\*\*\*1239]** remaining historical facts they identified. We address those disputes in the context of our assessment of the statutory factors to which the respective historical fact is relevant.

### C. Applying the Fair Use Factors

#### Factor 1: The Purpose and Character of the Use

The first factor in the fair use inquiry involves "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational **[\*\*36]** purposes." 17 U.S.C. § 107(1). This factor has two primary components: (1) whether the use is commercial in nature, rather than for educational or public interest purposes; and (2) "whether the new work is transformative or simply supplants the original." *Wall Data*, 447 F.3d at 778 (citing *Campbell*, 510 U.S. at 579). As explained below, the first is a question of fact and the second is a question of law. As Oracle points out, moreover, courts sometimes also consider whether the historical facts support the conclusion that the infringer acted in bad faith. *See Harper & Row*, 471 U.S. at 562. We address

each component in turn.

#### a. Commercial Use

Analysis of the first factor requires inquiry into the commercial nature of the use. Use of the copyrighted work that is commercial "tends to weigh against a finding of fair use." *Harper & Row*, 471 U.S. at 562. Courts have recognized, however, that, "[s]ince many, if not most, secondary users seek at least **[\*1197]** some measure of commercial gain from their use, unduly emphasizing the commercial motivation of a copier will lead to an overly restrictive view of fair use." *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 921 (2d Cir. 1994); *see also Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104, 109 (2d Cir. 1998) ("[N]otwithstanding its mention in the text of the statute, commerciality has only limited usefulness to a fair use inquiry; most secondary uses of copyrighted material, including nearly all of the uses **[\*\*37]** listed in the statutory preamble, are commercial."). Accordingly, although the statute requires us to consider the "commercial nature" of the work, "the degree to which the new user exploits the copyright for commercial gain—as opposed to incidental use as part of a commercial enterprise—affects the weight we afford commercial nature as a factor." *Elvis Presley Enters., Inc. v. Passport Video*, 349 F.3d 622, 627 (9th Cir. 2003).

"[I]t is undisputed that Google's use of the declaring code and SSO from 37 Java API packages served commercial purposes." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*7. Although the jury was instructed that commercial use weighed against fair use, the district court explained that the jury "could reasonably have found that Google's decision to make Android available open source and free for all to use had non-commercial purposes as well (such as the general interest in sharing software innovation)." *Id.*

On appeal, Oracle argues that Android is "hugely profitable" and that "Google reaps billions from exploiting Java in Android." Appellant Br. 29. As such, Oracle maintains that no reasonable jury could have found Android anything but "overwhelmingly commercial." *Id.*<sup>5</sup>

<sup>5</sup> Oracle also argues that Google conceded that its use was "entirely commercial" during oral argument to this court in the first appeal. *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*7 ("Q: But for purpose and character, though, you don't dispute that it was entirely a commercial purpose. A: No."). The district court treated this colloquy as a judicial admission that Google's use was "commercial." *Id.* (noting that the word "entirely" was "part of the give and take" of oral argument). The court therefore instructed the jury that Google's use was commercial, but that it was up to the jury to determine the extent of the commerciality. 2016

Google responds that: (1) because it gives Android away for free under an open source license the jury could have concluded [\*\*38] that Android has non-commercial purposes; and (2) the jury could have reasonably found that Google's revenue flows from the advertisements on its search engine which preexisted Android. Neither argument has merit.

First, the fact that Android is free of charge does not make Google's use of the Java API packages noncommercial. Giving customers "for free something they would ordinarily have to buy" can constitute commercial use. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 [\*\*\*1240] (9th Cir. 2001) (finding that "repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use"). That Google might also have non-commercial motives is irrelevant as a matter of law. As the Supreme Court made clear when *The Nation* magazine published excerpts from Harper & Row's book, partly for the purpose of providing the public newsworthy information, the question "is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material [\*1198] without paying the customary price." *Harper & Row*, 471 U.S. at 562. Second, although Google maintains that its revenue flows from advertisements, not from Android, commerciality does not depend on how Google earns its money. Indeed, [\*\*39] "[d]irect economic benefit is not required to demonstrate a commercial use." *A&M Records*, 239 F.3d at 1015. We find, therefore, that, to the extent we must assume the jury found Google's use of the API packages to be anything other than overwhelmingly commercial, that conclusion finds no substantial evidentiary support in the record. Accordingly, Google's commercial use of the API packages weighs against a finding of fair use.

#### b. Transformative Use

Although the Copyright Act does not use the word "transformative," the Supreme Court has stated that the "central purpose" of the first fair use factor is to determine "whether and to what extent the new work is transformative." *Campbell*, 510 U.S. at 579. Transformative works "lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright, and the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Id.* (internal citation omitted).

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U.S. Dist. LEXIS 74931 [WL] at \*8. Oracle does not challenge the district court's jury instructions on appeal. In any event, as the district court noted, "even a wholly commercial use may still constitute fair use." 2016 U.S. Dist. LEXIS 74931 [WL] at \*7 (citing *Campbell*, 510 U.S. at 585).

A use is "transformative" if it "adds something new, with a further purpose or different character, altering the first with new expression, meaning or message." *Id.* The critical question is "whether the new work merely supersede[s] the objects of the original creation . . . or instead adds something new." *Id.* (citations and internal quotation marks omitted). This inquiry "may be guided by the examples given in the preamble to § 107, looking to whether the use is for criticism, or comment, or news reporting, and the like." *Id.* at 578-79. "The Supreme Court has recognized that parodic works, like other works that comment and criticize, are by their nature often sufficiently transformative to fit clearly under the fair use exception." *Mattel Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 800 (9th Cir. 2003) (citing *Campbell*, 510 U.S. at 579).

"Although transformation is a key factor in fair use, whether a work is transformative is a often highly contentious topic." *Seltzer*, 725 F.3d at 1176. Indeed, a "leading treatise on this topic has lamented the frequent misuse of the transformation test, complaining that it has become a conclusory label which is 'all things to all people.'" *Id.* (quoting Melville B. Nimmer & David Nimmer, 4 Nimmer on Copyright § 13.05[A][1][b], 13168-70 (2011)).

To be transformative, a secondary work must either alter the original with new expression, meaning, or message or serve a new purpose distinct from that of the original work. *Campbell*, 510 U.S. at 579; *Elvis Presley Enters.*, 349 F.3d at 629. Where the use "is for the same intrinsic purpose as [the copyright holder's] . . . such use seriously weakens a claimed fair use." [\*\*41] *Worldwide Church of God v. Phila. Church of God, Inc.*, 227 F.3d 1110, 1117 (9th Cir. 2000) (quoting *Weissmann v. Freeman*, 868 F.2d 1313, 1324 (2d Cir. 1989)).

Although "transformative use is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works." *Campbell*, 510 U.S. at 579 (citation and footnote omitted). As such, "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Id.* [\*\*1199] Importantly, in the Ninth Circuit, whether a work is transformative is a question of law. *See Mattel*, 353 F.3d at 801 (explaining that parody—a well-established species of transformative use—"is a question of law, not a matter of public majority opinion"); *see also Fox News Network, LLC v. TVEyes, Inc.*, No. 15-3885, 883 F.3d 169, 2018 U.S. App. LEXIS 4786, 2018 WL 1057178, at \*3-4 (2d Cir. [\*\*\*1241] Feb. 27, 2018) (reassessing whether the use in question was transformative and deciding it was as a matter of law).

In denying JMOL, the district court explained that "of course, the copied declarations serve the same function in both works, for by definition, declaring code in the Java programming language serves the [same] specific definitional purposes." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*8.<sup>6</sup> The court concluded, however, that the jury could reasonably have found that Google's selection of some, but not all, of the Java API packages—"with new implementing code adapted to the constrained [\*\*42] operating environment of mobile smartphone devices," together with new "methods, classes, and packages written by Google for the mobile smartphone platform"—constituted "a fresh context giving new expression, meaning, or message to the duplicated code." 2016 U.S. Dist. LEXIS 74931, [WL] at \*9.

On appeal, Oracle argues that Google's use was not transformative because it did not alter the APIs with "new expression, meaning, or message." Appellant Br. 29 (quoting *Campbell*, 510 U.S. at 579). Because Google concedes that it uses the API packages for the same purpose, Oracle maintains that it was unreasonable for either the jury or the court to find that Google sufficiently transformed the APIs to overcome its highly commercial use.

Google responds that a reasonable jury could have concluded that Google used a small portion of the Java API packages to create a new work in a new context—"Android, a platform for smartphones, not desktops and servers." Cross-Appellant Br. 37. Google argues that, although the declarations and SSO may perform the same functions in Android and Java, the jury could reasonably find that they have different purposes because the "point of Android was to create a groundbreaking platform for smartphones." *Id.* at 39.

Google's arguments [\*\*43] are without merit. As explained below, Google's use of the API packages is not transformative

as a matter of law because: (1) it does not fit within the uses listed in the preamble to § 107; (2) the purpose of the API packages in Android is the same as the purpose of the packages in the Java platform; (3) Google made no alteration to the expressive content or message of the copyrighted material; and (4) smartphones were not a new context.

First, though not dispositive, we turn to the examples given in the preamble to § 107, "looking to whether the use is for [\*\*1200] criticism, or comment, or news reporting, and the like." *Campbell*, 510 U.S. at 578-79. Google's use of the Java API packages does not fit within the statutory categories, and Google does not suggest otherwise. Instead, Google cites *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000), for the proposition that the "Ninth Circuit has held other types of uses—specifically including uses of computer code—to be fair." Cross-Appellant Br. 41. In *Sony*, the court found that the defendant's reverse engineering and intermediate copying of Sony's copyrighted software system "was a fair use for the purpose of gaining access to the unprotected elements of Sony's software." 203 F.3d at 602. The court explained that Sony's software program contained [\*\*44] unprotected functional elements and that the defendant could only access those elements through reverse engineering. *Id.* at 603. The defendant used that information to create a software program that let consumers play games designed for Sony's PlayStation console on their computers. The court found that the defendant's use was only "modestly transformative" where: (1) the defendant created "a wholly new product" with "entirely new . . . code," and (2) the intermediate copying was performed to "produce a product that would be compatible." *Id.* at 606-07. As Oracle points out, even the "modest" level of transformation at issue in *Sony* is more transformative than what Google did here: copy code verbatim to attract programmers to Google's "new [\*\*\*1242] and incompatible platform." Appellant Response Br. 21.

It is undisputed that the API packages "serve the same function in both works." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*8. And, as Oracle explains, the historical facts relevant to transformative use are also undisputed: what declaring code is, what it does in Java and in Android, how the audience of computer developers perceives it, how much Google took and added, what the added code does, and why Google used the declaring code and SSO. Indeed, Google conceded [\*\*45] that "including the declarations (and their associated SSO) was for the benefit of developers, who—familiar with the Java programming language—had certain expectations regarding the language's APIs." Google's Opp. to Oracle's Rule 50(a) Motion for JMOL at 20, *Oracle Am., Inc. v. Google Inc.*, No. 3:10-cv-3561 (N.D. Cal. May 21, 2016), ECF No. 1935. The fact that Google created exact copies of the declaring code and SSO

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<sup>6</sup> According to the district court, if this fact were sufficient to defeat fair use, "it would be impossible ever to duplicate declaring code as fair use and presumably the Federal Circuit would have disallowed this factor on the first appeal rather than remanding for a jury trial." *Id.* But in our prior decision, we remanded in part because Google represented to this court that there were disputes of fact regarding how Android was used and whether the APIs Google copied served the same function in Android and Java. *Oracle*, 750 F.3d at 1376. Without the benefit of briefs exploring the record on these issues, and Google's later agreement with respect to these facts, we concluded that we could not say that there were no material facts in dispute. *Id.* As explained previously, however, those facts are no longer in dispute. The only question that remains regarding transformative use is whether, on the now undisputed facts, Google's use of the APIs was, in fact, transformative.

and used those copies for the same purpose as the original material "seriously weakens [the] claimed fair use." *See Wall Data*, 447 F.3d at 778 (finding that, where the "Sheriff's Department created exact copies of RUMBA's software . . . [and] put those copies to the identical purpose as the original software," the use was not transformative); *see also Campbell*, 510 U.S. at 580 (noting that where the alleged infringer merely seeks "to avoid the drudgery in working up something fresh," any "claim to fairness . . . diminishes accordingly").

Google argues that Android is transformative because Google selectively used the declarations and SSO of only 37 of the 166 Java SE API packages and wrote its own implementing code. But taking only select passages of a copyrighted work is, by itself, not transformative. *See L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 938-39 (9th Cir. 2002) ("Merely plucking the [\*\*46] most visually arresting excerpt from LANS's nine minutes of footage cannot be said to have added anything new."). While, as discussed below, the volume of work copied is relevant to the fair use inquiry generally, thought must be given to the quality and importance of the copied material, not just to its relative quantity vis-à-vis the overall work. *See Campbell*, 510 [\*1201] U.S. at 586-87. To hold otherwise would mean that verbatim copying could qualify as fair use as long as the plagiarist stops short of taking the entire work. That approach is inconsistent with settled law and is particularly troubling where, as here, the portion copied is qualitatively significant. *See Harper & Row*, 471 U.S. at 569 (finding that verbatim copying of 300 words from a manuscript of more than 200,000 words was not a fair use); *see also Folsom v. Marsh*, 9 F. Cas. 342, 345, F. Cas. No. 4901 (C.C.D. Mass 1841) (Story, J.) ("There must be real, substantial condensation of the materials, and intellectual labor and judgment bestowed thereon; and not merely the facile use of the scissors; or extracts of the essential parts, constituting the chief value of the original work.").

That Google wrote its own implementing code is irrelevant to the question of whether use of the APIs was transformative. As we noted in the prior appeal, "no plagiarist [\*\*47] can excuse the wrong by showing how much of his work he did not pirate." *Oracle*, 750 F.3d at 1375 (quoting *Harper & Row*, 471 U.S. at 565). The relevant question is whether Google altered "the expressive content or message of the original work" that it copied—not whether it rewrote the portions it did not copy. *See Seltzer*, 725 F.3d at 1177 (explaining that a work is not transformative where the user "makes no alteration to the expressive content or message of the original work"). That said, even where the allegedly infringing work "makes few physical changes to the original or fails to comment on the original," it will "typically [be] viewed as transformative as long as new expressive content or message

is apparent." *Id.* Here, however, there is no suggestion that the new implementing code somehow changed the expression or message of the declaring code. While Google's use could have been transformative if it had copied the APIs for some other purpose—such as teaching how to design an API—merely copying the material and moving it from one platform to another without alteration is not transformative.

Google's primary argument on appeal is that Android is transformative because Google incorporated the declarations and SSO of the 37 API packages into a new context [\*\*48]—smartphones. But the record showed that Java SE APIs were in smartphones before Android entered the market. Specifically, Oracle presented evidence that Java SE was in SavaJe [\*\*\*1243] mobile phones and that Oracle licensed Java SE to other smartphone manufacturers, including Danger and Nokia. Because the Java SE was already being used in smartphones, Google did not "transform" the copyrighted material into a new context and no reasonable jury could conclude otherwise.<sup>7</sup>

In any event, moving material to a new context is not transformative in and of itself—even if it is a "sharply different context." *TCA Television Corp. v. McCollum*, 839 F.3d 168, 181-83 (2d Cir. 2016) (finding that use "at some length, almost verbatim," of the copyrighted comedy routine "Who's on First?" in a dramatic play was not transformative where the play neither "imbued the Routine with any new expression, meaning, or message," nor added "any new dramatic purpose"). As previously explained, a use becomes transformative only if it serves a different purpose or alters the "expression, meaning, or message" of the original work. *Kelly*, 336 [\*1202] F.3d at 818. As such, "[c]ourts have been reluctant to find fair use when an original work is merely retransmitted in a different medium." *A&M Records*, 239 F.3d at 1015. Accordingly, although a change of format [\*\*49] may be "useful," it "is not technically a transformation." *Infinity Broad.*, 150 F.3d at 108 n.2 (finding that retransmitting copyrighted radio transmissions over telephone lines was not transformative because there was no new expression, meaning, or message).

The Ninth Circuit has stated that "[a] use is considered transformative only where a defendant changes a plaintiff's copyrighted work or uses the plaintiff's copyrighted work in a different context such that the plaintiff's work is transformed

<sup>7</sup> Because we conclude that smartphones were not a new context, we need not address the argument, made by Oracle and certain amici, that the district court's order excluding evidence of Google's use of Android in multiple other circumstances—including laptops—tainted the jury's and the court's ability to fairly assess the character of the use.

into a new creation." *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir. 2007) (quoting *Wall Data*, 447 F.3d at 778). In *Perfect 10*, for example, the court found Google's use of thumbnail versions of copyrighted images "highly transformative" because, "[a]lthough an image may have been created originally to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information." *Id.* Although the court discussed the change in context (moving the copyrighted images into the electronic reference tool), it emphasized that Google used the images "in a new context to serve a different purpose." *Id.* In reaching this conclusion, the court reiterated that "even making an exact copy of a work may be transformative so long as the copy [\*\*50] serves a different function than the original work." *Id.* (citing *Kelly*, 336 F.3d at 818-19). It is clear, therefore, that the change in context alone was not dispositive in *Perfect 10*; rather, the change in context facilitated the change in purpose, which made the use transformative.

To some extent, any use of copyrighted work takes place in a slightly different context than the original. And of course, there is no bright line identifying when a use becomes transformative. But where, as here, the copying is verbatim, for an identical function and purpose, and there are no changes to the expressive content or message, a mere change in format (e.g., from desktop and laptop computers to smartphones and tablets) is insufficient as a matter of law to qualify as a transformative use.<sup>8</sup>

#### c. Bad faith

In evaluating the "purpose and character" factor, the Ninth Circuit applies "the general rule that a party claiming fair use must act in a manner generally compatible with principles of good faith and fair dealing." *Perfect 10*, 508 F.3d at 1164 n.8 (citing *Harper & Row*, 471 U.S. at 562-63). In part, this is based on the fact that, in *Harper & Row*, the Supreme Court expressly stated that "[f]air use presupposes 'good faith' and 'fair dealing.'" 471 U.S. at 562 (citation omitted). It is [\*\*51] also in part true because, as the Ninth Circuit has said, one who acts in bad faith should be barred from invoking the equitable defense of fair use. *Fisher*, 794 F.2d at 436 (calling the principle of considering the alleged infringer's [\*\*\*1244] "bad conduct" as a "bar [to] his use of the equitable defense of fair use" a sound one).<sup>9</sup>

<sup>8</sup>As some amici note, to hold otherwise could encroach upon the copyright holder's right to "prepare derivative works based upon the copyrighted work." 17 U.S.C. § 106(2); see Br. of Amicus Curiae N.Y. Intell. Prop. L. Ass'n at 17-20.

<sup>9</sup>As the district court recognized, there is some debate about whether

[\*1203] Consistent with this authority, and at Oracle's request, the district court instructed the jury that it could consider whether Google acted in bad faith (or not) as part of its assessment of the first fair use factor. *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*6. And, because Oracle was permitted to introduce evidence that Google acted in bad faith, the court permitted Google to try to prove its good faith. *Id.*

At trial, Oracle introduced evidence suggesting that "Google felt it needed to copy the Java API as an accelerant to bring Android to the market quicker" and knew that it needed a license to use Java. *Id.* For its part, Google presented evidence that it believed that the declaring code and SSO were "free to use and re-implement, both as a matter of developer practice and because the availability of independent implementations of the Java API enhanced the popularity of the Java [\*\*52] programming language, which Sun promoted as free for all to use." 2016 U.S. Dist. LEXIS 74931, [WL] at \*7. Given this conflicting evidence, the district court found that the jury could reasonably have concluded that "Google's use of parts of the Java API as an accelerant was undertaken based on a good faith belief that at least the declaring code and SSO were free to use (which it did use), while a license was necessary for the implementing code (which it did not use)." *Id.*

On appeal, Oracle argues that there was ample evidence that Google intentionally copied Oracle's copyrighted work and knew that it needed a license to use Java. Google responds that the jury heard sufficient evidence of Google's good faith based on industry custom and was entitled to credit that evidence.

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good or bad faith should remain relevant to the factor one inquiry. *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*2 ("[T]here is a respectable view that good or bad faith should no longer be a consideration after the Supreme Court's decision in *Campbell*."); see also Hon. Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1128 (1990) ("Whether the secondary use is within the protection of the [fair use] doctrine depends on factors pertinent to the objectives of the copyright law and not on the morality or motives of either the secondary user or the copyright-owning plaintiff."). In *Campbell*, the Supreme Court expressed skepticism about "the weight one might place on the alleged infringer's state of mind." *Campbell*, 510 U.S. at 585 n.18. But the Ninth Circuit has not repudiated its view that "'the propriety of the defendant's conduct' is relevant to the character of the use at least to the extent that it may knowingly have exploited a purloined work for free that could have been obtained for a fee." *L.A. News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119, 1122 (9th Cir. 1997) (quoting *Harper & Row*, 471 U.S. at 562). For that reason, and because we conclude in any event that the jury must have found that Google did not act in bad faith, we address that question and the parties' arguments relating thereto.

But, while bad faith may weigh against fair use, a copyist's good faith cannot weigh in favor of fair use. Indeed, the Ninth Circuit has expressly recognized that "the innocent intent of the defendant constitutes no defense to liability." *Monge*, 688 F.3d at 1170 (quoting 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.08[B][1] (Matthew Bender rev. ed. 2011)). If it were clear, accordingly, that the jury found fair use solely or even largely because it approved of Google's motives even if they **[\*\*53]** were in bad faith, we would find such a conclusion improper. Because evidence of Google's good faith was relevant to rebut evidence of its bad faith, however, and there is no objection to the instructions to the jury on this or any other point, we must assume that the jury simply did not find the evidence of Google's bad faith persuasive.<sup>10</sup> We note, **[\*1204]** moreover, that merely "being denied permission to use a work does not weigh against a finding of fair use." *Campbell*, 510 U.S. at 585 n.18 ("If the use is otherwise fair, then no permission need be sought or granted.").

Ultimately, we find that, even assuming the jury was unpersuaded that Google acted in bad faith, the highly commercial and non-transformative nature of the use strongly support the conclusion that the first factor weighs against a finding of fair use.

#### Factor 2: Nature of the Copyrighted Work

The second factor—the nature of the copyrighted work— "calls for recognition that **[\*\*\*1245]** some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." *Campbell*, 510 U.S. at 586. This factor "turns on whether the work is informational or creative." *Worldwide Church of God*, 227 F.3d at 1118; see also *Harper & Row*, 471 U.S. at 563 ("The law generally recognizes **[\*\*54]** a greater need to disseminate factual works than works of fiction or fantasy."). Creative expression "falls within the core of the copyright's protective purposes." *Campbell*, 510 U.S. at 586. Although "software products are not purely creative works," it is well established that copyright law protects computer software. *Wall Data*, 447 F.3d at 780 (citing *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1519 (9th Cir. 1992) ("[T]he 1980 amendments to the Copyright Act unambiguously extended copyright

protection to computer programs.")).

Here, the district court found that the jury could have concluded that the process of designing APIs was "highly creative" and "thus at the core of copyright's protection" or it could "reasonably have gone the other way and concluded that the declaring code was not highly creative." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*10. While the jury heard testimony from Google's own expert that API design is "an art, not a science," other witnesses emphasized the functional role of the declaring code and the SSO and minimized the creative aspects. *Id.* Accordingly, the district court concluded that the "jury could reasonably have found that, while the declaring code and SSO were creative enough to qualify for copyright protection, functional considerations predominated in their design." *Id.*

On appeal, Oracle emphasizes that **[\*\*55]** designing the APIs was a highly creative process and that the organization of the packages was not mandated by function. Indeed, this court has already held that the declaring code and the SSO of the 37 API packages at issue were sufficiently creative and original to qualify for copyright protection. *Oracle*, 750 F.3d at 1356. According to Oracle, the district court erred in assuming that, because the APIs have a "functional role," they cannot be creative.

As Google points out, however, all we found in the first appeal was that the declarations and SSO were sufficiently creative to provide the "minimal degree of creativity," *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1991), that is required for copyrightability. We also recognized that a reasonable jury could find that "the functional aspects of the packages" **[\*1205]** are "relevant to Google's fair use defense." *Oracle*, 750 F.3d at 1369, 1376-77. On remand, Oracle stipulated that some of the declarations were necessary to use the Java language and presented no evidence explaining how the jury could distinguish the functionality and creativity of those declarations from the others. Google maintains that it presented evidence that the declarations and SSO were functional and the jury was entitled to credit that evidence.

Although it is clear that the **[\*\*56]** 37 API packages at issue involved some level of creativity—and no reasonable juror could disagree with that conclusion—reasonable jurors could have concluded that functional considerations were both substantial and important. Based on that assumed factual finding, we conclude that factor two favors a finding of fair use.

The Ninth Circuit has recognized, however, that this second factor "typically has not been terribly significant in the overall

<sup>10</sup>The jury was instructed that, "[i]n evaluating the extent to which Google acted in good faith or not, you may take into account, together with all other circumstances, the extent to which Google relied upon or contravened any recognized practices in the industry concerning reimplementations of API libraries." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*3 n.2. Oracle has not challenged this instruction on appeal.



fair use balancing." *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1402 (9th Cir. 1997) (finding that the "creativity, imagination and originality embodied in The Cat in the Hat and its central character tilts the scale against fair use"); *Mattel*, 353 F.3d at 803 (similar). Other circuits agree. *Fox News Network*, 2018 U.S. App. LEXIS 4786, 2018 WL 1057178, at \*5 ("This factor 'has rarely played a significant role in the determination of a fair use dispute,' and it plays no significant role here." (quoting *Authors Guild v. Google, Inc.*, 804 F.3d 202, 220 (2d Cir. 2015))). We note, moreover, that allowing this one factor to dictate a conclusion of fair use in all cases involving copying of software could effectively negate Congress's express declaration—continuing unchanged for some forty years—that software is copyrightable. Accordingly, though the jury's assumed view of the nature of the copyrighted work weighs in favor of finding fair use, it has less significance [\*\*57] to the overall analysis.

[\*\*\*1246] Factor 3: Amount and Substantiality of the Portion Used

The third factor focuses on the "amount and substantiality of the portion used in . . . the context of the copyrighted work, not the infringing work." *Oracle*, 750 F.3d at 1375. Indeed, the statutory language makes clear that "a taking may not be excused merely because it is insubstantial with respect to the infringing work." *Harper & Row*, 471 U.S. at 565. "[T]he fact that a substantial portion of the infringing work was copied verbatim [from the original work] is evidence of the qualitative value of the copied material, both to the originator and to the plagiarist who seeks to profit from marketing someone else's copyrighted expression." *Id.* Thus, while "wholesale copying does not preclude fair use per se, copying an entire work militates against a finding of fair use." *Worldwide Church of God*, 227 F.3d at 1118 (citation and quotation marks omitted). But, there is no relevance to the opposite—i.e., adding substantial content to the copyrighted work is not evidence that what was copied was insubstantial or unimportant.

The inquiry under this third factor "is a flexible one, rather than a simple determination of the percentage of the copyrighted work used." *Monge*, 688 F.3d at 1179. The Ninth Circuit has explained that this [\*\*58] third factor looks to the quantitative amount and qualitative value of the original work used in relation to the justification for its use. *Seltzer*, 725 F.3d at 1178. The percentage of work copied is not dispositive where the portion copied was qualitatively significant. *Harper & Row*, 471 U.S. at 566 ("In view of the expressive value of the excerpts and their key role in the infringing work, we cannot [\*\*1206] agree with the Second Circuit that the

'magazine took a meager, indeed an infinitesimal amount of Ford's original language.'" (citation omitted)). Google is correct that the Ninth Circuit has said that, "this factor will not weigh against an alleged infringer, even when he copies the whole work, if he takes no more than is necessary for his intended use." *Id.* (citing *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 820-21 (9th Cir. 2003)). But the Ninth Circuit has only said that is true where the intended use was a transformative one, because the "extent of permissible copying varies with the purpose and character of the use." *Id.* (quoting *Campbell*, 510 U.S. at 586-87). Here, we have found that Google's use was not transformative and Google has conceded both that it could have written its own APIs and that the purpose of its copying was to make Android attractive to programmers. "Necessary" in the context of the cases upon which Google [\*\*59] relies does not simply mean easier.

In assessing factor three, the district court explained that the "jury could reasonably have found that Google duplicated the bare minimum of the 37 API packages, just enough to preserve inter-system consistency in usage, namely the declarations and their SSO only, and did not copy any of the implementing code," such that Google "copied only so much as was reasonably necessary." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*10. In reaching this conclusion, the court noted that the jury could have found that the number of lines of code Google duplicated was a "tiny fraction of one percent of the copyrighted works (and even less of Android, for that matter)." *Id.* We disagree that such a conclusion would have been reasonable or sufficient on this record.

On remand, the parties stipulated that only 170 lines of code were necessary to write in the Java language. It is undisputed, however, that Google copied 11,500 lines of code—11,330 more lines than necessary to write in Java. That Google copied more than necessary weighs against fair use. *See Monge*, 688 F.3d at 1179 (finding that, where the copyist "used far more than was necessary" of the original work, "this factor weighs against fair use"). And, although Google emphasizes [\*\*60] that it used a small percentage of Java (11,500 lines of declarations out of roughly 2.86 million lines of code in the Java SE libraries), it copied the SSO for the 37 API packages in its entirety.

The district court emphasized Google's desire to "preserve inter-system consistency" to "avoid confusion among Java programmers as between the Java system and the Android system." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*10-11. As we noted in the prior appeal, however, Google did not seek to foster any "inter-system consistency" between its platform and Oracle's Java platform. *Oracle*, 750 F.3d at 1371. And Google does

not rely on any interoperability arguments in [\*\*\*1247] this appeal.<sup>11</sup> Google sought "to capitalize on the fact that software developers were already trained and experienced in using the Java API packages at issue." *Id.* But there is no inherent right to copy in order to capitalize on the popularity of the copyrighted [\*1207] work or to meet the expectations of intended customers. Taking those aspects of the copyrighted material that were familiar to software developers to create a similar work designed to be popular with those same developers is not fair use. *See Dr. Seuss Enters.*, 109 F.3d at 1401 (copying the most famous and well recognized aspects of a work "to get attention" or "to avoid the drudgery [\*\*61] in working up something fresh" is not a fair use (quoting *Campbell*, 510 U.S. at 580)).

Even assuming the jury accepted Google's argument that it copied only a small portion of Java, no reasonable jury could conclude that what was copied was qualitatively insignificant, particularly when the material copied was important to the creation of the Android platform. Google conceded as much when it explained to the jury the importance of the APIs to the developers it wished to attract. *See* Tr. of Proceedings held on 5/16/16 at 106:8-14, *Oracle Am., Inc. Google Inc.*, No. 3:10-cv-3561 (N.D. Cal. May 20, 2016), ECF No. 1930; *Id.* at 134:6-11. Indeed, Google's own expert conceded that "it was a sound business practice for Google to leverage the existing community of developers, minimizing the amount of new material and maximizing existing knowledge," even though Google also conceded that it could have written the APIs differently to achieve the same functions. *Id.* at 144:5-10. For these reasons, we find that the third factor is, at best, neutral in the fair use inquiry, and arguably weighs against such a finding.

#### Factor 4: Effect Upon the Potential Market

The fourth and final factor focuses on "the effect of [\*\*62] the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). This factor reflects the idea that fair use "is limited to copying by others which does not materially impair the marketability of the work which is copied." *Harper & Row*, 471 U.S. at 566-67. It requires that courts "consider not only the extent of market

harm caused by the particular actions of the alleged infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market for the original." *Campbell*, 510 U.S. at 590 (citation and quotation marks omitted).

The Supreme Court once said that factor four is "undoubtedly the single most important element of fair use." *Harper & Row*, 471 U.S. at 566. In its subsequent opinion in *Campbell*, however, the Court emphasized that none of the four factors can be viewed in isolation and that "[a]ll are to be explored, and the results weighed together, in light of the purposes of copyright." 510 U.S. at 578; *see also Infinity Broad.*, 150 F.3d at 110 ("Historically, the fourth factor has been seen as central to fair use analysis, although the Supreme Court appears to have backed away from this position." (internal citation omitted)). The Court has also explained that "[m]arket harm is a matter of [\*\*63] degree, and the importance of this factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors." *Campbell*, 510 U.S. at 590 n.21.

The Ninth Circuit recently indicated that likely market harm can be presumed where a use is "commercial and not transformative." *Disney Enters., Inc. v. VidAngel, Inc.*, 869 F.3d 848, 861 (9th Cir. 2017) (citing *Leadsinger*, 512 F.3d at 531, for the proposition that, where a use "was commercial and not transformative, it was not error to presume likely market harm"). [\*1208] That presumption allegedly traces back to *Sony Corp. of America v. University City Studios, Inc.*, 464 U.S. 417, 451, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984), where the Supreme Court stated that, "[i]f the intended use is for commercial gain, that likelihood [of future harm] may be presumed. But if it is for [\*\*\*1248] a noncommercial purpose, the likelihood must be demonstrated." The Supreme Court has since clarified that market impact, "no less than the other three [factors], may be addressed only through a 'sensitive balancing of interests'" and that earlier interpretations of *Sony* to the contrary were incorrect. *Campbell*, 510 U.S. at 590 n.21 (quoting *Sony*, 464 U.S. at 455 n.40);<sup>12</sup>*see also Monge*, 688 F.3d at 1181 (cautioning against overemphasis on a presumption of market harm after *Campbell*). On this point, we must apply clear Supreme Court precedent rather than the more recent Ninth

<sup>11</sup> In the prior appeal, we noted that "Google's competitive desire to achieve commercial 'interoperability' . . . may be relevant to a fair use analysis." *Oracle*, 750 F.3d at 1376-77. But, although several amici in this appeal discuss interoperability concerns, Google has abandoned the arguments it once made about interoperability. This change in course is not surprising given the un rebutted evidence that Google specifically designed Android to be *incompatible* with the Java platform and not allow for interoperability with Java programs. *Id.* at 1371.

<sup>12</sup> The Court noted, however, that "what *Sony* said simply makes common sense: when a commercial use amounts to mere duplication of the entirety of an original, it clearly 'supersede[s] the objects,' of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur." *Id.* at 591.

Circuit's statements to the contrary.

In evaluating the fourth factor, courts [\*\*64] consider not only harm to the actual or potential market for the copyrighted work, but also harm to the "market for potential derivative uses," including "those that creators of original works would in general develop or license others to develop." *Campbell*, 510 U.S. at 592; *see also A&M Records*, 239 F.3d at 1017 ("[L]ack of harm to an established market cannot deprive the copyright holder of the right to develop alternative markets for the works."). A court can therefore consider the challenged use's "impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets." *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.*, 756 F.3d 73, 91 (2d Cir. 2014) (citation omitted); *see also Seltzer*, 725 F.3d at 1179 ("This factor also considers any impact on 'traditional, reasonable, or likely to be developed markets.'" (citation omitted)).

Also relevant to the inquiry is the fact that a copyright holder has the exclusive right to determine "when, 'whether and in what form to release'" the copyrighted work into new markets, whether on its own or via a licensing agreement. *Monge*, 688 F.3d at 1182 (quoting *Harper & Row*, 471 U.S. at 553). Indeed, the Ninth Circuit has recognized that "[e]ven an author who had disavowed any intention to publish his work during his lifetime" was entitled to copyright protection because: (1) "the relevant consideration was the 'potential market'" [\*\*65] and (2) "he has the right to change his mind." *Worldwide Church*, 227 F.3d at 1119 (citing *Salinger v. Random House, Inc.*, 811 F.2d 90, 99 (2d Cir. 1987)); *see also Micro Star v. Formgen Inc.*, 154 F.3d 1107, 1113 (9th Cir. 1998) (noting that only the copyright holder "has the right to enter that market; whether it chooses to do so is entirely its business").

Here, the district court concluded that the jury "could reasonably have found that use of the declaring lines of code (including their SSO) in Android caused no harm to the market for the copyrighted works, which were for desktop and laptop computers." *Order Denying JMOL*, 2016 U.S. Dist. LEXIS 74931, 2016 WL 3181206, at \*10. In reaching this conclusion, the district court noted that, before Android was released, Sun made all of the Java API packages available for free and open source under the name OpenJDK, subject only to the terms of a general [\*1209] public license. *Id.* According to the district court, the jury could have concluded that "Android's impact on the market for the copyrighted works paralleled what Sun already expected via its OpenJDK." *Id.*

On appeal, Oracle argues that the evidence of actual and potential harm stemming from Google's copying was

"overwhelming," and that the district court erred as a matter of law in concluding otherwise. Appellant Br. 52. We agree.

First, with respect to actual market harm, the evidence showed that Java SE had been used [\*\*66] for years in mobile devices, including early smartphones, prior to Android's release. Specifically, the jury heard testimony that Java SE was already in smartphones, including Blackberry, SavaJe, Danger, and Nokia. That Android competed directly with Java SE in the market for mobile devices is sufficient to undercut Google's market harm arguments. With respect to tablets, the evidence showed that Oracle licensed Java SE for the Amazon Kindle. After Android's release, however, Amazon was faced with two competing options—Java SE and Android—and selected Android.<sup>13</sup> The jury also heard evidence that [\*\*\*1249] Amazon later used the fact that Android was free to negotiate a steep discount to use Java SE in its newer e-reader. In other words, the record contained substantial evidence that Android was used as a substitute for Java SE and had a direct market impact. Given this evidence of actual market harm, no reasonable jury could have concluded that there was no market harm to Oracle from Google's copying.

Even if there were a dispute about whether Oracle was licensing Java SE in smartphones at the time Android launched, moreover, "fair use focuses on *potential*, not just actual, market harm." *Monge*, 688 F.3d at 1181. Accordingly, [\*\*67] although the district court focused exclusively on the market it found that Oracle had already entered—desktops and laptops—it should have considered how Google's copying affected potential markets Oracle might enter or derivative works it might create or license others to create. *See Campbell*, 510 U.S. at 590. Licensing Java SE for smartphones with increased processing capabilities was one such potential new market. And the fact that Oracle and Google engaged in lengthy licensing negotiations demonstrates that Oracle was attempting to license its work for mobile devices, including smartphones.<sup>14</sup>

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<sup>13</sup> Google submits that the jury could have discounted this evidence because the Java SE APIs were available for free through OpenJDK. But Amazon moved from Java to Android—not to OpenJDK. And the evidence of record makes clear that device manufacturers did not view OpenJDK as a commercially viable alternative to using Java SE because any improvement to the packages in OpenJDK had to be given away for free to the Java community.

<sup>14</sup> Of course, the fact that those negotiations were not successful does not factor into the analysis. *Campbell*, 510 U.S. at 585 n.18 ("If the use is otherwise fair, then no permission need be sought or granted. Thus, being denied permission to use a work does not weigh against a finding of fair use."). Such evidence was only relevant to show

Smartphones were, therefore, a "traditional, reasonable, or likely to be developed market." See *Swatch Grp.*, 756 F.3d at 91; see also *Seltzer*, 725 F.3d at 1179.

Google argues that a reasonable jury could have concluded that Java SE and Android did not compete in the same market because Oracle: (1) was not a device maker; and (2) had not yet built its own smartphone platform. Neither argument has merit. That Oracle never built a smartphone [\*1210] device is irrelevant because potential markets include licensing others to develop derivative works. See *Campbell*, 510 U.S. at 592. The fact that Oracle had not yet developed a smartphone platform is likewise irrelevant as a matter of law because, as Oracle [\*\*68] submits, a market is a potential market even where the copyright owner has no immediate plans to enter it or is unsuccessful in doing so. See *Worldwide Church*, 227 F.3d at 1119; *Micro Star*, 154 F.3d at 1113. Even assuming a reasonable jury could have found no *current* market harm, the undisputed evidence showed, at a minimum, that Oracle intended to license Java SE in smartphones; there was no evidence in the record to support any contrary conclusion. Because the law recognizes and protects a copyright owner's right to enter a "potential market," this fact alone is sufficient to establish market impact.

Given the record evidence of actual and potential harm, we conclude that "unrestricted and widespread conduct of the sort engaged in by" Google would result in "a substantially adverse impact on the potential market for the original" and its derivatives. See *Campbell*, 510 U.S. at 590 (citation and quotation marks omitted). Accordingly, the fourth factor weighs heavily in favor of Oracle.

#### Balancing the Four Factors

Having undertaken a case-specific analysis of all four factors, we must weigh the factors together "in light of the purposes of copyright." *Campbell*, 510 U.S. at 578. We conclude that allowing Google to commercially exploit Oracle's work will not advance the purposes of copyright in this [\*\*69] case. Although Google could have furthered copyright's goals of promoting creative expression and innovation by developing its own APIs, or by licensing Oracle's APIs for use in developing a new platform, it chose to copy Oracle's creative efforts instead. There is nothing fair about taking a copyrighted work verbatim and using it for the same purpose and function as the original in a competing platform.

Even if we ignore the record evidence and assume that Oracle was not already licensing Java SE in the smartphone context, smartphones were undoubtedly a potential market. Android's release effectively replaced Java SE as the supplier of Oracle's

copyrighted works and prevented Oracle from participating in developing markets. This superseding use is inherently unfair.

On this record, factors one and four weigh heavily against a finding of fair use, while factor two weighs in favor of such a finding and [\*\*\*1250] factor three is, at best, neutral. Weighing these factors together, we conclude that Google's use of the declaring code and SSO of the 37 API packages was not fair as a matter of law.

We do not conclude that a fair use defense could never be sustained in an action involving the copying of [\*\*70] computer code. Indeed, the Ninth Circuit has made it clear that some such uses can be fair. See *Sony*, 203 F.3d at 608; *Sega*, 977 F.2d at 1527-28. We hold that, given the facts relating to the copying at issue here—which differ materially from those at issue in *Sony* and *Sega*—Google's copying and use of this particular code was not fair as a matter of law.

#### III. GOOGLE'S CROSS-APPEAL

Google cross-appeals from the district court's final judgment solely to "preserv[e] its claim that the declarations/SSO are not protected by copyright law." Cross-Appellant Br. 83. Specifically, Google maintains that the declaring code and SSO are: (1) an unprotected "method of operation" under 17 U.S.C. § 102(b), because they allow [\*1211] programmers to operate the pre-written programs of the Java language; and (2) subject to the merger doctrine. We resolved these issues against Google in the first appeal, finding that the declaring code and the SSO of the 37 API packages at issue are entitled to copyright protection. *Oracle*, 750 F.3d at 1354.

Google did not petition this court for rehearing and instead filed a petition for a writ of certiorari asking the Supreme Court to determine whether our copyrightability determination was in error. Oracle responded to the petition, and the Supreme Court invited [\*\*71] the Solicitor General to express the views of the United States. The government agreed that Oracle's computer code is copyrightable, and the Supreme Court denied Google's petition in June 2015. *Google, Inc. v. Oracle Am., Inc.*, 135 S. Ct. 2887, 192 L. Ed. 2d 948 (2015).

Google neither asks the panel for relief on the copyrightability issue nor offers any arguments on that issue. We remain convinced that our earlier copyrightability decision was consistent with Congress's repeated directives on the subject. Accordingly, we provide no relief to Google on its cross-appeal, finding a ruling on it unnecessary.

#### IV. CONCLUSION

For the foregoing reasons, we conclude that Google's use of the 37 Java API packages was not fair as a matter of law. We

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Oracle's interest in the potential market for smartphones.

therefore reverse the district court's decisions denying Oracle's motions for JMOL and remand for a trial on damages. The district court may determine the appropriate vehicle for consideration of infringement allegations regarding additional uses of Android. We dismiss Google's cross-appeal.

**REVERSED AND REMANDED; CROSS-APPEAL  
DISMISSED**

COSTS

No costs.

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## Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

**SUPREME COURT OF THE UNITED STATES**

## Syllabus

**FOURTH ESTATE PUBLIC BENEFIT CORP. v. WALL-STREET.COM, LLC, ET AL.****CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT**

No. 17–571. Argued January 8, 2019—Decided March 4, 2019

Petitioner Fourth Estate Public Benefit Corporation (Fourth Estate), a news organization, licensed works to respondent Wall-Street.com, LLC (Wall-Street), a news website. Fourth Estate sued Wall-Street and its owner for copyright infringement of news articles that Wall-Street failed to remove from its website after canceling the parties' license agreement. Fourth Estate had filed applications to register the articles with the Copyright Office, but the Register of Copyrights had not acted on those applications. Title 17 U. S. C. §411(a) states that “no civil action for infringement of the copyright in any United States work shall be instituted until . . . registration of the copyright claim has been made in accordance with this title.” The District Court dismissed the complaint, and the Eleventh Circuit affirmed, holding that “registration . . . has [not] been made” under §411(a) until the Copyright Office registers a copyright.

*Held:* Registration occurs, and a copyright claimant may commence an infringement suit, when the Copyright Office registers a copyright. Upon registration of the copyright, however, a copyright owner can recover for infringement that occurred both before and after registration. Pp. 3–12.

(a) Under the Copyright Act of 1976, as amended, a copyright author gains “exclusive rights” in her work immediately upon the work's creation. 17 U. S. C. §106. A copyright owner may institute a civil action for infringement of those exclusive rights, §501(b), but generally only after complying with §411(a)'s requirement that “registration . . . has been made.” Registration is thus akin to an administrative exhaustion requirement that the owner must satisfy before suing to enforce ownership rights. P. 3.

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(b) In limited circumstances, copyright owners may file an infringement suit before undertaking registration. For example, a copyright owner who is preparing to distribute a work of a type vulnerable to predistribution infringement—*e.g.*, a movie or musical composition—may apply to the Copyright Office for preregistration. §408(f)(2). A copyright owner may also sue for infringement of a live broadcast before “registration . . . has been made.” §411(c). Outside of statutory exceptions not applicable here, however, §411(a) bars a copyright owner from suing for infringement until “registration . . . has been made.” Fourth Estate advances the “application approach” to this provision, arguing that registration occurs when a copyright owner submits a proper application for registration. Wall-Street advocates the “registration approach,” urging that registration occurs only when the Copyright Office grants registration of a copyright. The registration approach reflects the only satisfactory reading of §411(a)’s text. Pp. 3–12.

(1) Read together, §411(a)’s first two sentences focus on action by the Copyright Office—namely, its registration or refusal to register a copyright claim. If application alone sufficed to “ma[ke]” registration, §411(a)’s second sentence—which permits a copyright claimant to file suit when the Register has refused her application—would be superfluous. Similarly, §411(a)’s third sentence—which allows the Register to “become a party to the action with respect to the issue of registrability of the copyright claim”—would be negated if an infringement suit could be filed and resolved before the Register acted on an application. The registration approach reading of §411(a) is supported by other provisions of the Copyright Act. In particular, §410 confirms that application is discrete from, and precedes, registration, while §408(f)’s preregistration option would have little utility if a completed application sufficed to make registration. Pp. 4–7.

(2) Fourth Estate primarily contends that the Copyright Act uses the phrases “make registration” and “registration has been made” to describe submissions by the copyright owner. Fourth Estate therefore insists that §411(a)’s requirement that “registration . . . has been made in accordance with this title” most likely refers to a copyright owner’s compliance with statutory requirements for registration applications. Fourth Estate points to other Copyright Act provisions that appear to use the phrase “make registration” or one of its variants to describe what a copyright claimant does. Fourth Estate acknowledges, however, that determining how the Copyright Act uses the word “registration” in a particular provision requires examining the “specific context” in which the term is used. The “specific context” of §411(a) permits only one sensible reading: The phrase “registration . . . has been made” refers to the Copyright Office’s act grant-

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ing registration, not to the copyright claimant’s request for registration.

Fourth Estate’s contrary reading stems in part from its misapprehension of the significance of certain 1976 revisions to the Copyright Act. But in enacting §411(a), Congress both reaffirmed the general rule that registration must precede an infringement suit and added an exception in that provision’s second sentence to cover instances in which registration is refused. That exception would have no work to do if Congress intended the 1976 revisions to clarify that a copyright claimant may sue immediately upon applying for registration. Noteworthy, too, in years following the 1976 revisions, Congress resisted efforts to eliminate §411(a), which contains the registration requirement.

Fourth Estate also argues that, because “registration is not a condition of copyright protection,” §408(a), §411(a) should not bar a copyright claimant from enforcing that protection in court once she has applied for registration. But the Copyright Act safeguards copyright owners by vesting them with exclusive rights upon creation of their works and prohibiting infringement from that point forward. To recover for such infringement, copyright owners must simply apply for registration and await the Register’s decision. Further, Congress has authorized preregistration infringement suits with respect to works vulnerable to predistribution infringement, and Fourth Estate’s fear that a copyright owner might lose the ability to enforce her rights entirely is overstated. True, registration processing times have increased from one to two weeks in 1956 to many months today. Delays, in large part, are the result of Copyright Office staffing and budgetary shortages that Congress can alleviate, but courts cannot cure. Unfortunate as the current administrative lag may be, that factor does not allow this Court to revise §411(a)’s congressionally composed text. Pp. 7–12.

856 F. 3d 1338, affirmed.

GINSBURG, J., delivered the opinion for a unanimous Court.



Opinion of the Court

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

**SUPREME COURT OF THE UNITED STATES**

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No. 17–571

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FOURTH ESTATE PUBLIC BENEFIT CORPORATION,  
PETITIONER *v.* WALL-STREET.COM, LLC, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE ELEVENTH CIRCUIT

[March 4, 2019]

JUSTICE GINSBURG delivered the opinion of the Court.

Impelling prompt registration of copyright claims, 17 U. S. C. §411(a) states that “no civil action for infringement of the copyright in any United States work shall be instituted until . . . registration of the copyright claim has been made in accordance with this title.” The question this case presents: Has “registration . . . been made in accordance with [Title 17]” as soon as the claimant delivers the required application, copies of the work, and fee to the Copyright Office; or has “registration . . . been made” only after the Copyright Office reviews and registers the copyright? We hold, in accord with the United States Court of Appeals for the Eleventh Circuit, that registration occurs, and a copyright claimant may commence an infringement suit, when the Copyright Office registers a copyright. Upon registration of the copyright, however, a copyright owner can recover for infringement that occurred both before and after registration.

Petitioner Fourth Estate Public Benefit Corporation (Fourth Estate) is a news organization producing online journalism. Fourth Estate licensed journalism works to

respondent Wall-Street.com, LLC (Wall-Street), a news website. The license agreement required Wall-Street to remove from its website all content produced by Fourth Estate before canceling the agreement. Wall-Street canceled, but continued to display articles produced by Fourth Estate. Fourth Estate sued Wall-Street and its owner, Jerrold Burden, for copyright infringement. The complaint alleged that Fourth Estate had filed “applications to register [the] articles [licensed to Wall-Street] with the Register of Copyrights.” App. to Pet. for Cert. 18a.<sup>1</sup> Because the Register had not yet acted on Fourth Estate’s applications,<sup>2</sup> the District Court, on Wall-Street and Burden’s motion, dismissed the complaint, and the Eleventh Circuit affirmed. 856 F. 3d 1338 (2017). Thereafter, the Register of Copyrights refused registration of the articles Wall-Street had allegedly infringed.<sup>3</sup>

We granted Fourth Estate’s petition for certiorari to resolve a division among U. S. Courts of Appeals on when registration occurs in accordance with §411(a). 585 U. S. \_\_\_ (2018). Compare, *e.g.*, 856 F. 3d, at 1341 (case below) (registration has been made under §411(a) when the Register of Copyrights registers a copyright), with, *e.g.*, *Cosmetic Ideas, Inc. v. IAC/Interactivecorp*, 606 F. 3d 612, 621 (CA9 2010) (registration has been made under §411(a) when the copyright claimant’s “complete application” for registration is received by the Copyright Office).

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<sup>1</sup>The Register of Copyrights is the “director of the Copyright Office of the Library of Congress” and is appointed by the Librarian of Congress. 17 U. S. C. §701(a). The Copyright Act delegates to the Register “[a]ll administrative functions and duties under [Title 17].” *Ibid.*

<sup>2</sup>Consideration of Fourth Estate’s filings was initially delayed because the check Fourth Estate sent in payment of the filing fee was rejected by Fourth Estate’s bank as uncollectible. App. to Brief for United States as *Amicus Curiae* 1a.

<sup>3</sup>The merits of the Copyright Office’s decision refusing registration are not at issue in this Court.

## Opinion of the Court

## I

Under the Copyright Act of 1976, as amended, copyright protection attaches to “original works of authorship”—prominent among them, literary, musical, and dramatic works—“fixed in any tangible medium of expression.” 17 U. S. C. §102(a). An author gains “exclusive rights” in her work immediately upon the work’s creation, including rights of reproduction, distribution, and display. See §106; *Eldred v. Ashcroft*, 537 U. S. 186, 195 (2003) (“[F]ederal copyright protection . . . run[s] from the work’s creation.”). The Copyright Act entitles a copyright owner to institute a civil action for infringement of those exclusive rights. §501(b).

Before pursuing an infringement claim in court, however, a copyright claimant generally must comply with §411(a)’s requirement that “registration of the copyright claim has been made.” §411(a). Therefore, although an owner’s rights exist apart from registration, see §408(a), registration is akin to an administrative exhaustion requirement that the owner must satisfy before suing to enforce ownership rights, see Tr. of Oral Arg. 35.

In limited circumstances, copyright owners may file an infringement suit before undertaking registration. If a copyright owner is preparing to distribute a work of a type vulnerable to predistribution infringement—notably, a movie or musical composition—the owner may apply for preregistration. §408(f)(2); 37 CFR §202.16(b)(1) (2018). The Copyright Office will “conduct a limited review” of the application and notify the claimant “[u]pon completion of the preregistration.” §202.16(c)(7), (c)(10). Once “preregistration . . . has been made,” the copyright claimant may institute a suit for infringement. 17 U. S. C. §411(a). Preregistration, however, serves only as “a preliminary step prior to a full registration.” Preregistration of Certain Unpublished Copyright Claims, 70 Fed. Reg. 42286 (2005). An infringement suit brought in reliance on pre-

registration risks dismissal unless the copyright owner applies for registration promptly after the preregistered work's publication or infringement. §408(f)(3)–(4). A copyright owner may also sue for infringement of a live broadcast before “registration . . . has been made,” but faces dismissal of her suit if she fails to “make registration for the work” within three months of its first transmission. §411(c). Even in these exceptional scenarios, then, the copyright owner must eventually pursue registration in order to maintain a suit for infringement.

## II

All parties agree that, outside of statutory exceptions not applicable here, §411(a) bars a copyright owner from suing for infringement until “registration . . . has been made.” Fourth Estate and Wall-Street dispute, however, whether “registration . . . has been made” under §411(a) when a copyright owner submits the application, materials, and fee required for registration, or only when the Copyright Office grants registration. Fourth Estate advances the former view—the “application approach”—while Wall-Street urges the latter reading—the “registration approach.” The registration approach, we conclude, reflects the only satisfactory reading of §411(a)'s text. We therefore reject Fourth Estate's application approach.

## A

Under §411(a), “registration . . . has been made,” and a copyright owner may sue for infringement, when the Copyright Office registers a copyright.<sup>4</sup> Section 411(a)'s

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<sup>4</sup>Section 411(a) provides, in principal part: “[N]o civil action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and registration has been refused, the applicant is entitled to institute a civil action for infringe-

## Opinion of the Court

first sentence provides that no civil infringement action “shall be instituted until preregistration or registration of the copyright claim has been made.” The section’s next sentence sets out an exception to this rule: When the required “deposit, application, and fee . . . have been delivered to the Copyright Office in proper form and registration has been refused,” the claimant “[may] institute a civil action, if notice thereof . . . is served on the Register.” Read together, §411(a)’s opening sentences focus not on the claimant’s act of applying for registration, but on action by the Copyright Office—namely, its registration or refusal to register a copyright claim.

If application alone sufficed to “ma[ke]” registration, §411(a)’s second sentence—allowing suit upon refusal of registration—would be superfluous. What utility would that allowance have if a copyright claimant could sue for infringement immediately after applying for registration without awaiting the Register’s decision on her application? Proponents of the application approach urge that §411(a)’s second sentence serves merely to require a copyright claimant to serve “notice [of an infringement suit] . . . on the Register.” See Brief for Petitioner 29–32. This reading, however, requires the implausible assumption that Congress gave “registration” different meanings in consecutive, related sentences within a single statutory provision. In §411(a)’s first sentence, “registration” would mean the claimant’s act of filing an application, while in the section’s second sentence, “registration” would entail the Register’s review of an application. We resist this improbable construction. See, e.g., *Mid-Con Freight Systems, Inc. v. Michigan Pub. Serv. Comm’n*, 545 U. S. 440,

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ment if notice thereof, with a copy of the complaint, is served on the Register of Copyrights. The Register may, at his or her option, become a party to the action with respect to the issue of registrability of the copyright claim . . . .”

448 (2005) (declining to read “the same words” in consecutive sentences as “refer[ring] to something totally different”).

The third and final sentence of §411(a) further persuades us that the provision requires action by the Register before a copyright claimant may sue for infringement. The sentence allows the Register to “become a party to the action with respect to the issue of registrability of the copyright claim.” This allowance would be negated, and the court conducting an infringement suit would lack the benefit of the Register’s assessment, if an infringement suit could be filed and resolved before the Register acted on an application.

Other provisions of the Copyright Act support our reading of “registration,” as used in §411(a), to mean action by the Register. Section 410 states that, “after examination,” if the Register determines that “the material deposited constitutes copyrightable subject matter” and “other legal and formal requirements . . . [are] met, the Register shall register the claim and issue to the applicant a certificate of registration.” §410(a). But if the Register determines that the deposited material “does not constitute copyrightable subject matter or that the claim is invalid for any other reason, the Register shall refuse registration.” §410(b). Section 410 thus confirms that application is discrete from, and precedes, registration. Section 410(d), furthermore, provides that if the Copyright Office registers a claim, or if a court later determines that a refused claim was registrable, the “effective date of [the work’s] copyright registration is the day on which” the copyright owner made a proper submission to the Copyright Office. There would be no need thus to specify the “effective date of a copyright registration” if submission of the required materials qualified as “registration.”

Section 408(f)’s preregistration option, too, would have little utility if a completed application constituted regis-

## Opinion of the Court

tration. Preregistration, as noted *supra*, at 3–4, allows the author of a work vulnerable to predistribution infringement to enforce her exclusive rights in court before obtaining registration or refusal thereof. A copyright owner who fears prepublication infringement would have no reason to apply for preregistration, however, if she could instead simply complete an application for registration and immediately commence an infringement suit. Cf. *TRW Inc. v. Andrews*, 534 U. S. 19, 29 (2001) (rejecting an interpretation that “would in practical effect render [a provision] superfluous in all but the most unusual circumstances”).

## B

Challenging the Eleventh Circuit’s judgment, Fourth Estate primarily contends that the Copyright Act uses “the phrase ‘make registration’ and its passive-voice counterpart ‘registration has been made’” to describe submissions by the copyright owner, rather than Copyright Office responses to those submissions. Brief for Petitioner 21. Section 411(a)’s requirement that “registration . . . has been made in accordance with this title,” Fourth Estate insists, most likely refers to a copyright owner’s compliance with the statutory specifications for registration applications. In support, Fourth Estate points to Copyright Act provisions that appear to use the phrase “make registration” or one of its variants to describe what a copyright claimant does. See *id.*, at 22–26 (citing 17 U. S. C. §§110, 205(c), 408(c)(3), 411(c), 412(2)). Furthermore, Fourth Estate urges that its reading reflects the reality that, eventually, the vast majority of applications are granted. See Brief for Petitioner 41.

Fourth Estate acknowledges, however, that the Copyright Act sometimes uses “registration” to refer to activity by the Copyright Office, not activity undertaken by a copyright claimant. See *id.*, at 27–28 (citing 17 U. S. C. §708(a)). Fourth Estate thus agrees that, to determine

how the statute uses the word “registration” in a particular prescription, one must “look to the specific context” in which the term is used. Brief for Petitioner 29. As explained *supra*, at 4–7, the “specific context” of §411(a) permits only one sensible reading: The phrase “registration . . . has been made” refers to the Copyright Office’s act granting registration, not to the copyright claimant’s request for registration.

Fourth Estate’s contrary reading of §411(a) stems in part from its misapprehension of the significance of certain 1976 revisions to the Copyright Act. Before that year, §411(a)’s precursor provided that “[n]o action or proceeding shall be maintained for infringement of copyright in any work until the provisions of this title with respect to the deposit of copies and registration of such work shall have been complied with.” 17 U. S. C. §13 (1970 ed.). Fourth Estate urges that this provision posed the very question we resolve today—namely, whether a claimant’s application alone effects registration. The Second Circuit addressed that question, Fourth Estate observes, in *Vacheron & Constantin-Le Coultre Watches, Inc. v. Benrus Watch Co.*, 260 F. 2d 637 (1958). Brief for Petitioner 32–34. In that case, in an opinion by Judge Learned Hand, the court held that a copyright owner who completed an application could not sue for infringement immediately upon the Copyright Office’s refusal to register. *Vacheron*, 260 F. 3d, at 640–641. Instead, the owner first had to obtain a registration certificate by bringing a mandamus action against the Register. The Second Circuit dissenter would have treated the owner’s application as sufficient to permit commencement of an action for infringement. *Id.*, at 645.

Fourth Estate sees Congress’ 1976 revision of the registration requirement as an endorsement of the *Vacheron* dissenter’s position. Brief for Petitioner 34–36. We disagree. The changes made in 1976 instead indicate Con-



## Opinion of the Court

gress' agreement with Judge Hand that it is the Register's action that triggers a copyright owner's entitlement to sue. In enacting 17 U. S. C. §411(a), Congress both reaffirmed the general rule that registration must precede an infringement suit, and added an exception in that provision's second sentence to cover instances in which registration is refused. See H. R. Rep. No. 94-1476, p. 157 (1976). That exception would have no work to do if, as Fourth Estate urges, Congress intended the 1976 revisions to clarify that a copyright claimant may sue immediately upon applying for registration. A copyright claimant would need no statutory authorization to sue after refusal of her application if she could institute suit as soon as she has filed the application.

Noteworthy, too, in years following the 1976 revisions, Congress resisted efforts to eliminate §411(a) and the registration requirement embedded in it. In 1988, Congress removed foreign works from §411(a)'s dominion in order to comply with the Berne Convention for the Protection of Literary and Artistic Works' bar on copyright formalities for such works. See §9(b)(1), 102 Stat. 2859. Despite proposals to repeal §411(a)'s registration requirement entirely, however, see S. Rep. No. 100-352, p. 36 (1988), Congress maintained the requirement for domestic works, see §411(a). Subsequently, in 1993, Congress considered, but declined to adopt, a proposal to allow suit immediately upon submission of a registration application. See H. R. Rep. No. 103-338, p. 4 (1993). And in 2005, Congress made a preregistration option available for works vulnerable to predistribution infringement. See Artists' Rights and Theft Prevention Act of 2005, §104, 119 Stat. 221. See also *supra*, at 3-4. Congress chose that course in face of calls to eliminate registration in cases of predistribution infringement. 70 Fed. Reg. 42286. Time and again, then, Congress has maintained registration as prerequisite to suit, and rejected proposals that would

have eliminated registration or tied it to the copyright claimant's application instead of the Register's action.<sup>5</sup>

Fourth Estate additionally argues that, as "registration is not a condition of copyright protection," 17 U. S. C. §408(a), §411(a) should not be read to bar a copyright claimant from enforcing that protection in court once she has submitted a proper application for registration. Brief for Petitioner 37. But as explained *supra*, at 3, the Copyright Act safeguards copyright owners, irrespective of registration, by vesting them with exclusive rights upon creation of their works and prohibiting infringement from that point forward. If infringement occurs before a copyright owner applies for registration, that owner may eventually recover damages for the past infringement, as well as the infringer's profits. §504. She must simply apply for registration and receive the Copyright Office's decision on her application before instituting suit. Once the Register grants or refuses registration, the copyright owner may also seek an injunction barring the infringer from continued violation of her exclusive rights and an order requiring the infringer to destroy infringing materials. §§502, 503(b).

Fourth Estate maintains, however, that if infringement occurs while the Copyright Office is reviewing a registration application, the registration approach will deprive the owner of her rights during the waiting period. Brief for Petitioner 41. See also 1 P. Goldstein, Copyright §3.15,

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<sup>5</sup>Fourth Estate asserts that, if a copyright owner encounters a lengthy delay in the Copyright Office, she may be forced to file a mandamus action to compel the Register to rule on her application, the very problem exposed in *Vacheron & Constantin-Le Coultre Watches, Inc. v. Benrus Watch Co.*, 260 F. 2d 637 (CA2 1958), see *supra*, at 8. But Congress' answer to *Vacheron*, codified in §411(a)'s second sentence, was to permit an infringement suit upon refusal of registration, not to eliminate Copyright Office action as the trigger for an infringement suit.

## Opinion of the Court

p. 3:154.2 (3d ed. 2018 Supp.) (finding application approach “the better rule”); 2 M. Nimmer & D. Nimmer, Copyright §7.16[B][3][a], [b][ii] (2018) (infringement suit is conditioned on application, while prima facie presumption of validity depends on certificate of registration). The Copyright Act’s explicit carveouts from §411(a)’s general registration rule, however, show that Congress adverted to this concern. In the preregistration option, §408(f), Congress provided that owners of works especially susceptible to prepublication infringement should be allowed to institute suit before the Register has granted or refused registration. See §411(a). Congress made the same determination as to live broadcasts. §411(c); see *supra*, at 4.<sup>6</sup> As to all other works, however, §411(a)’s general rule requires owners to await action by the Register before filing suit for infringement.

Fourth Estate raises the specter that a copyright owner may lose the ability to enforce her rights if the Copyright Act’s three-year statute of limitations runs out before the Copyright Office acts on her application for registration. Brief for Petitioner 41. Fourth Estate’s fear is overstated, as the average processing time for registration applications is currently seven months, leaving ample time to sue after the Register’s decision, even for infringement that began before submission of an application. See U. S. Copyright Office, Registration Processing Times (Oct. 2, 2018) (Registration Processing Times), <https://www.copyright.gov/registration/docs/processing-times-faqs.pdf> (as last visited

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<sup>6</sup>Further, in addition to the Act’s provisions for preregistration suit, the Copyright Office allows copyright claimants to seek expedited processing of a claim for an additional \$800 fee. See U. S. Copyright Office, Special Handling: Circular No. 10, pp. 1–2 (2017). The Copyright Office grants requests for special handling in situations involving, *inter alia*, “[p]ending or prospective litigation,” and “make[s] every attempt to examine the application . . . within five working days.” Compendium of U. S. Copyright Practices §623.2, 623.4 (3d ed. 2017).

Mar. 1, 2019).

True, the statutory scheme has not worked as Congress likely envisioned. Registration processing times have increased from one or two weeks in 1956 to many months today. See GAO, *Improving Productivity in Copyright Registration 3* (GAO–AFMD–83–13 1982); *Registration Processing Times. Delays in Copyright Office processing of applications, it appears, are attributable, in large measure, to staffing and budgetary shortages that Congress can alleviate, but courts cannot cure.* See 5 W. Patry, *Copyright §17:83* (2019). Unfortunate as the current administrative lag may be, that factor does not allow us to revise §411(a)'s congressionally composed text.

\* \* \*

For the reasons stated, we conclude that “registration . . . has been made” within the meaning of 17 U. S. C. §411(a) not when an application for registration is filed, but when the Register has registered a copyright after examining a properly filed application. The judgment of the Court of Appeals for the Eleventh Circuit is accordingly

*Affirmed.*

## Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

**SUPREME COURT OF THE UNITED STATES**

## Syllabus

RIMINI STREET, INC., ET AL. *v.* ORACLE USA, INC.,  
ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR  
THE NINTH CIRCUIT

No. 17–1625. Argued January 14, 2019—Decided March 4, 2019

A jury awarded Oracle damages after finding that Rimini Street had infringed various Oracle copyrights. After judgment, the District Court also awarded Oracle fees and costs, including \$12.8 million for litigation expenses such as expert witnesses, e-discovery, and jury consulting. In affirming the \$12.8 million award, the Ninth Circuit acknowledged that it covered expenses not included within the six categories of costs that the general federal statute authorizing district courts to award costs, 28 U. S. C. §§1821 and 1920, provides may be awarded against a losing party. The court nonetheless held that the award was appropriate because the Copyright Act gives federal district courts discretion to award “full costs” to a party in copyright litigation, 17 U. S. C. §505.

*Held:* The term “full costs” in §505 of the Copyright Act means the costs specified in the general costs statute codified at §§1821 and 1920. Pp. 3–12.

(a) Sections 1821 and 1920 define what the term “costs” encompasses in subject-specific federal statutes such as §505. Congress may authorize awards of expenses beyond the six categories specified in the general costs statute, but courts may not award litigation expenses that are not specified in §§1821 and 1920 absent explicit authority. This Court’s precedents have consistently adhered to that approach. See *Crawford Fitting Co. v. J. T. Gibbons, Inc.*, 482 U. S. 437; *West Virginia Univ. Hospitals, Inc. v. Casey*, 499 U. S. 83; *Arlington Central School Dist. Bd. of Ed. v. Murphy*, 548 U. S. 291. The Copyright Act does not explicitly authorize the award of litigation expenses beyond the six categories specified in §§1821 and 1920, which do not authorize an award for expenses such as expert witness fees,

## Syllabus

e-discovery expenses, and jury consultant fees. Pp. 3–6.

(b) Oracle’s counterarguments are not persuasive. First, Oracle argues that the word “full” authorizes courts to award expenses beyond the costs specified in §§1821 and 1920. The term “full” is an adjective that means the complete measure of the noun it modifies. It does not, therefore, alter the meaning of the word “costs” in §505. Rather, “full costs” are all the “costs” otherwise available under the relevant law.

Second, Oracle maintains that the term “full costs” in the Copyright Act is a historical term of art that encompasses more than the “costs” listed in §§1821 and 1920. Oracle argues that Congress imported the meaning of the term “full costs” from the English copyright statutes into the Copyright Act in 1831. It contends that the 1831 meaning of “full costs” allows the transfer of all expenses of litigation, beyond those specified in any costs schedule, and overrides anything that Congress enacted in the Fee Act of 1853 or any subsequent costs statute. Courts need not, however, undertake extensive historical excavation to determine the meaning of costs statutes. See *Crawford Fitting Co.*, 482 U. S., at 445. In any event, Oracle has not shown that the phrase “full costs” had an established meaning in English or American law that covered more than the full amount of the costs listed in the applicable costs schedule. Case law since 1831 also refutes Oracle’s historical argument.

Third, Oracle advances a variety of surplusage arguments. According to Oracle, after Congress made the costs award discretionary in 1976, district courts could award any amount of costs up to 100 percent, and so Rimini’s reading of the word “full” now adds nothing to “costs.” Because Congress would not have intended “full” to be surplusage, Oracle contends, Congress must have employed the term “full” to mean expenses beyond the costs specified in §§1821 and 1920. But even if the term “full” lacked any continuing significance after 1976, the meaning of “costs” did not change. Oracle’s interpretation would also create its own redundancy problem by rendering the second sentence of §505—which covers attorney’s fees—largely redundant because §505’s first sentence presumably would already cover those fees. Finally, Oracle’s argument, even if correct, overstates the significance of statutory surplusage and redundancy. See, e.g., *Marx v. General Revenue Corp.*, 568 U. S. 371, 385. Pp. 6–11.

879 F. 3d 948, reversed in part and remanded.

KAVANAUGH, J., delivered the opinion for a unanimous Court.

Opinion of the Court

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

**SUPREME COURT OF THE UNITED STATES**

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No. 17–1625

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RIMINI STREET, INC., ET AL., PETITIONERS *v.*  
ORACLE USA, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF  
APPEALS FOR THE NINTH CIRCUIT

[March 4, 2019]

JUSTICE KAVANAUGH delivered the opinion of the Court.

The Copyright Act gives federal district courts discretion to award “full costs” to a party in copyright litigation. 17 U. S. C. §505. In the general statute governing awards of costs, Congress has specified six categories of litigation expenses that qualify as “costs.” See 28 U. S. C. §§1821, 1920. The question presented in this case is whether the Copyright Act’s reference to “full costs” authorizes a court to award litigation expenses beyond the six categories of “costs” specified by Congress in the general costs statute. The statutory text and our precedents establish that the answer is no. The term “full” is a term of quantity or amount; it does not expand the categories or kinds of expenses that may be awarded as “costs” under the general costs statute. In copyright cases, §505’s authorization for the award of “full costs” therefore covers only the six categories specified in the general costs statute, codified at §§1821 and 1920. We reverse in relevant part the judgment of the U. S. Court of Appeals for the Ninth Circuit, and we remand the case for further proceedings consistent with this opinion.

## Opinion of the Court

## I

Oracle develops and licenses software programs that manage data and operations for businesses and non-profit organizations. Oracle also offers its customers software maintenance services.

Rimini Street sells third-party software maintenance services to Oracle customers. In doing so, Rimini competes with Oracle's software maintenance services.

Oracle sued Rimini and its CEO in Federal District Court in Nevada, asserting claims under the Copyright Act and various other federal and state laws. Oracle alleged that Rimini, in the course of providing software support services to Oracle customers, copied Oracle's software without licensing it.

A jury found that Rimini had infringed various Oracle copyrights and that both Rimini and its CEO had violated California and Nevada computer access statutes. The jury awarded Oracle \$35.6 million in damages for copyright infringement and \$14.4 million in damages for violations of the state computer access statutes. After judgment, the District Court ordered the defendants to pay Oracle an additional \$28.5 million in attorney's fees and \$4.95 million in costs; the Court of Appeals reduced the latter award to \$3.4 million. The District Court also ordered the defendants to pay Oracle \$12.8 million for litigation expenses such as expert witnesses, e-discovery, and jury consulting.

That \$12.8 million award is the subject of the dispute in this case. As relevant here, the U. S. Court of Appeals for the Ninth Circuit affirmed the District Court's \$12.8 million award. The Court of Appeals recognized that the general federal statute authorizing district courts to award costs, 28 U. S. C. §§1821 and 1920, lists only six categories of costs that may be awarded against the losing party. And the Court of Appeals acknowledged that the \$12.8 million award covered expenses not included within



## Opinion of the Court

those six categories. But the Court of Appeals, relying on Circuit precedent, held that the District Court’s \$12.8 million award for additional expenses was still appropriate because §505 permits the award of “full costs,” a term that the Ninth Circuit said was not confined to the six categories identified in §§1821 and 1920. 879 F. 3d 948, 965–966 (2018).

We granted certiorari to resolve disagreement in the Courts of Appeals over whether the term “full costs” in §505 authorizes awards of expenses other than those costs identified in §§1821 and 1920. 585 U. S. \_\_\_\_ (2018). Compare 879 F. 3d, at 965–966; *Twentieth Century Fox Film Corp. v. Entertainment Distributing*, 429 F. 3d 869 (CA9 2005), with *Artisan Contractors Assn. of Am., Inc. v. Frontier Ins. Co.*, 275 F. 3d 1038 (CA11 2001); *Pinkham v. Camex, Inc.*, 84 F. 3d 292 (CA8 1996).

## II

## A

Congress has enacted more than 200 subject-specific federal statutes that explicitly authorize the award of costs to prevailing parties in litigation. The Copyright Act is one of those statutes. That Act provides that a district court in a copyright case “in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof.” 17 U. S. C. §505.

In the general “costs” statute, codified at §§1821 and 1920 of Title 28, Congress has specified six categories of litigation expenses that a federal court may award as “costs,”<sup>1</sup> and Congress has detailed how to calculate the

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<sup>1</sup>The six categories that a federal court may award as costs are:

“(1) Fees of the clerk and marshal;

“(2) Fees for printed or electronically recorded transcripts necessarily obtained for use in the case;

“(3) Fees and disbursements for printing and witnesses;

## Opinion of the Court

amount of certain costs. Sections 1821 and 1920 in essence define what the term “costs” encompasses in the subject-specific federal statutes that provide for an award of costs.

Sections 1821 and 1920 create a default rule and establish a clear baseline against which Congress may legislate. Consistent with that default rule, some federal statutes simply refer to “costs.” In those cases, federal courts are limited to awarding the costs specified in §§1821 and 1920. If, for particular kinds of cases, Congress wants to authorize awards of expenses beyond the six categories specified in the general costs statute, Congress may do so. For example, some federal statutes go beyond §§1821 and 1920 to expressly provide for the award of expert witness fees or attorney’s fees. See *West Virginia Univ. Hospitals, Inc. v. Casey*, 499 U. S. 83, 89, n. 4 (1991). Indeed, the Copyright Act expressly provides for awards of attorney’s fees as well as costs. 17 U. S. C. §505. And the same Congress that enacted amendments to the Copyright Act in 1976 enacted several other statutes that expressly authorized awards of expert witness fees. See *Casey*, 499 U. S., at 88. But absent such express authority, courts may not award litigation expenses that are not specified in §§1821 and 1920.

Our precedents have consistently adhered to that approach. Three cases illustrate the point.

In *Crawford Fitting Co. v. J. T. Gibbons, Inc.*, the ques-

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“(4) Fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case;

“(5) Docket fees under section 1923 of this title;

“(6) Compensation of court appointed experts, compensation of interpreters, and salaries, fees, expenses, and costs of special interpretation services under section 1828 of this title.” 28 U. S. C. §1920.

In addition, §1821 provides particular reimbursement rates for witnesses’ “[p]er diem and mileage” expenses.

## Opinion of the Court

tion was whether courts could award expert witness fees under Rule 54(d) of the Federal Rules of Civil Procedure. Rule 54(d) authorizes an award of “costs” but does not expressly refer to expert witness fees. 482 U. S. 437, 441 (1987). In defining what expenses qualify as “costs,” §§1821 and 1920 likewise do not include expert witness fees. We therefore held that the prevailing party could not obtain expert witness fees: When “a prevailing party seeks reimbursement for fees paid to its own expert witnesses, a federal court is bound by the limit of §1821(b), absent contract or explicit statutory authority to the contrary.” *Id.*, at 439.

In *Casey*, we interpreted 42 U. S. C. §1988, the federal statute authorizing an award of “costs” in civil rights litigation. We described *Crawford Fitting* as holding that §§1821 and 1920 “define the full extent of a federal court’s power to shift litigation costs absent express statutory authority to go further.” 499 U. S., at 86. In accord with *Crawford Fitting*, we concluded that §1988 does not authorize awards of expert witness fees because §1988 supplies no “explicit statutory authority” to award expert witness fees. 499 U. S., at 87 (quoting *Crawford Fitting*, 482 U. S., at 439).

In *Arlington Central School Dist. Bd. of Ed. v. Murphy*, we considered the Individuals with Disabilities Education Act, which authorized an award of costs. The question was whether that Act’s reference to “costs” encompassed expert witness fees. We again explained that “costs” is “a term of art that generally does not include expert fees.” 548 U. S. 291, 297 (2006); see also *Taniguchi v. Kan Pacific Saipan, Ltd.*, 566 U. S. 560, 573 (2012). We stated: “[N]o statute will be construed as authorizing the taxation of witness fees as costs unless the statute ‘refer[s] explicitly to witness fees.’” *Murphy*, 548 U. S., at 301 (quoting *Crawford Fitting*, 482 U. S., at 445).

Our cases, in sum, establish a clear rule: A statute

## Opinion of the Court

awarding “costs” will not be construed as authorizing an award of litigation expenses beyond the six categories listed in §§1821 and 1920, absent an explicit statutory instruction to that effect. See *Murphy*, 548 U. S., at 301 (requiring “explici[t]” authority); *Casey*, 499 U. S., at 86 (requiring “explicit” authority); *Crawford Fitting*, 482 U. S., at 439 (requiring “explicit statutory authority”).

Here, the Copyright Act does not explicitly authorize the award of litigation expenses beyond the six categories specified in §§1821 and 1920. And §§1821 and 1920 in turn do not authorize an award for expenses such as expert witness fees, e-discovery expenses, and jury consultant fees, which were expenses encompassed by the District Court’s \$12.8 million award to Oracle here. Rimini argues that the \$12.8 million award therefore cannot stand.

## B

To sustain its \$12.8 million award, Oracle advances three substantial arguments. But we ultimately do not find those arguments persuasive.

*First*, although Oracle concedes that it would lose this case if the Copyright Act referred only to “costs,” Oracle stresses that the Copyright Act uses the word “full” before “costs.” Oracle argues that the word “full” authorizes courts to award expenses beyond the costs specified in §§1821 and 1920. We disagree. “Full” is a term of quantity or amount. It is an adjective that means the complete measure of the noun it modifies. See *American Heritage Dictionary* 709 (5th ed. 2011); *Oxford English Dictionary* 247 (2d ed. 1989). As we said earlier this Term: “Adjectives modify nouns—they pick out a subset of a category that possesses a certain quality.” *Weyerhaeuser Co. v. United States Fish and Wildlife Serv.*, 586 U. S. \_\_\_, \_\_\_ (2018) (slip op., at 8).

The adjective “full” in §505 therefore does not alter the meaning of the word “costs.” Rather, “full costs” are all

## Opinion of the Court

the “costs” otherwise available under law. The word “full” operates in the phrase “full costs” just as it operates in other common phrases: A “full moon” means the moon, not Mars. A “full breakfast” means breakfast, not lunch. A “full season ticket plan” means tickets, not hot dogs. So too, the term “full costs” means *costs*, not other expenses.

The dispute here, therefore, turns on the meaning of the word “costs.” And as we have explained, the term “costs” refers to the costs generally available under the federal costs statute—§§1821 and 1920. “Full costs” are all the costs generally available under that statute.

*Second*, Oracle maintains that the term “full costs” in the Copyright Act is a historical term of art that encompasses more than the “costs” listed in the relevant costs statute—here, §§1821 and 1920. We again disagree.

Some general background: From 1789 to 1853, federal courts awarded costs and fees according to the relevant state law of the forum State. See *Crawford Fitting*, 482 U. S., at 439–440; *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U. S. 240, 247–250 (1975). In 1853, Congress departed from that state-focused approach. That year, Congress passed and President Fillmore signed a comprehensive federal statute establishing a federal schedule for the award of costs in federal court. *Crawford Fitting*, 482 U. S., at 440; 10 Stat. 161. Known as the Fee Act of 1853, that 1853 statute has “carried forward to today” in §§1821 and 1920 “without any apparent intent to change the controlling rules.” *Crawford Fitting*, 482 U. S., at 440. As we have said, §§1821 and 1920 provide a comprehensive schedule of costs for proceedings in federal court.

Now some copyright law background: The term “full [c]osts” appeared in the first copyright statute in England, the Statute of Anne. 8 Anne c.19, §8 (1710). In the United States, the Federal Copyright Act of 1831 borrowed the phrasing of English copyright law and used the same

## Opinion of the Court

term, “full costs.” Act of Feb. 3, 1831, §12, 4 Stat. 438–439. That term has appeared in subsequent revisions of the Copyright Act, through the Act’s most recent substantive alterations in 1976. See Act of July 8, 1870, §108, 16 Stat. 215; Copyright Act of 1909, §40, 35 Stat. 1084; Copyright Act of 1976, §505, 90 Stat. 2586.

Oracle argues that English copyright statutes awarding “full costs” allowed the transfer of all expenses of litigation, beyond what was specified in any costs schedule. According to Oracle, Congress necessarily imported that meaning of the term “full costs” into the Copyright Act in 1831. And according to Oracle, that 1831 meaning overrides anything that Congress enacted in any costs statute in 1853 or later.

To begin with, our decision in *Crawford Fitting* explained that courts should not undertake extensive historical excavation to determine the meaning of costs statutes. We said that §§1821 and 1920 apply regardless of when individual subject-specific costs statutes were enacted. 482 U. S., at 445. The *Crawford Fitting* principle eliminates the need for that kind of historical analysis and confirms that the Copyright Act’s reference to “full costs” must be interpreted by reference to §§1821 and 1920.

In any event, Oracle’s historical argument fails even on its own terms. Oracle has not persuasively demonstrated that as of 1831, the phrase “full costs” had an established meaning in English or American law that covered more than the full amount of the costs listed in the applicable costs schedule. On the contrary, the federal courts as of 1831 awarded costs in accord with the costs schedule of the relevant state law. See *id.*, at 439–440; *Alyeska Pipeline*, 421 U. S., at 250. And state laws at the time tended to use the term “full costs” to refer to, among other things, full cost awards as distinguished from the half, double, or

## Opinion of the Court

treble cost awards that were also commonly available under state law at the time.<sup>2</sup> That usage accorded with the ordinary meaning of the term. At the time, the word “full” conveyed the same meaning that it does today: “Complete; entire; not defective or partial.” 1 N. Webster, *An American Dictionary of the English Language* 89 (1828); see also 1 S. Johnson, *A Dictionary of the English Language* 817 (1773) (“Complete, such as that nothing further is desired or wanted; Complete without abatement; at the utmost degree”). Full costs did not encompass expenses beyond those costs that otherwise could be awarded under the applicable state law.

The case law since 1831 also refutes Oracle’s historical argument. If Oracle’s account of the history were correct, federal courts starting in 1831 presumably would have interpreted the term “full costs” in the Copyright Act to allow awards of litigation expenses that were not ordinarily available as costs under the applicable costs schedule. But Rimini points out that none of the more than 800 available copyright decisions awarding costs from 1831 to 1976—that is, from the year the term “full costs” first appeared in the Copyright Act until the year that the Act was last significantly amended—awarded expenses other than those specified by the applicable state or federal law. Tr. of Oral Arg. 7. Oracle has not refuted Rimini’s argument on that point. Oracle cites no §505 cases where federal courts awarded expert witness fees or other litigation expenses of the kind at issue here until the Ninth Circuit’s 2005 decision adopting the interpretation of §505 that the Ninth Circuit followed in this case. See *Twentieth Century Fox*,

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<sup>2</sup>See, e.g., 1 Laws of Pa., ch. DCXLV, pp. 371, 373 (1810) (“full costs” and “double costs”); 2 Rev. Stat. N. Y., pt. III, ch. X, Tit. 1, §§16, 25 (1836) (“full,” “double,” and “treble” costs); Rev. Stat. Mass., pt. III, Tit. VI, ch. 121, §§4, 7, 8, 11, 18 (1836) (“one quarter,” “full,” “double,” and “treble” costs).

## Opinion of the Court

429 F. 3d 869.

In light of the commonly understood meaning of the term “full costs” as of 1831 and the case law since 1831, Oracle’s historical argument falls short. The best interpretation is that the term “full costs” meant in 1831 what it means now: the full amount of the costs specified by the applicable costs schedule.

*Third*, Oracle advances a variety of surplusage arguments. Oracle contends, for example, that the word “full” would be unnecessary surplusage if Rimini’s argument were correct. We disagree. The award of costs in copyright cases was *mandatory* from 1831 to 1976. See §40, 35 Stat. 1084; §12, 4 Stat. 438–439. During that period, the term “full” fixed both a floor and a ceiling for the amount of “costs” that could be awarded. In other words, the term “full costs” required an award of 100 percent of the costs available under the applicable costs schedule.

Oracle says that even if that interpretation of “full costs” made sense before 1976, the meaning of the term “full costs” changed in 1976. That year, Congress amended the Copyright Act to make the award of costs discretionary rather than mandatory. See §505, 90 Stat. 2586. According to Oracle, after Congress made the costs award discretionary, district courts could award any amount of costs up to 100 percent and so Rimini’s reading of the word “full” now adds nothing to “costs.” If we assume that Congress in 1976 did not intend “full” to be surplusage, Oracle argues that Congress must have employed the term “full” to mean expenses beyond the costs specified in §§1821 and 1920.

For several reasons, that argument does not persuade us.

To begin with, even if the term “full” lacked any continuing significance after 1976, the meaning of “costs” did not change. The term “costs” still means those costs specified in §§1821 and 1920. It makes little sense to think that



## Opinion of the Court

Congress in 1976, when it made the award of full costs discretionary rather than mandatory, silently expanded the kinds of expenses that a court may otherwise award as costs in copyright suits.<sup>3</sup>

Moreover, Oracle’s interpretation would create its own redundancy problem by rendering the second sentence of §505 largely redundant. That second sentence provides: “Except as otherwise provided by this title, the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs.” 17 U. S. C. §505. If Oracle were right that “full costs” covers all of a party’s litigation expenditures, then the first sentence of §505 would presumably already cover attorney’s fees and the second sentence would be largely unnecessary. In order to avoid some redundancy, Oracle’s interpretation would create other redundancy.

Finally, even if Oracle is correct that the term “full” has become unnecessary or redundant as a result of the 1976 amendment, Oracle overstates the significance of statutory surplusage or redundancy. Redundancy is not a silver bullet. We have recognized that some “redundancy is ‘hardly unusual’ in statutes addressing costs.” *Marx v. General Revenue Corp.*, 568 U. S. 371, 385 (2013). If one possible interpretation of a statute would cause some redundancy and another interpretation would avoid redundancy, that difference in the two interpretations can supply a clue as to the better interpretation of a statute. But only a clue. Sometimes the better overall reading of the statute contains some redundancy.

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<sup>3</sup>Rimini further suggests that “full” still has meaning after 1976 because the statute gives the district court discretion to award either full costs or no costs, unlike statutes that refer only to “costs,” which allow courts to award any amount of costs up to full costs. In light of our disposition of the case, we need not and do not consider that argument.

## Opinion of the Court

\* \* \*

The Copyright Act authorizes federal district courts to award “full costs” to a party in copyright litigation. That term means the costs specified in the general costs statute, §§1821 and 1920. We reverse in relevant part the judgment of the Court of Appeals, and we remand the case for further proceedings consistent with this opinion.

*It is so ordered.*

# Recent IP Cases and Developments

**Presented by the Connecticut Bar Association, IP Section**

**April 17, 2019**



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## Recent IP Cases and Developments

Cases and Developments in Patent Law

# Agenda

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- Patent subject matter eligibility: the never-ending quest for clarity
  - *Berkheimer*, *Vanda*, and *Athena Diagnostics*
- The on-sale bar reigns supreme under post-AIA Section 102
  - SCOTUS's *Helsinn* decision and practice considerations
- Infringement here, damages where?
  - *WesternGeco* and its implications of recovering lost foreign profits
- Appellate reviews of patent office trials
  - *Oil States*, *SAS Institute*, *Wi-Fi One*, and *Return Mail*
- Patent litigation and PTAB facts and figures in 2018

# Patent Subject Matter Eligibility

**"Whoever invents . . . any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent" 35 U.S.C. § 101**

## –Section 101 Framework (*Alice / Mayo Test*<sup>1</sup>)

- Step One: Determine whether the claim directed to a law of nature, natural phenomena, or an abstract idea
- Step Two: If so, determine whether the limitations of the claim apart from the law of nature, considered individually and as an ordered combination, transform the nature of the claim into a patent-eligible application
  - Conventional, routine, or obvious steps are not sufficiently transformative

## –Software-based innovations held patent eligible under step one

- *Finjan, Inc. v. Blue Coat Systems, Inc.*, 879 F.3d 1299 (Fed. Cir. 2018) (recite specific steps for improved virus scanning)
- *Core Wireless Licensing S.A.R.L. v. LG Elecs., Inc.*, 880 F.3d 1356 (Fed. Cir. 2018) (improved user interface for electronic devices; specific language delimited type of data to be displayed and how to display it)

–USPTO: "[S]oftware-based innovations can make 'non-abstract improvements to computer technology' and be deemed patent-eligible subject matter at the first step of the *Alice/Mayo* analysis."

<sup>1</sup> *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014); *Mayo Collaborative Servs. V. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012)

## Patent Subject Matter Eligibility

### – *Berkheimer v. HP Inc.*, No. 2017-1437 (Fed. Cir. Feb. 8, 2018)

- Tech: digital processing and archiving files in a digital asset management system
- Posture: N.D. Ill. held claims 1-7, 9 (Rule 56); claims 10-19 indefinite ("minimal redundancy")
- Held: Affirmed ineligibility of claims 1-3 and 9; vacated summ. j. re: ineligibility of claims 4-7; and affirmed indefiniteness of claims 10-19

– "whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan [ ] is a question of fact."

- "The mere fact that that something is disclosed in a piece of prior art [ ] does not mean that it was well-understood, routine and conventional."

#### Claims at-issue in *Berkheimer*

Claim 1: a method of archiving an item in a computer processing system comprising:

[a] presenting the item to a parser;

[b] parsing the item into a plurality of multi-part object structures [having] searchable information tags associated therewith;

[c] evaluating the object structures [with structures previously archived]

[d] presenting an evaluated object structure for manual reconciliation at least where there is a variance between the object and at least one predetermined standard and a user defined rule

Claim 4 (in part): . . . storing a reconciled object structure in the archive without substantial redundancy . . ."

## Patent Subject Matter Eligibility

– *Vanda Pharms. v. West-Ward Pharms. Int'l Ltd.*, Nos. 2016-2707, 2016-2708 (Fed. Cir. Apr. 13, 2018)

- Tech: Method of treating patient w/ iloperidone
- Posture: D. Del. held claims infringed, not invalid
- Held: Affirmed, claim not "directed to" a law of nature (Alice / Mayo Step 1)
- "The inventors recognized the relationships between [ILP], CYP2D6 metabolism, and QTc prolongation, but that is not what they claimed. They claimed an application of that relationship. Unlike the claim at issue in *Mayo*, the claims here require a treating doctor to administer [ILP]."

– USPTO *Vanda* memorandum

### Claim at-issue in Vanda Pharms.

A method for treating [schizophrenia] patients with ILP, comprising:

**determining** whether the patient is a CYP2D6 poor metabolizer by [a] **obtaining** a biological sample, and [b] **performing** a genotyping assay;

if patient is CYP2D6 poor metabolizer **administer** ILP in an amount of 12 mg/day or less; and

If the patient does not have a CYP2D6 poor metabolizer genotype, administer ILP in amount that is > 12 mg/day and < 24 mg/day;

wherein the risk of QTC prolongation for a poor metabolizer is lower following administration of < 12 mg/day than it would be for > 12 and < 24 mg/day.



## Patent Subject Matter Eligibility

– *Vanda Pharms. v. West-Ward Pharms. Int'l Ltd.*, Nos. 2016-2707, 2016-2708 (Fed. Cir. Apr. 13, 2018)

Claim at-issue in <i>Vanda Pharms.</i>	Claim at-issue in <i>Mayo</i>
<p>A method for treating [schizophrenia] patients with ILP, comprising:</p> <p>determining whether the patient is a CYP2D6 poor metabolizer by [a] obtaining a biological sample, and [b] performing a genotyping assay;</p> <p>if patient is CYP2D6 poor metabolizer administer ILP in an amount of 12 mg/day or less; and</p> <p>If the patient does not have a CYP2D6 poor metabolizer genotype, administer ILP in amount that is &gt; 12 mg/day and &lt; 24 mg/day;</p> <p>wherein the risk of QTC prolongation for a poor metabolizer is lower following administration of &lt; 12 mg/day than it would be for &gt; 12 and &lt; 24 mg/day.</p>	<p>A method of optimizing therapeutic efficacy for treatment of an immune-mediated GI disorder, comprising:</p> <p>(a) administering a drug providing 6TG to a subject having said immune-mediated GI disorder; and</p> <p>(b) determining the level of 6TG in said subject having said immune-mediated GI disorder,</p> <p>wherein the level of 6TG &lt; about 230 pmol indicates a need to increase the amount of said drug subsequently administered to said subject and</p> <p>wherein the level of 6TG &gt; about 400 pmol indicates a need to decrease the amount of said drug subsequently administered to said subject.</p>
<b>Patent Eligible (Fed. Cir.)</b>	<b>Patent Ineligible (SCOTUS)</b>

## Patent Subject Matter Eligibility

– *Athena Diagnostics, Inc. et al. v. Mayo Collaborative Servs., LLC*, No. 2017-1437 (Fed. Cir. Feb. 8, 2019)

- Tech: Test for diagnosing neurological disorders relating to MuSK
- Posture: D. Mass. found claims ineligible under Section 101 on 12(b)(6) motion
- Held: Affirmed

– Is footnote 4 a plea for help?

### Claim at-issue in *Athena*

Claim 1: A method for diagnosing MuSK-related disorders in a mammal comprising the step of detecting in the bodily fluid of said mammal autoantibodies to an epitope of MuSK.

Claim 7. A method according to claim 1, comprising:

**contacting** MuSK or an epitope thereof having a suitable label thereon, with said bodily fluid

**immunoprecipitating** any antibody / MuSK complex or antibody / MuSK epitope from said bodily fluid

**monitoring** for said label on any of said antibody/MuSK complex or antibody / MuSK epitope

wherein the presence of said label is indicative of said mammal suffering from a MuSK-related disorder

## Patent Subject Matter Eligibility

Claim at-issue in <i>Athena</i>	Claim at-issue in <i>Mayo</i>
<p>Claim 1: A method for diagnosing MuSK-related disorders in a mammal comprising the step of detecting in the bodily fluid of said mammal autoantibodies to an epitope of MuSK.</p> <p>Claim 7. A method according to claim 1, comprising:</p> <p>contacting MuSK or an epitope thereof having a suitable label thereon, with said bodily fluid</p> <p>immunoprecipitating any antibody / MuSK complex or antibody / MuSK epitope from said bodily fluid</p> <p>monitoring for said label on any of said antibody/MuSK complex or antibody / MuSK epitope</p> <p>wherein the presence of said label is indicative of said mammal having a MuSK-related disorder</p>	<p>A method of optimizing therapeutic efficacy for treatment of an immune-mediated GI disorder, comprising:</p> <p>(a) administering a drug providing 6TG to a subject having said immune-mediated GI disorder; and</p> <p>(b) determining the level of 6TG in said subject having said immune-mediated GI disorder,</p> <p>wherein the level of 6TG &lt; about 230 pmol indicates a need to increase the amount of said drug subsequently administered to said subject and</p> <p>wherein the level of 6TG &gt; about 400 pmol indicates a need to decrease the amount of said drug subsequently administered to said subject.</p>
<b>Patent ineligible (Fed. Cir.)</b>	<b>Patent Ineligible (SCOTUS)</b>

–On January 7, 2019, USPTO issues Revised Patent Subject Matter Eligibility Guidance

## On-Sale Bar Post AIA

**"A person shall be entitled to a patent unless . . . the claimed invention was . . . in public use, on sale, or otherwise available to the public before the effective filing date . . . " 35 U.S.C. § 102(a) (post-AIA)**

### –Pre-AIA on-sale bar (35 U.S.C. § 102(b))

- *"the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the U.S."*

### –*Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.*, No. 17-1229 (Jan. 22, 2019)

- Technology: low dose drug (palonosetron) that treats chemotherapy-induced side effects (e.g., nausea and vomiting)
- Key facts: (1) Helsinn entered into two agreements with a company to distribute, promote, and market the drug; (2) confidentiality obligation; (3) public versions of the agreements did not disclose low dose; (4) Helsinn filed priority patent applications two years after entering the agreements
- Issue: whether the sale of an invention to a third party who is contractually obligated to keep the invention confidential places the invention "on sale" within the meaning of post-AIA § 102(a)
- Holding: (1) "on sale" has same meaning as it did under pre-AIA 102(b) (i.e., *Pfaff* test); (2) a confidential commercial sale may place the invention "on sale"

## Considerations re: "Secret" / Supplier Sales

**"A person shall be entitled to a patent unless . . . the claimed invention was . . . in public use, on sale, or otherwise available to the public before the effective filing date . . . " 35 U.S.C. § 102 (post-AIA)**

### –Secret / Supplier sales and the on-sale bar

- No blanket "supplier exception"
- *Hamilton Beach Brands, Inc. v. Sunbeam Prods., Inc.*, 726 F.3d 1370 (Fed. Cir. 2013) (pre-AIA) (invalidating sales of commercial embodiment of claimed invention by a supplier to patentee)
- *Medicines Co. v. Hospira, Inc.*, 827 F.3d 1363 (Fed. Cir. 2016) (pre-AIA) (affirming patent validity where patentee outsourced manufacturing and stockpiled commercial embodiments of the claimed invention)

### –Due Diligence / Pre-Suit Investigation / Discovery

- Small / virtual companies: pitches, marketing documents, manufacturing relationships
- Securities disclosures

## Recovering Patent Damages on Foreign Sales

**". . . the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . ." 35 U.S.C. § 284**

– "[H]ad the Infringer not infringed, what would the [patentee] have made?"

– *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507, 84 S. Ct. 1526, 1543, 12 L. Ed. 2d 457 (1964)

– *WesternGeco LLC v. Ion Geophysical Corp.*, 138 S.Ct. 2129 (2018)

– Technology: lateral steering systems for surveying the ocean floor

– Backstory: WG surveys for oil and gas companies, IGC manufactures components for competing system in the U.S. and ships the components abroad such that customers combine them to yield an infringing system

– Jury verdict: \$93.4M in lost profits and \$12.5M in reasonable royalty damages

– Does Section 284 allow the patent owner to recover for lost foreign profits based on an act of infringement under 35 U.S.C. § 271(f)(2).

– Holding: a patentee may recover foreign lost profits for domestic acts of infringement under § 271(f)(2)

– Extraterritoriality?

## Recovering Patent Damages on Foreign Sales

**". . . the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . ." 35 U.S.C. § 284**

### –35 U.S.C. § 271(f)(2)

- *"Whoever without authority supplies or causes to be supplied in or from the U.S. any component of a patented invention that is especially made or especially adapted for use in the invention . . . , where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the U.S. in a manner that would infringe the patent if such combination occurred within the U.S., shall be liable as an infringer."*

### –35 U.S.C. § 271(a)

- *". . . whoever without authority makes, uses, offers to sell, or sells any patented invention, within the U.S. . . . during the term of the patent therefor, infringes the patent."*

### –*Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, C.A. No. 04-cv-1371-LPS, 2018 WL 4804685 (D. Del. Oct. 4, 2018)

- Certifying for interlocutory review a decision allowing recovery of lost foreign profits for § 271(a) infringement
- CAFC briefing and amici

## Considerations re: Damages on Foreign Sales

**". . . the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . ." 35 U.S.C. § 284**

- Damages must be established with reasonable certainty
  - Cannot be speculative
  
- Patentee must still show that it would have made additional foreign sales but for infringement
  - Patentee must compete in geographic territory
  - Absence of noninfringing alternatives
    - *Accused infringer capable of manufacturing infringing good or service offshore?*
  
- Seek sufficient discovery in litigation



## PTAB UPDATE

- Claim construction: *Phillips* replaces Broadest Reasonable Interpretation ("BRI") standard at PTAB
- *Oil States Energy Servs., LLC v. Green's Energy Group, LLC et al.*, No. 16-712 (Apr. 24, 2018)
  - Issue: Whether inter partes review violates Article III or the 7th Amendment (right of trial by jury) of the Constitution
  - Held: (1) patent is a public right; (2) Congress sets out conditions of patentability; (3) validity does not require a judicial determination
  - Undecided: (1) retroactive application of IPR process to pre-AIA issued patents; (2) due process and takings clauses
- *SAS Institute Inc. Iancu*, No. 16-969 (Apr. 24, 2018)
  - Issue: Whether PTAB must address all challenged claims where it institutes *inter partes* review
  - Held: PTAB must address every claim challenged in its final written decision if it institutes *inter partes* review
- *Wi-Fi One, LLC v. Broadcom Corp.*, Nos. 2015-1944, 2015-1946 (Fed. Cir. Jan. 8, 2018) (*en banc*)
  - Issue: Whether the bar on review of institution decisions in § 314(d) applies to timebar determinations made under § 315(b)
  - Holding: PTAB's time-bar determinations under § 314(d) are appealable
- *Return Mail Inc. v. United States Postal Service.*, No. 17-1594 (SCOTUS (pending))
  - Issue: Is the government a "person" who may institute review proceedings (CBM) under the AIA?
  - Fed. Cir.: No statutory bar
  - Oral arguments heard on Feb. 19, 2019

## Patent Litigation and PTAB: Facts and Figures in 2018

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- Patent litigation filings was down (again)
- Residual venue effects of *TC Heartland*
- Invalidity determinations under 35 U.S.C. § 101
- Damages by the numbers
- Inter Partes* Review filings remained consistent

# QUESTIONS?

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## THANK YOU



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## Recent IP Cases and Developments

Top 2018 Trademark Rulings and Cases to Watch in 2019

# *Mission Product Holdings, Inc. v. Tempnology, LLC* (First Cir. 2018, U.S. Supreme Court Case No. 17-1657)

## What happens to a trademark license when the licensor ends up in bankruptcy proceedings?

- On January 20, 2018, the First Circuit held that licensor fabric maker Tempnology could reject in bankruptcy proceedings the trademark license it had granted to apparel retailer Mission Products to use the Coolcore® trademark and that such rejection resulted in a termination of the license; following the Fourth Circuit’s prior decision in *Lubrizol* regarding the effect on licensee’s rights of a debtor licensor’s rejection of patent licenses.
- Created a split in the circuits, other circuits having followed the Seventh Circuit’s prior decision in *Sunbeam* that rejection of a trademark license in bankruptcy constituted a breach by the licensor and the licensee could continue to use the trademark.
- U.S. Supreme Court granted *certiorari* to decide the effect of an insolvent licensor’s rejection of a trademark license.
- Oral argument held on February 20, 2019.
- Significant unresolved issue in trademark licensing for 30 years.



# *Viacom International, Inc. v. IJR Capital Investments, LLC* (Fifth Cir. May 2018)

- IJR Capital’s plans to open “Krusty Krab” seafood eateries were successfully challenged by Viacom as a violation of its trademark rights in the fictional restaurant of the same name in the “Sponge Bob Square Pants” cartoon.
- Fifth Circuit affirmed and noted that Viacom had the right to develop a Krusty Krab restaurant based on the fictional eatery, as Viacom’s subsidiary had previously done, when it licensed Bubba Gump Shrimp Co., a fictional business in the “Forrest Gump” movie, to create a chain of seafood restaurants.



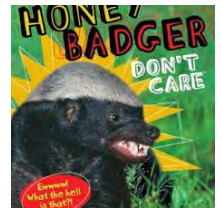
*Knowles-Carter et al. v. Feyoncé, Inc. et al.*  
(SDNY September 2018)

- In 2016, Beyoncé sued Feyoncé, Inc. for selling merchandise aimed at engaged women under the brand name “Feyoncé”, a pun on fiancé and Beyoncé. Some Feyoncé merchandise even referred to Beyoncé’s “Single Ladies” hit song.
- District Court denied Beyoncé’s motion for summary judgment and a permanent injunction.
- “There is no dispute that in marketing to fiancé purchasers, defendants chose the formation ‘Feyoncé’ in order to capitalize off the exceedingly famous ‘Beyoncé’ mark but that as well as the direct connections to Beyoncé were insufficient to establish likelihood of confusion.”
- Whether a **pun** was sufficient to prevent **likelihood of confusion** is a genuine issue of material fact.



## *Gordon v. Drape Creative, Inc. et al.* (Ninth Cir. November 2018)

- Trademark infringement case involving an **artistic work**.
- Creator of Honey Badger videos sued the creator of greeting cards featuring the similar phrase “Honey Badger don’t care.”
- First Amendment protects expressive works from trademark infringement claims unless the use of the mark is **irrelevant** to the work **or** the use **explicitly misleads customers**.
- Ninth Circuit found use of “Honey Badger don’t care” was relevant to the greeting cards but a jury could find the use explicitly misleading.
- “There is at least a triable issue of fact as to whether defendants simply used [the trademark] with minimal artistic changes of their own, and used it in the same way [the creator] was using it- to identify the source of humorous greeting cards.”
- An earlier decision held that the use of “Honey Badger” might have been artistically irrelevant.





# *Royal Crown Company, Inc. et al. v. The Coca-Cola Company* (Fed. Cir. June 2018)

- Coca Cola had been attempting to register “Zero” as a trademark for 13 years.
- A descriptive term like “Zero” requires an applicant to show more evidence that consumers associate the term with one company.
- TTAB previously ruled in 2016 that consumers would not see “Zero” as a generic term for soft drinks and decided that “Zero” could be registered as a trademark.
- Federal Circuit held that the TTAB actually should have asked whether consumers would view “Zero” as a generic term for “a key aspect” of soft drinks.
- Last year, Coca Cola abandoned the “Zero” brand in favor of “Zero Sugar.”





## *Converse, Inc. v. ITC* (Fed. Cir. October 2018)



- In 2016, the ITC invalidated Converse’s Chuck Taylor® trademark registration.
- Fed. Cir. ruled that the ITC had applied the wrong standard in invalidating Converse’s mark and remanded.
- A registration would have entitled Converse to a presumption of “secondary meaning.”
- But even if the ITC had upheld Converse’s trademark registration, it would not have mattered in Converse’s case against Skechers USA Inc. and New Balance Athletics Inc. because, as the Fed. Cir. reiterated, the **presumption of “secondary meaning” is forward-looking**. Skechers and New Balance had started selling their shoes before Converse registered the mark.
- Converse’s trademark infringement case has been revived but it will have to prove, applying the Federal Circuit’s six factor test that Chuck Taylor acquired “secondary meaning” before Skechers and New Balance started selling their shoes.



## *Schlafly v. The Saint Louis Brewery LLC* (Fed. Cir. November 2018)



- Phyllis Schlafly, a well-known attorney and conservative activist, died in 2016.
- The Saint Louis Brewery, a Missouri beer maker founded in 1989 by Schlafly’s nephew Thomas, sells a “Schlafly” brand of beer in over a dozen states.
- Federal Circuit decided that Schlafly’s estate could not prevent the registration of the Schlafly surname as a trademark for beer.
- “[t]he trademark statute provides that words that are primarily merely a **surname** can be registered trademarks if they have acquired **secondary meaning** in trademark use.”

## *Adidas America, Inc. et al. v. Skechers USA, Inc.* (Ninth Cir. May 2018)

### What do trademark owners need to do to prove “irreparable harm” to obtain a preliminary injunction?

- In 2013, the Ninth Circuit had ruled that trial judges cannot presume irreparable harm without further analysis.
- Instead of clarifying the “irreparable harm” factors in *Adidas*, the Federal Circuit merely concluded that Adidas had specific evidence that its reputation and good will were likely to be irreparably harmed by one Skechers’ shoe but lacked evidence to support a finding of irreparable harm by the other.
- The Majority found Skecher’s Onix shoe looked very similar to Adidas’ Stan Smith sneaker and affirmed the grant of a preliminary injunction with respect to the Onix shoe.
- The Dissent noted that Adidas’ evidence of infringement was similar for both shoes and did not find support for the different conclusions in the record.

adidas Stan Smith



Skechers Onix





## *Girl Scouts v. Boys Scouts*



- Boy Scouts have decided to form troops of girls called “Scouts”.
- In November 2018, Girls Scouts of the United States of America sued Boy Scouts of America in SDNY.
- Girl Scouts’ complaint alleges trademark infringement, dilution, unfair competition, tortious interference with prospective economic advantage and deceptive business practice under New York law, and demanded a jury trial.



## *Disney Enterprises, Inc. v. Burton*

- Disney does not have a registered trademark for “Let It Go”, the title of the hit song from the movie “Frozen”.
- A Canadian merchandiser filed an application to register “Let It Go” as a trademark for apparel.
- In February 2019, Disney filed a Notice of Opposition asserting likelihood of confusion.



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## *Tiffany (NY) LLC v. 7CS Fashion House*

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- Jewel Corner filed a trademark registration for a “teal blue design of a diamond” logo.
- In February 2019, Tiffany filed a Notice of Opposition alleging that the color of Jewel Corner’s logo is very similar to Tiffany’s iconic “robin’s egg blue” used in all its advertising and marketing and asserting claims of trademark dilution and likelihood of confusion.



GOLD & DIAMOND JEWELLERY

The Tiffany &amp; Co. logo is a solid teal square. In the center of the square, the words "TIFFANY &amp; CO." are written in a classic, black, serif font.

## United States-Mexico-Canada Agreement (USMCA)

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- Key updates to NAFTA’s intellectual property provisions addressing countries’ trademark and domain name laws.
- Aims to enhance protection of trademark rights and further US economic interests.
- Consistent with U.S. trademark registration practice; marks for intangibles like sound and scent will not be rejected.
- Likelihood of confusion will be presumed for the use of an identical sign for identical goods or services.
  - Potentially broader protection than under U.S. trademark law, where courts still employ a multi-factor test.
  - In the U.S., even famous marks can coexist for different goods, e.g., DELTA®.



## United States-Mexico-Canada Agreement (USMCA)

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- Protection for “well-known” trademarks because frequently infringed.
  - Need not be registered
  - Need not extend beyond sector of the public associated with the goods and services
- Domain name provisions apply only to country code top-level domain names, e.g. “.us”, “.ca” and “.mx.”
  - Requirement to adopt a domain name dispute resolution system like ICANN’s Uniform Domain name Dispute Resolution Policy (UDRP) or a system that is “fair and equitable.”
  - Remedy available where registrant holds “with a bad faith intent to profit,” a domain name identical or confusingly similar to a trademark.
    - Stricter standard than UDRP which only requires registration and use in bad faith
    - UDRP also contemplates rulings in favor of domain name registrants, if they can show legitimate rights or interests

# United States-Mexico-Canada Agreement (USMCA)

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## –Geographical Indications (GIs)

- U.S. law protects geographic marks more narrowly as certification or collective membership marks, e.g., IDAHO®.
- Canada and Mexico more like the EU system.
- Required means to challenge or cancel GI protection.
  - if GI is a term “customary in common language as a common name” for goods in the territory
    - Guidelines for determining when a term is “customary in the common language”
  - If GI would cause confusion with a pre-existing trademark right

# QUESTIONS?

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## THANK YOU



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# **Recent Cases and Developments in IP Copyright**

**Justin Durelli**  
**April 17<sup>th</sup>, 2019**



## Overview

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- Legislation
- Judicial Decisions

## Music Modernization Act

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- On October 11<sup>th</sup>, 2018, the Music Modernization Act was signed into law.
- Updates the Copyright Act to address digital phonorecord delivery of a musical work.
  - Creates the Mechanical Licensing Collective for distribution of mechanical royalties.
    - Effective January 1, 2021.
  - New willing buyer / willing seller royalty standard.
  - Merges pre-1972 sound recordings into federal copyright.
  - S.D.N.Y. judges randomly assigned to rate-setting proceedings.

## Fourth Estate Public Benefit Corp. v. Wall-Street.com

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- The question presented was:
  - Whether the “registration of [a] copyright claim has been made” within the meaning of 17 U.S.C. § 411(a) when the copyright holder delivers the required application, deposit, and fee to the Copyright Office, as the U.S. Courts of Appeal for the 5th and 9th Circuits have held, or only once the Copyright Office acts on that application, as the U.S. Courts of Appeals for the 10th and, in the decision below, the 11th Circuits have held.
- Fourth Estate sued Wall-Street.com for infringing news articles on the basis of applications not yet registered.
- Unanimous SCOTUS held a registration of a copyright claim has been made *“not when an application for registration is filed, but when the Register has registered a copyright after examining a properly filed application.”*

## Rimini Street Inc. v. Oracle USA Inc.

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- The question presented was:
  - Whether the Copyright Act's allowance of "full costs," 17 U.S.C. § 505, to a prevailing party is limited to taxable costs under 28 U.S.C. §§ 1920 and 1821, as the U.S. Courts of Appeals for the 8th and 11th Circuits have held, or whether the act also authorizes non-taxable costs, as the U.S. Court of Appeals for the 9th Circuit held.
- A jury awarded Oracle \$12.8 million for expenses.
  - Award included expenses not provided in §§ 1821 and 1920.
- Unanimous Supreme Court held "full costs" means the six categories provided under §§ 1821 and 1920.



## Goldman v. Breitbart News Network, LLC

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- In 2016 Justin Goldman photographed Tom Brady with Boston Celtics basketball executives in what appeared to be recruitment of Kevin Durant.
- Goldman uploaded the video to his Snapchat Story.
- The photo went viral on social media, including a number of Tweets on Twitter.
- Various news outlets published articles and reproduced the photo by “embedding” the image from Tweets.
- Goldman sued.
  - Southern District of New York held the embedding violates Goldman’s exclusive display right.

## BMG Rights Mgmt. (US) v. Cox Communs., Inc.

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- Rightscorp sends infringement notices to ISPs on behalf of copyright owners.
  - The notices include settlement language and an instruction for forwarding the notice to the internet subscriber at the IP address.
- Cox refuses to forward infringement notices containing such settlement language.
  - Cox blacklisted Rightscorp in fall of 2011.
- BMG hired Rightscorp in December 2011 to monitor for infringement of copyrighted musical compositions.
- Even when Cox does forward notices, Cox has 13-strike rule for terminating subscriber access.

## BMG Rights Mgmt. (US) v. Cox Communs., Inc.

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- The Digital Millennium Copyright Act provides a safe harbor for ISPs who have:
  - "adopted and reasonably implemented . . . a policy that provides for the termination in appropriate circumstances of subscribers . . . who are **repeat infringers**." 17 U.S.C. § 512(i)(1)(A).
- Cox argued that "repeat infringers" means adjudicated repeat infringers.
- District court held no reasonable jury could find Cox implemented a policy covered by safe harbor provision.
  - 4<sup>th</sup> Circuit affirmed.

## Fox News Network, LLC v. TVEyes, Inc.

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- TVEyes is a media company that continuously records the audiovisual content of more than 1,400 television and radio channels, copies the closed captioned text that accompanies content that it records, imports that content into a database and enables its clients, for \$500/month, to search, view, archive, download and email to others ten-minute clips of the recorded content.
  - When necessary, TVEyes relies on speech-to-text software to create a text-searchable transcript of spoken words in each video.
- 2<sup>nd</sup> Circuit held this service, while transformative, does not constitute fair use.

## Oracle America, Inc. v. Google LLC

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- Oracle sued Google for infringement of Oracle's copyrights in the Java Standard Edition platform, alleging that Google infringed 37 packages of Oracle's Java application programming interface ("API packages").
- At a first trial, a jury found that Google infringed, but the district court held the API packages were not entitled to copyright protection as a matter of law.
  - Reversed by CAFC, remanded for fair use trial.
- At a second trial, Google prevailed on a fair use defense.
  - Reversed by CAFC again, held Google's use not entitled to fair use defense as a matter of law.

## Capitol Records, LLC v. ReDigi Inc.

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- The first sale doctrine is codified in the Copyright Act in 17 U.S.C. § 109(a), which provides that:
  - [n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.
- ReDigi devised a platform where users could download a “Music Manager” program to their computer which interfaced with ReDigi’s “Cloud Locker”.
  - System functioned as a secondary market for legally purchased songs.
- 2<sup>nd</sup> Circuit held not protected by first sale doctrine.

## Code Revision Comm'n v. Public.Resource.Org

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- Official Code of Georgia Annotated (“OCGA”).
  - Annotations prepared by third party at direction of Georgia General Assembly.
- 11<sup>th</sup> Circuit held the annotations are not protected by copyright based on three critical factors:
  - (1) identity of the public officials who created the work;
  - (2) the authoritativeness of the work; and
  - (3) the process by which the work was created.
- If all factors point to exercise of sovereign authority, then not protected by copyright.



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# Thank you!

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