Intellectual Property Year in Review

February 10, 2020

5:30 p.m. – 8:30 p.m.

McCormick Paulding & Huber

Hartford, CT

CT Bar Institute, Inc.

CT: 2.0 CLE Credits (General)
NY: 2.0 CLE Credits (AOP)

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 I 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*

Table of Contents

Intellectual Property Year in Review (EIP200210)

Agenda

5:30 – 6:20 p.m.	Reception
6:20 – 6:30 p.m.	Introduction of Speakers **Scott A. Lydon**, McCormick Paulding & Huber PLLC, Hartford
6:30 – 7:05 p.m.	2019 Patent Review **Justin Durelli**, McCormick Paulding & Huber PLLC, Hartford
7:05 – 7:40 p.m.	2019 Trademark Review **Caroline Mrohs**, Moyles IP LLC, Shelton
7:40 – 8:15 p.m.	2019 Copyright Review **Melissa Tharp**, Handal & Morofsky LLC, Fairfield
8:15 – 8:30 p.m.	Questions All

ATTORNEYS
JOHN C. LINDERMAN
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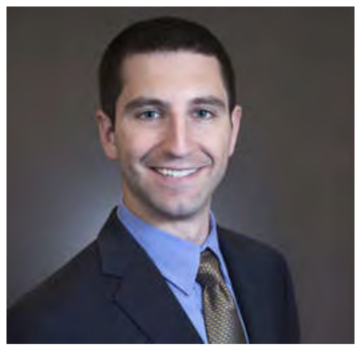
JOHN C. HILTON
DONALD K. HUBER
JUSTIN DURELLI
JEANNE M. TANNER

Justin Durelli



Contact Justin Durelli
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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.

Education

B.S., Chemical Engineering, University of Connecticut, Honors Scholar
M.S., Chemical Engineering, University of Connecticut
J.D., Quinnipiac University School of Law, magna cum laude
Associate Editor of the Quinnipiac Health Law Journal

Awards and Recognition

Selected by New England *Super Lawyers® Magazine* to the 2017 Connecticut Rising Stars list
Distinguished Academic Achievement Award in Intellectual Property

Associations

Connecticut Bar Association
International Trademark Association

Admissions

Connecticut
U.S. Patent and Trademark Office

Publications and Speaking Engagements

Speaker, "*Aqua Products, Inc. v. Joseph Matal*: Burden Shifted for Proving Patentability of Amended Claims in *Inter Partes* Review," Joint Patent Practice Seminar, May 2, 2018

Speaker, "IP Year in Review – Patents," Connecticut Bar Association, IP Section's IP Year in Review, March 3, 2016

Article co-author, "Anti-Troll Legislation: Too Much of a Good Thing?," CT Law Tribune, April 20, 2015

Article co-author, "Patents: Beyond the Basics – Current Risks and Opportunities," Connecticut Innovations blog, March 3, 2015

Speaker, "Key Supreme Court and T.T.A.B. Decisions of 2014," International Trademark Association (INTA) Roundtable Discussion, January 20, 2015

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Scott A. Lydon, McCormick Paulding & Huber PLLC

Scott's practice focuses on patent, trademark and copyright procurement, counseling and litigation. Scott has extensive experience with domestic and foreign patent prosecution in a variety of technologies in the mechanical, electromechanical, electrical and computer arts. He has counseled clients to develop offensive and defensive patent portfolio strategies, including obtaining broad and targeted patent coverage of clients' commercial products and blocking the competitive space, while maintaining portfolio flexibility to better protect future design iterations.

Scott has experience preparing patentability, noninfringement, invalidity and freedom-to-operate opinions and has also initiated and defended numerous post issuance review proceedings at the U.S. Patent and Trademark Office. He also has experience representing clients in trademark and copyright matters and with drafting corporate policies, including nondisclosure agreements.

Prior to practicing law, Scott worked as a Senior Engineer and as a Licensing Analyst for Pratt and Whitney, a United Technologies Corporation company.

Education

Dual B.S., Mechanical Engineering and Aeronautical Engineering, Rensselaer Polytechnic Institute
J.D., University of Connecticut School of Law
Certificate, Intellectual Property Program

Caroline Mrohs, Moyles IP

cmrohs@moylesip.com

Caroline joined Moyles IP, LLC in March 2019. Her practice is dedicated equally to trademark and patent matters, including trademark prosecution and advising clients on how best to enforce their trademark rights, as well as domestic and international patent preparation and prosecution with expertise in the mechanical arts.

Prior to joining Moyles IP, Caroline began building the foundation of her IP practice at a firm in Washington, DC, where she clerked throughout law school and worked as an attorney after being admitted to practice in the state of Maryland in 2017.

In law school, Caroline was the Editor-in-Chief of the Catholic University Journal of Law and Technology and co-President of the Students for Public Interest Law, a student group that organizes and participates in numerous community service and pro bono activities geared towards providing legal services in the public interest sector.

Outside of work, Caroline enjoys gardening, hiking with her dog, and improving her golf swing.

Education: The Catholic University of America Columbus School of Law, JD (2017) University of Maryland, B.S. Food Science, B.A. Spanish (2013)

Bar Admissions: Maryland (2017); Connecticut (2019); U.S. Patent and Trademark Office (2018)

Memberships: International Trademark Association

Publications: “How Many Likes Did It Get? Using Social Media Metrics to Establish Trademark Rights” 25 Cath. U. J. L. & Tech (2017).

Melissa A. Tharp, Handal & Morofsky LLC

Melissa Tharp is a patent attorney with Handal & Morofsky. Ms. Tharp is a former Patent Fellow and consulting attorney with the Global Patent Operation of General Electric, providing research, IP filing strategy and prosecution support for multiple GE business units. She received her B.S. in Neuroscience from Central Michigan University, and earned her J.D. from Quinnipiac School of Law.

McCormick, Paulding & Huber PLLC
Intellectual Property Law

Intellectual Property Year In Review

Patents

Justin Durelli

February 10th, 2020

Outline

- Supreme Court
- Court of Appeals for the Federal Circuit

Supreme Court

Helsinn v. Teva

- Pre-AIA 35 U.S.C. § 102(b):
  - "A person shall be entitled to a patent unless…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." (Emphasis added).

- 35 U.S.C. § 102(a)(1):
  - "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." (Emphasis added).

Helsinn v. Teva

- Two years before filing for a patent application, Helsinn entered into a purchase-and-sale agreement with a vendor for distributing an anti-nausea drug that would ultimately be covered by the patent at issue.
- Following the sale, Helsinn and the vendor issued a joint press release and also filed Form 8-K filings with the S.E.C.
  - The press release and the 8-K filings had confidential information relating to the invention redacted.
- Teva challenged the patent as being invalid due to the sale.
- Helsinn argued that secret sales are no longer a bar under § 102.
- The Supreme Court held that the changes to § 102 did <u>not</u> change the well-settled meaning of the phrase “on sale.”

Return Mail, Inc. v. U.S. Postal Service

- The AIA introduced new post issuance review procedures for reviewing patent validity at the U.S. Patent and Trademark Office.
  - Inter Partes Review
  - Post Grant Review
  - Covered Business Method ("CBM") Review
- The statutes provide that "a person who is not the owner of a patent may file with the Office a petition" to institute one the reviews.
- The United States Postal Service filed a petition for CBM review of Return Mail's patent.
- On appeal, after Return Mail's patent was invalidated, the Federal Circuit held that the government is a person eligible to file a petition.

Return Mail, Inc. v. U.S. Postal Service

- The Supreme Court held that the U.S. government is not a "person" within the meaning of the post issuance patent review statutes.

Peter v. NantKwest

- 35 U.S.C. § 145:
  - "[a]n applicant dissatisfied with the decision of the Patent Trial and Appeal Board in an appeal under section 134(a) may…have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia…***All the expenses of the proceedings shall be paid by the applicant***." (Emphasis added).
- After the U.S. Patent and Trademark Office denied NantKwest's application, NantKwest filed a civil action against the Director pursuant to 35 U.S.C. § 145.
- NantKwest lost the case, and the U.S. Patent and Trademark Office requested attorney and paralegal fees be paid as "expenses."
- The Supreme Court held attorney and paralegal fees are <u>not</u> "expenses" within the meaning of § 145.

Court of Appeals for the Federal Circuit

University of Minnesota v. LSI Corp.

- LSI Corp. filed for inter partes review of a patent owned by the University of Minnesota.
- University of Minnesota ("UMN") filed a motion to dismiss on the basis of sovereign immunity.
  - The Patent Trial and Appeal Board held that state sovereign immunity can be asserted in defense of an inter partes review petition, but that in this case the defense had been waived since UMN brought suit against LSI Corp.
- The CAFC held that state sovereign immunity cannot be asserted as a defense to a petition for inter partes review.
  - Same reasoning as *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*, 896 F.3d 1322, 1325 (Fed. Cir. 2018), which held that tribal immunity is unavailable as a defense to inter partes review.

Arthrex Inc. v. Smith & Nephew Inc.

- Arthrex appeals from a final written decision by the Patent Trial and Appeal Board ("PTAB") in an inter partes review in which Arthrex's patent was found to be anticipated by prior art.
- Arthrex argued that the Patent Trial and Appeal Board judges violated the Appointments Clause of the Constitution.
  - PTAB judges are Article I judges who are appointed by the Director of the U.S. Patent and Trademark Office.
  - PTAB judges are only removable for cause.
- The CAFC agreed and held the PTAB judges appointment violates the Appointments Clause.
  - The CAFC vacated the final written decision, struck the for cause removal provision, and remanded for reconsideration before a new panel.

GE v. UTC

- GE petitioned for inter partes review of UTC's patent.
- The Patent Trial and Appeal Board found the claims were <u>not</u> obvious over the cited prior art references.
- GE appealed to the CAFC.
- UTC moved to dismiss the appeal for GE's lack of standing.
  - In response to the motion to dismiss, GE submitted a declaration from its Chief IP Counsel and General Counsel of Engineering for GE Aviation that the injury to GE includes statutory estoppel, economic loss, future threat of litigation, and competitive harm.
  - UTC argued that UTC has not sued GE (or threatened to sue) and that GE has not shown a particularized injury.
- The CAFC agreed with UTC and dismissed the appeal.

Athena v. Mayo

- A CAFC panel held that Athena Diagnostic Inc.'s patent was invalid under § 101 for being directed to ineligible subject matter.
  - The claims of the patent are directed to methods for diagnosing an autoimmune disorder.
- Athena petitioned for a rehearing.
  - The rehearing petition was denied in an order based on a 7-5 vote, but the order included over 80 pages of 8 different opinions.
  - Some judges indicated that certain inventions excluded under the current precedent, such as the invention in this case, should be patentable.
    - However, nothing can be done by the CAFC under the current precedent.

Barry v. Medtronic

- Pre-AIA 35 U.S.C. § 102(b):
  - "A person shall be entitled to a patent unless…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." (Emphasis added).
- Federal case law provides that "[t]he public use bar is triggered where, before the critical date, the invention is in public use and ready for patenting."

Barry v. Medtronic

- Dr. Mark Barry is the sole inventor and owner of patents directed to systems and methods for "aligning vertebrae in the amelioration of aberrant spinal column deviation conditions."
- Timeline:
  - Dr. Barry performed three surgeries on three different patients on August 4th, August 5th and October 14th of 2003 with a tool that is covered by the patents at issue.
  - The three patients returned for several follow-up appointments between August 2003 and January 2004.
  - Dr. Barry filed the first patent application in December 2004.
- Dr. Barry sued Medtronic for allegedly inducing surgeons to infringe the patents.

Barry v. Medtronic

- Medtronic argued that the invention was in public use more than one year before the filing of the patent applications and, thus, the patents are invalid under § 102.
- The CAFC held that substantial evidence could support the finding that the invention was not ready for patenting at the time of the surgeries because Dr. Barry needed to complete the follow-up appointments before he could conclude that the systems and methods work for their intended purpose and be ready for patenting.
  - This type of use is known as the "experimental use" exception.
- The CAFC also held that Medtronic failed to show that the invention was publicly accessible through the performed surgeries.

Automotive Body Parts Ass'n v. Ford

- Ford owns design patents directed to hood and head lamp features for certain models of its Ford F-150 trucks.

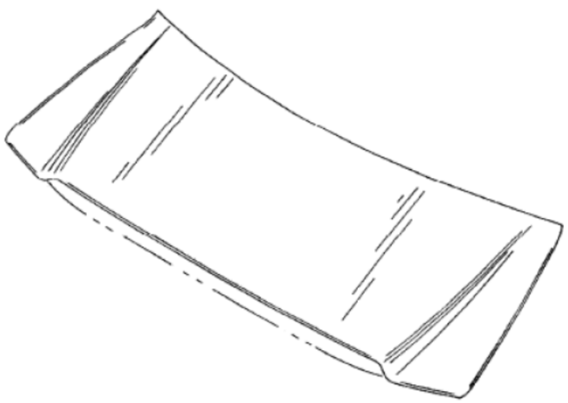

FIG. 1

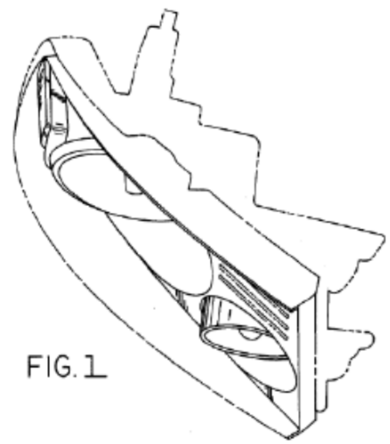

FIG. 1

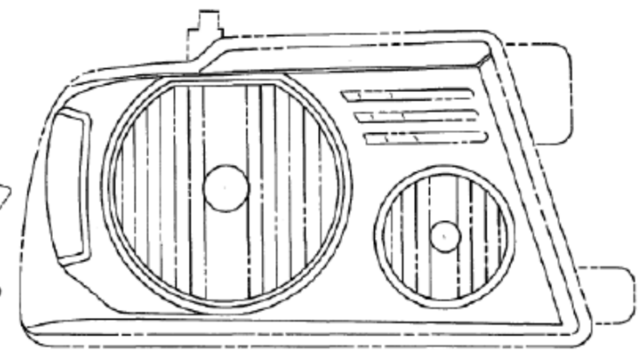

FIG. 2

- Automotive Body Parts Association sued Ford in district court seeking a declaratory judgement that Ford's patents were invalid as being directed to functional features due to consumer preference for retaining the original aesthetic appearance of their vehicles when purchasing replacement parts.

Automotive Body Parts Ass’n v. Ford

- Ford won on summary judgement.
- The CAFC affirmed:
  - “[w]e hold that, even in this context of a consumer preference for a particular design to match other parts of a whole, the aesthetic appeal of a design to consumers is inadequate to render that design functional.”

Thank You

- Questions?

Cases

- *Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.*, 139 S. Ct. 628 (U.S. January 22, 2019)
- *Return Mail, Inc. v. United States Postal Serv.*, 139 S. Ct. 1853 (U.S. June 10, 2019)
- *Peter v. NantKwest, Inc.*, 140 S. Ct. 365 (U.S. December 11, 2019)
- *Regents of the Univ. of Minn. v. LSI Corp.*, 926 F.3d 1327 (Fed. Cir. June 14, 2019)
- *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. October 31, 2019)
- *GE v. United Techs. Corp.*, 928 F.3d 1349 (Fed. Cir. July 10, 2019)
- *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743 (Fed. Cir. February 6, 2019)
  - Order denying rehearing - *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 927 F.3d 1333 (Fed. Cir. July 3, 2019)
- *Barry v. Medtronic, Inc.*, 914 F.3d 1310 (Fed. Cir. January 24, 2019)
- *Auto. Body Parts Ass'n v. Ford Global Techs., LLC*, 930 F.3d 1314 (Fed. Cir. decided July 11, 2019, opinion issued July 23, 2019)

United States Court of Appeals for the Federal Circuit

ARTHREX, INC.,
Appellant

v.

SMITH & NEPHEW, INC., ARTHROCARE CORP.,
Appellees

UNITED STATES,
Intervenor

2018-2140

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2017-00275.

Decided: October 31, 2019

ANTHONY P. CHO, Carlson, Gaskey & Olds, PC, Birmingham, MI, argued for appellant. Also represented by DAVID LOUIS ATALLAH, DAVID J. GASKEY, JESSICAE ZILBERBERG.

CHARLES T. STEENBURG, Wolf, Greenfield & Sacks, PC, Boston, MA, argued for appellees. Also represented by RICHARD GIUNTA, TURHAN SARWAR; MICHAEL N. RADER, New York, NY.

MELISSA N. PATTERSON, Appellate Staff, Civil Division, United States Department of Justice, Washington, DC, argued for intervenor. Also represented by COURTNEY DIXON, SCOTT R. MCINTOSH, JOSEPH H. HUNT; SARAH E. CRAVEN, THOMAS W. KRAUSE, JOSEPH MATAL, FARHEENA YASMEEN RASHEED, Office of the Solicitor, United States Patent and Trademark Office, Alexandria, VA.

Before MOORE, REYNA, and CHEN, *Circuit Judges.*

MOORE, *Circuit Judge.*

Arthrex, Inc. appeals from the final written decision of the Patent Trial and Appeal Board holding claims 1, 4, 8, 10–12, 16, 18, and 25–28 of U.S. Patent No. 9,179,907 unpatentable as anticipated. Arthrex appeals this decision and contends that the appointment of the Board's Administrative Patent Judges ("APJs") by the Secretary of Commerce, as currently set forth in Title 35, violates the Appointments Clause, U.S. Const., art. II, § 2, cl. 2. We agree and conclude that the statute as currently constructed makes the APJs principal officers. To remedy the violation, we follow the approach set forth by the Supreme Court in *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U.S. 477 (2010) and followed by the D.C. Circuit in *Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*, 684 F.3d 1332 (2012). As the Supreme Court instructs, "'[g]enerally speaking, when confronting a constitutional flaw in a statute, we try to limit the solution to the problem,' severing any 'problematic portions while leaving the remainder intact.'" *Free Enterprise Fund*, 561 U.S. at 508 (quoting *Ayotte v. Planned Parenthood of Northern New Eng.*, 546 U.S. 320, 328–29 (2006)). We conclude that severing the portion of the Patent Act restricting removal of the APJs is sufficient to render the APJs inferior officers and remedy the constitutional appointment problem. As the final written decision on appeal issued while there was an Appointments Clause violation, we vacate and remand. Following *Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018), the appropriate course of action is for this case to be remanded to a new panel of APJs to which Arthrex is entitled.

BACKGROUND

Arthrex owns the '907 patent, which is directed to a knotless suture securing assembly. Smith & Nephew, Inc. and Arthrocare Corp. (collectively "Petitioners" or "Appellees") filed a petition requesting *inter partes* review of claims 1, 4, 8, 10–12, 16, 18, and 25–28 of the '907 patent.

Inter partes review is a "'hybrid proceeding' with 'adjudicatory characteristics' similar to court proceedings." *Saint Regis Mohawk Tribe v. Mylan Pharms.*, 896 F.3d 1322, 1326 (Fed. Cir. 2018). After a petitioner files a petition requesting that the Board consider the patentability of issued patent claims, the Director of the United States Patent and Trademark Office ("USPTO") determines whether to institute an *inter partes* review proceeding. 35 U.S.C. § 314.[1] A three-judge panel of Board members then conducts the instituted *inter partes* review. *Id.* § 316(c).[2] If an

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[1] The Director delegated that authority to the Board, so now "[t]he Board institutes the trial on behalf of the Director." 37 C.F.R. § 42.4(a).

[2] The Board consists of "[t]he Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges." 35 U.S.C. § 6(a). The Director of the USPTO is "appointed by the President, by and with the advice and consent of the Senate." *Id.* § 3(a). The Deputy Director and the Commissioners are appointed by the Secretary of Commerce; the former being nominated by the Director. *Id.* §§ 3(b)(1)–(2). The Administrative Patent Judges "are appointed by the

instituted review is not dismissed before the conclusion of the proceedings, the Board issues a final written decision determining the patentability of challenged claims. *Id.* § 318(a). Once the time for appeal of the decision expires or any appeal has been terminated, the Director issues and publishes a certificate canceling any claim of the patent finally determined to be unpatentable. *Id.* § 318(b).

The *inter partes* review of the '907 patent was heard by a three-judge panel consisting of three APJs. The Board instituted review and after briefing and trial, the Board issued a final written decision finding the claims unpatentable as anticipated. J.A. 12, 14, 42.

ANALYSIS

A. Waiver

Appellees and the government argue that Arthrex forfeited its Appointments Clause challenge by not raising the issue before the Board. Although "[i]t is the general rule . . . that a federal appellate court does not consider an issue not passed upon below," we have discretion to decide when to deviate from that general rule. *Singleton v. Wulff*, 428 U.S. 106, 120–21 (1976). The Supreme Court has included Appointments Clause objections to officers as a challenge which could be considered on appeal even if not raised below. *Freytag v. Commissioner of Internal Revenue*, 501 U.S. 868, 878–79 (1991); *Glidden Co. v. Zdanok*, 370 U.S. 530, 535–36 (1962).

In *Freytag*, the Supreme Court exercised its discretion to decide an Appointments Clause challenge despite petitioners' failure to raise a timely objection at trial. 501 U.S. at 878–79. In fact, the Court reached the issue despite the fact that it had not been raised until the appellate stage.

Secretary [of Commerce], in consultation with the Director." *Id.* § 6(a).

The Court explained that the structural and political roots of the separation of powers concept are embedded in the Appointments Clause. It concluded that the case was one of the "rare cases in which we should exercise our discretion to hear petitioners' challenge to the constitutional authority." *Id.* at 879. We believe that this case, like *Freytag*, is one of those exceptional cases that warrants consideration despite Arthrex's failure to raise its Appointments Clause challenge before the Board. Like *Freytag*, this case implicates the important structural interests and separation of powers concerns protected by the Appointments Clause. Separation of powers is "a fundamental constitutional safeguard" and an "exceptionally important" consideration in the context of *inter partes* review proceedings. *Cascades Projection LLC v. Epson America, Inc.*, 864 F.3d 1309, 1322 (Fed. Cir. 2017) (Reyna, J., dissenting from denial of petition for hearing en banc). The issue presented today has a wide-ranging effect on property rights and the nation's economy. Timely resolution is critical to providing certainty to rights holders and competitors alike who rely upon the *inter partes* review scheme to resolve concerns over patent rights.

Appellees and the government argue that like *In re DBC* we should decline to address the Appointments Clause challenge as waived. *DBC* recognized that the court retains discretion to reach issues raised for the first time on appeal, but declined to do so in that case. 545 F.3d 1373, 1380 (Fed. Cir. 2008). The court predicated its decision on the fact that if the issue had been raised before the Board, it could have corrected the Constitutional infirmity because there were Secretary appointed APJs and that Congress had taken "remedial action" redelegating the power of appointment to the Secretary of Commerce in an attempt to "eliminat[e] the issue of unconstitutional appointments going forward." *Id.* at 1380. As the court noted, "the Secretary, acting under the new statute, has reappointed the administrative patent judges involved in DBC's appeal."

Id. at 1381. Not only had Congress taken remedial action to address the constitutionality issue, the Secretary had already been implementing those remedies limiting the impact. *Id.* No such remedial action has been taken in this case and the Board could not have corrected the problem. Because the Secretary continues to have the power to appoint APJs and those APJs continue to decide patentability in *inter partes* review, we conclude that it is appropriate for this court to exercise its discretion to decide the Appointments Clause challenge here. This is an issue of exceptional importance, and we conclude it is an appropriate use of our discretion to decide the issue over a challenge of waiver.

B. Appointments Clause

Arthrex argues that the APJs who presided over this *inter partes* review were not constitutionally appointed. It argues the APJs were principal officers who must be, but were not, appointed by the President with the advice and consent of the Senate.

The Appointments Clause of Article II provides:

> [The President] . . . shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.

U.S. Const. art. II, § 2, cl. 2. APJs are appointed by the Secretary of Commerce, in consultation with the Director of the USPTO. 35 U.S.C. § 6(a). The issue, therefore, is whether APJs are "Officers of the United States" and if so, whether they are inferior officers or principal officers; the latter requiring appointment by the President as opposed to the Secretary of Commerce. We hold that in light of the rights and responsibilities in Title 35, APJs are principal officers.

An "Officer of the United States," as opposed to a mere employee, is someone who "exercis[es] significant authority pursuant to the laws of the United States." *Buckley v. Valeo*, 424 U.S. 1, 125–26 (1976). The Appointments Clause ensures that the individuals in these positions of significant authority are accountable to elected Executive officials. *See Lucia*, 138 S. Ct. at 2056 (Thomas, J., concurring) (citing The Federalist No. 76, p. 455 (C. Rossiter ed. 1961) (A. Hamilton)). It further ensures that the President, and those directly responsible to him, does not delegate his ultimate responsibility and obligation to supervise the actions of the Executive Branch. *See Free Enterprise Fund*, 561 U.S. at 496. The Appointments Clause provides structural protection against the President diffusing his accountability and from Congress dispensing power too freely to the same result. "The structural interests protected by the Appointments Clause are not those of any one branch of Government but of the entire Republic." *Freytag*, 501 U.S. at 880. Because "people do not vote for the 'Officers of the United States,'" the public relies on the Appointments Clause to connect their interests to the officers exercising significant executive authority. *Free Enterprise Fund*, 561 U.S. at 497–98. Arthrex argues that the APJs exercise the type of significant authority that renders them Officers of the United States. Neither Appellees nor the government dispute that APJs are officers as opposed to employees. We agree that APJs are Officers of the United States. *See* John F. Duffy, *Are Administrative Patent Judges Constitutional?*, 2007 Patently–O Patent L.J. 21, 25 (2007) (concluding that administrative patent judges are officers as opposed to mere employees).

Under 35 U.S.C. § 6(a), APJs "hold a continuing office established by law . . . to a position created by statute." *Lucia*, 138 S. Ct. at 2053. The APJs exercise significant discretion when carrying out their function of deciding *inter partes* reviews. They oversee discovery, 37 C.F.R. § 42.51, apply the Federal Rules of Evidence, 37 C.F.R. § 42.62(a), and hear oral arguments, 37 C.F.R. § 42.70. And at the close of review proceedings, the APJs issue final written decisions containing fact findings and legal conclusions, and ultimately deciding the patentability of the claims at issue. *See* 35 U.S.C. § 318(a). The government itself has recognized that there is a "functional resemblance between *inter partes* review and litigation," and that the Board uses "trial-type procedures in *inter partes* review." Br. of United States at 26, 31, *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018). The Board's patentability decisions are final, subject only to rehearing by the Board or appeal to this court. *See* 35 U.S.C. §§ 6(c), 141(c), 319. Like the special trial judges ("STJs") of the Tax Court in *Freytag*, who "take testimony, conduct trials, rule on the admissibility of evidence, and have the power to enforce compliance with discovery orders," 501 U.S. at 881–82, and the SEC Administrative Law Judges in *Lucia*, who have "equivalent duties and powers as STJs in conducting adversarial inquiries," 138 S. Ct. at 2053, the APJs exercise significant authority rendering them Officers of the United States.

The remaining question is whether they are principal or inferior officers. The Supreme Court explained that "[w]hether one is an 'inferior' officer depends on whether he has a superior," and "'inferior officers' are officers whose work is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate." *Edmond v. United States*, 520 U.S. 651, 662–63 (1997). There is no "exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes." *Id.* at 661. However, the Court in *Edmond* emphasized three factors: (1) whether an appointed official has the power to review and reverse the officers' decision; (2) the level of supervision and oversight an appointed official has over the officers; and (3) the appointed official's power to remove the officers. *See id.* at 664–65; *see also Intercollegiate*, 684 F.3d at 1338. These factors are strong indicators of the level of control and supervision appointed officials have over the officers and their decision-making on behalf of the Executive Branch. The extent of direction or control in that relationship is the central consideration, as opposed to just the relative rank of the officers, because the ultimate concern is "preserv[ing] political accountability." *Edmond*, 520 U.S. at 663. The only two presidentially-appointed officers that provide direction to the USPTO are the Secretary of Commerce and the Director. Neither of those officers individually nor combined exercises sufficient direction and supervision over APJs to render them inferior officers.

1. Review Power

The Supreme Court deemed it "significant" whether an appointed official has the power to review an officer's decision such that the officer cannot independently "render a final decision on behalf of the United States." *Edmond*, 520 U.S. at 665. No presidentially-appointed officer has independent statutory authority to review a final written decision by the APJs before the decision issues on behalf of the United States. There are more than 200 APJs and a minimum of three must decide each *inter partes* review. 35 U.S.C. § 6(c). The Director is the only member of the Board who is nominated by the President and confirmed by the Senate. The Director is however only one member of the Board and every *inter partes* review must be decided by at least three Board judges. At the conclusion of the agency proceeding, the Board issues a final written decision. 35 U.S.C. § 318(a).

There is no provision or procedure providing the Director the power to single-handedly review, nullify or reverse a final written decision issued by a panel of APJs. If parties are dissatisfied with the Board decision, they may request rehearing by the Board or may appeal to this court. 35 U.S.C. §§ 6(c), 141(c), 319. "Only the Patent Trial and Appeal Board may grant rehearings," upon a party's request. *Id.* § 6(c). Again, the decision to rehear would be made by a panel of at least three members of the Board. And the rehearing itself would be conducted by a panel of at least three members of the Board.

The government argues that the Director has multiple tools that give him the authority to review decisions issued by APJs. The government argues that the Director possesses the power to intervene and become a party in an appeal following a final written decision with which he disagrees. *See* 35 U.S.C. § 143. But that authority offers no actual reviewability of a decision issued by a panel of APJs. At most, the Director can intervene in a party's appeal and ask this court to vacate the decision, but he has no authority to vacate the decision himself. And the statute only gives the parties to the *inter partes* review the power to appeal the decision, not the Director. *See id.* § 319. If no party appeals the APJs' decision, the Director's hands are tied. "[T]he Director *shall* issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable. . . ." *Id.* § 318(b) (emphasis added). The Director cannot, on his own, *sua sponte* review or vacate a final written decision.

The government argues that the Director has additional review authority through his institution of the recently created Precedential Opinion Panel. That standing panel, composed of at least three Board members, can rehear and reverse any Board decision and can issue decisions that are binding on all future panels of the Board. *See* Patent Trial and Appeal Board Standard Operating Procedure 2 at 8. The Director's authority is limited to "conven[ing] a Precedential Opinion Panel to review a decision in a case and determine whether to order sua sponte rehearing" and to act as one of the three default members of the panel. *Id.* at 4–5. When the Director sits on a panel as a member of the Board, he is serving as a member of the Board, not supervising the Board.

Additionally, the government points out that the Director "may designate any decision by any panel, including the Precedential Opinion Panel, as precedential . . . ." *Id.* at 8. These powers do not, however, provide the type of reviewability over APJs' decisions comparable to the review power principal officers in other cases have had. *See, e.g.*, *Edmond*, 520 U.S. at 664–65; *Masias v. Secretary of Health and Human Servs.*, 634 F.3d 1283, 1294–95 (Fed. Cir. 2011) (special masters under the Vaccine Act were inferior officers in part because their decisions were "subject to review by the Court of Federal Claims" (an Article I court)). To be clear, the Director does not have the sole authority to review or vacate any decision by a panel of APJs. He can only *convene* a panel of Board members to *decide whether* to rehear a case for the purpose of deciding whether it should be precedential. No other Board member is appointed by the President. The government certainly does not suggest that the Director controls or influences the votes of the other two members of his special rehearing panel. Thus, even if the Director placed himself on the panel to decide whether to rehear the case, the decision to rehear a case and the decision on rehearing would still be decided by a panel, two-thirds of which is not appointed by the President. There is no guarantee that the Director would even be in the majority of that decision. Thus, there is no review by other Executive Branch officers who meet the accountability requirements of the Appointments Clause. Moreover, the Standard Operating Procedure makes clear that the Director would convene such a panel only in cases of "exceptional importance": to potentially set precedent for the Board. In other words, this form of review—constrained to a limited purpose—is still conducted by a panel of APJs who do not meet the requirements of the Appointments Clause and represents the exception.

Finally, the government alleges that the Director has review authority over Board decisions because he can decide not to institute an *inter partes* review in the first instance. We do not agree that the Director's power to institute (ex ante) is any form of review (ex post). For the past several years, the Board has issued over 500 *inter partes* review final written decisions each year. The relevant question is to what extent those decisions are subject to the Director's review.

The situation here is critically different from the one in *Edmond*. In *Edmond*, the Supreme Court considered whether military judges on the Coast Guard Court of Criminal Appeals were principal as opposed to inferior officers. 520 U.S. at 655. There, the Court of Appeals for the Armed Forces, an Executive Branch entity, had the power to reverse decisions by the military judges and "review[ed] every decision of the Court of Criminal Appeals in which: (a) the sentence extends to death; (b) the Judge Advocate General orders such review; or (c) the court itself grants review upon petition of the accused." *Id.* at 664–65. And while the Judge Advocate General (a properly appointed Executive officer) could not reverse decisions of the military judges, he could order any of those decisions be reviewed by the Court of Appeals for the Armed Forces (a presidentially-appointed Executive Branch, Article I court). *Id.* The Court deemed it "significant [] that the judges of the Court of Criminal Appeals ha[d] *no* power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers." *Id.* at 665 (emphasis added). That is simply not the case here. Panels of APJs issue final decisions on behalf of the USPTO, at times revoking patent rights, without any principal officers having the right to review those decisions. Thus, APJs have substantial power to issue final decisions on behalf of the United States without any review by a presidentially-appointed officer. We find that there is insufficient review within the agency over APJ panel decisions. This supports a conclusion that APJs are principal officers.

2. Supervision Power

The extent to which an officer's work is supervised or overseen by another Executive officer also factors into determining inferior versus principal officer status. *See Edmond*, 520 U.S. at 664. The Director exercises a broad policy-direction and supervisory authority over the APJs. The Director is "responsible for providing policy direction and management supervision" for the USPTO. 35 U.S.C. § 3(a)(2)(A). Arthrex argues the Director's oversight authority amounts to little more than high-level, arms-length control. We disagree.

The Director has the authority to promulgate regulations governing the conduct of *inter partes* review. *Id.* § 316. He also has the power to issue policy directives and management supervision of the Office. *Id.* § 3(a). He may provide instructions that include exemplary applications of patent laws to fact patterns, which the Board can refer to when presented with factually similar cases. Moreover, no decision of the Board can be designated or de-designated as precedential without the Director's approval. Patent Trial and Appeal Board Standard Operating Procedure 2 at 1. And all precedential decisions of the Board are binding on future panels. *Id.* at 11. In addition to these policy controls that guide APJ-panel decision making, the Director has administrative authority that can affect the procedure of individual cases. For example, the Director has the independent authority to decide whether to institute an *inter partes* review based on a filed petition and any corresponding preliminary response. 35 U.S.C. § 314(a). And the Director is authorized to designate the panel of judges who decides each *inter partes* review. *See* 35 U.S.C. § 6(c).

Not only does the Director exercise administrative supervisory authority over the APJs based on his issuance of procedures, he also has authority over the APJs' pay. 35 U.S.C. § 3(b)(6).

The Director's administrative oversight authority is similar to the supervisory authority that was present in both *Edmond* and *Intercollegiate*. In *Edmond*, the Judge Advocate General "exercise[d] administrative oversight" and had the responsibility of "prescrib[ing] uniform rules of procedure" for the military judges. 520 U.S. at 664. Likewise, in *Intercollegiate*, the Librarian of Congress was responsible for approving the Copyright Royalty Judges' ("CRJs") "procedural regulations . . . and [] overseeing various logistical aspects of their duties." 684 F.3d at 1338. And the Register of Copyrights, who was subject to the control of the Librarian, had "the authority to interpret the copyright laws and provide written opinions to the CRJs." *Id.* The Director possesses similar authority to promulgate regulations governing *inter partes* review procedure and to issue policy interpretations which the APJs must follow. Accordingly, we conclude that the Director's supervisory powers weigh in favor of a conclusion that APJs are inferior officers.

3. Removal Power

The Supreme Court viewed removal power over an officer as "a powerful tool for control" when it was unlimited. *Edmond*, 520 U.S. at 664. Under the current Title 35 framework, both the Secretary of Commerce and the Director lack unfettered removal authority.

Appellees and the government argue that the Director can remove an APJ based on the authority to designate which members of the Board will sit on any given panel. *See* 35 U.S.C. § 6(c). The government argues that the Director could exclude any APJ from a case who he expects would approach the case in a way inconsistent with his views. The government suggests that the Director could potentially remove all judicial function of an APJ by refusing to assign the APJ to any panel. The government also claims that the Director could remove an APJ from an *inter partes* review mid-case if he does not want that particular APJ to continue on the case. Br. of United States at 3, 41. Section 6(c) gives the Director the power to designate the panel who hears an *inter partes* review, but we note that the statute does not expressly authorize de-designation. The government argues that because Title 35 authorizes the Director to *designate* members of a panel in an *inter partes* review proceeding, he also has the authority to change the panel composition at any time because "removal authority follows appointment authority." Oral Arg. 35:52–54; *see also* Br. of United States at 3, 41. It is correct that when a statute is silent on removal, the power of removal is presumptively incident to the power of appointment. *See In re Hennen*, 38 U.S. 230 (1839); *Myers v. United States*, 272 U.S. 52 (1926). The government argues by analogy to these cases that the power to de-designate follows the power to designate. We do not today decide whether the Director in fact has such authority.[3]

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[3] It is not clear the Director has de-designation authority. To be sure, *someone* must have the power to remove an officer from government service, so when a statute is silent about removal, we presume that the person who appoints the officer to office has the power to remove him. But it is not clear that Congress intended panels once designated to be able to be de-designated. Such a conclusion could run afoul of Congress' goal of speedy resolution through "quick and cost effective alternatives to litigation." H.R. Rep. No. 112–98, pt. 1, at 48 (2011). Additionally, it is not clear whether this type of mid-case de-designation of an APJ could create a Due Process problem. However, we need not decide whether the Director

The government analogizes the Director's designation power to the Judge Advocate General's power in *Edmond*, which allowed him to remove a military judge "from his judicial assignment without cause." 520 U.S. at 664. The Director's authority to assign certain APJs to *certain panels* is not the same as the authority to remove an APJ *from judicial service* without cause. Removing an APJ from an *inter partes* review is a form of control, but it is not nearly as powerful as the power to remove from office without cause. "[T]he power to remove officers at will and without cause is a powerful tool for control of an inferior." *Free Enterprise Fund.*, 561 U.S. at 501.

The only actual removal authority the Director or Secretary have over APJs is subject to limitations by Title 5. Title 35 does not provide statutory authority for removal of the APJs. Instead, 35 U.S.C. § 3(c) provides, "[o]fficers and employees of the Office shall be subject to the provisions of title 5, relating to Federal employees." No one disputes that Title 5 creates limitations on the Secretary's or Director's authority to remove an APJ from his or her employment at the USPTO. Specifically, APJs may be removed "only for such cause as will promote the efficiency of the service." 5 U.S.C. § 7513(a).[4] This limitation requires "a

has such authority or whether such authority would run afoul of the Constitution because even if we accept, for purposes of this appeal, that he does possess that authority, it would not change the outcome.

[4] The parties dispute which provision of Title 5 governs removal of APJs. Arthrex argues that 5 U.S.C. § 7521(a) limits removal of the APJs to removal "only for good cause established and determined by the Merit Systems Protection Board on the record after opportunity for hearing before the Board." Whereas the government argues that § 7521 does not apply to APJs because they are

nexus between the misconduct and the work of the agency, *i.e.*, that the employee's misconduct is likely to have an adverse impact on the agency's performance of its functions." *Brown v. Department of the Navy*, 229 F.3d 1356, 1358 (Fed. Cir. 2000).[5] Moreover, § 7513 provides procedural limitations on the Director's removal authority over APJs. *See, e.g.*, 5 U.S.C. § 7513(b) (entitling the APJ to 30 days advanced written notice stating specific reasons for the proposed removal, an opportunity to answer with documentary evidence, entitlement to representation by an attorney, and a written decision with specific reasons); *Id.* § 7513(d) (right of appeal to the Merit Systems and Protections Board).

The government argues that the Secretary's authority to remove APJs from employment for "such cause as will promote efficiency of the service"—the same standard applied to any other federal employee—underscores that APJs are subject to significant supervision and control. It argues that Title 5's removal restrictions are less cumbersome than the restrictions on the Court of Federal Claims' removal authority over the special masters who were

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appointed not under 5 U.S.C. § 3105, but under 35 U.S.C. § 6. The government argues therefore that removal of APJs is governed by the section of Title 5 related to federal employees generally, which limits removal "only for such cause as will promote the efficiency of the service." 5 U.S.C. § 7513(a). We agree with the government that the applicable provision to removal of APJs in Title 5 is § 7513. Section 7513 contains a lower threshold to support removal than does § 7521.

[5] Under § 7513(b), the Director does not have unfettered authority to remove an APJ from service. We do not, however, express an opinion as to circumstances which could justify a removal for such cause as would promote the efficiency of service.

deemed inferior officers in *Masias*. In *Masias*, we held that special masters authorized by the Vaccine Act were inferior officers. 634 F.3d. at 1295. The special masters were appointed and supervised by judges of the Court of Federal Claims, who are presidentially-appointed. *Id.* at 1294. The special masters could be removed only "for incompetency, misconduct, or neglect of duty or for physical or mental disability or for other good cause shown." *Id.* (quoting 42 U.S.C. § 300aa–12(c)(2)). Though there were significant limits on removal in *Masias*, our court recognized that "decisions issued by the special masters are subject to review by the Court of Federal Claims." *Id.* at 1294. We held that the review power over the special masters' decisions paralleled the review by the Court of Appeals for the Armed forces in *Edmond*, and although the review was not *de novo*, it favored a finding that the special masters were not principal officers. *Id.* at 1295. That significant power of review does not exist with respect to final written decisions issued by the APJs.

The APJs are in many ways similar to the CRJs in *Intercollegiate* for purposes of determining whether an officer is principal or inferior. The CRJs issued ratemaking decisions that set the terms of exchange for musical works. *Intercollegiate*, 684 F.3d at 1338. The APJs issue written decisions determining patentability of patent claims. Both are intellectual property decisions upon which "billions of dollars and the fates of entire industries can ride." *Id.* In *Intercollegiate*, the Librarian approved procedural regulations, issued ethical rules, and oversaw logistical aspects of the CRJs' duties. *Id.* Additionally, the Register of Copyrights provided written opinions interpreting copyright law and could correct any legal errors in the CRJs' decisions. *Id.* at 1338–39. Similarly, the Director has the authority to promulgate regulations governing *inter partes* review and provides written policy directives. He does not, however, have the ability to modify a decision issued by APJs, even to correct legal misstatements. The Director's inability to review or correct issued decisions by the APJs likens those decisions to "the CRJs' rate determinations [which] are not reversible or correctable by any other officer or entity within the executive branch." *Id.* at 1340. Moreover, the limitations on removal in Title 5 are similar to the limitations on removal in *Intercollegiate*. There, the Librarian could only remove CRJs "for misconduct or neglect of duty." *Id.* at 1340. Here, APJs can only be removed from service for "such cause as will promote the efficiency of the service," meaning for "misconduct [that] is likely to have an adverse impact on the agency's performance of its functions." 5 U.S.C. § 7513; *Brown*, 229 F.3d at 1358. The D.C. Circuit in *Intercollegiate* determined that given the CRJs' nonremovability and the finality of their decisions, "the Librarian's and Register's supervision functions still fall short of the kind that would render [them] inferior officers." 684 F.3d at 1339. Likewise, APJs issue decisions that are final on behalf of the Executive Branch and are not removable without cause. We conclude that the supervision and control over APJs by appointed Executive Branch officials in significant ways mirrors that of the CRJs in *Intercollegiate*.

4. Other Limitations

We do not mean to suggest that the three factors discussed are the only factors to be considered. However, other factors which have favored the conclusion that an officer is an inferior officer are completely absent here. For example, in *Morrison v. Olson*, 487 U.S. 654 (1988), the Court concluded that the Independent Counsel was an inferior officer because he was subject to removal by the Attorney General, performed limited duties, had limited jurisdiction, and had a limited tenure. *Edmond,* 520 U.S. at 661. Unlike the Independent Counsel, the APJs do not have limited tenure, limited duties, or limited jurisdiction.

Interestingly, prior to the 1975 amendment to Title 35, "Examiners-in-Chief"—the former title of the current

APJs—were subject to nomination by the President and confirmation by the Senate. 35 U.S.C. § 3 (1952). In 1975, Congress eliminated their Presidential appointment and instead gave the Secretary of Commerce, upon nomination by the Commissioner, the power to appoint. 35 U.S.C. § 3 (1975). There can be no reasonable dispute that APJs who decide reexaminations, *inter partes* reviews, and post-grant reviews wield significantly more authority than their Examiner-in-Chief predecessors. But the protections ensuring accountability to the President for these decisions on behalf of the Executive Branch clearly lessened in 1975.

Having considered the issues presented, we conclude that APJs are principal officers. The lack of any presidentially-appointed officer who can review, vacate, or correct decisions by the APJs combined with the limited removal power lead us to conclude, like our sister circuit in *Intercollegiate*, which dealt with the similarly situated CRJs, that these are principal officers. While the Director does exercise oversight authority that guides the APJs procedurally and substantively, and even if he has the authority to de-designate an APJ from *inter partes* reviews, we conclude that the control and supervision of the APJs is not sufficient to render them inferior officers. The lack of control over APJ decisions does not allow the President to ensure the laws are faithfully executed because "he cannot oversee the faithfulness of the officers who execute them." *Free Enterprise Fund*, 561 U.S. at 484. These factors, considered together, confirm that APJs are principal officers under Title 35 as currently constituted. As such, they must be appointed by the President and confirmed by the Senate; because they are not, the current structure of the Board violates the Appointments Clause.

C. Severability

Having determined that the current structure of the Board under Title 35 as constituted is unconstitutional, we must consider whether there is a remedial approach we can take to address the constitutionality issue. "In exercising our power to review the constitutionality of a statute, we are compelled to act cautiously and refrain from invalidating more of the statute than is necessary." *Helman v. Department of Veterans Affairs*, 856 F.3d 920, 930 (Fed. Cir. 2017) (citing *Regan v. Time, Inc.*, 468 U.S. 641, 652 (1984)). Where appropriate, we "try to limit the solution to the problem, [by] severing any problematic portions while leaving the remainder intact." *Free Enterprise Fund*, 561 U.S. at 508. Severing the statute is appropriate if the remainder of the statute is "(1) constitutionally valid, (2) capable of functioning independently, and (3) consistent with Congress' basic objectives in enacting the statute." *United States v. Booker*, 543 U.S. 220, 258–59 (2005).

The government suggests possible remedies to achieve this goal. As to 35 U.S.C. § 3(c)'s requirement that "Officers and employees of the Office shall be subject to the provisions of title 5," the government argues that we could construe Title 5's "efficiency of the service" standard to permit removal in whatever circumstances the Constitution requires. Construing the words "only for such cause as will promote the efficiency of the service" as permitting at-will, without-cause removal is not a plausible construction. *Commodity Futures Trading Commission v. Schor*, 478 U.S. 833, 841 (1986) ("[a]lthough this Court will often strain to construe legislation so as to save it against constitutional attack, it must not and will not carry this to the point of perverting the purpose of a statute . . . or judicially rewriting it." (citations omitted)); *Jennings v. Rodriguez*, 138 S. Ct. 830, 842 (2018) ("The canon of constitutional avoidance 'comes into play only when, after the application of ordinary textual analysis, the statute is found to be susceptible of more than one construction. In the absence of more than one *plausible* construction, the canon simply has no application.' (internal citations omitted)). Moreover, that statutory section pertains to nearly all federal employees. We will not construe 5 U.S.C. § 7513 one way for APJs and a different way for everyone else to which it applies. The government next argues that we could construe the statute as providing the Director the authority to unilaterally revise a Board decision before it becomes final. We see no language in the statute that could plausibly be so construed. The statute is clear that Board decisions must be rendered by at least three Board judges and that only the Board can grant rehearing. 35 U.S.C. § 6(c) ("Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings."). Indeed, the government recommends in the alternative that we simply sever the "three-member clause."

Allowing the Director to appoint a single Board member to hear or rehear any *inter partes* review (appeal, derivation proceeding, and post grant review), especially when that Board member could be the Director himself, would cure the Constitutional infirmity. While the Board members would still not be subject to at-will removal, their decision would not be the "final decision on behalf of the United States unless permitted to do so by other Executive officers." *Edmond*, 520 U.S. at 665. This combined with the other forms of supervision and controlled exercised over APJs would be sufficient to render them inferior officers. We conclude, however, that severing three judge review from the statute would be a significant diminution in the procedural protections afforded to patent owners and we do not believe that Congress would have created such a system. Eliminating three-APJ panels from all Board proceedings would be a radical statutory change to the process long required by Congress in all types of Board proceedings. The current three-judge review system provides a broader collection of technical expertise and experience on each panel addressing *inter partes* reviews, which implicate wide cross-sections of technologies. The breadth of backgrounds and the implicit checks and balances within each three-judge panel contribute to the public confidence by providing more consistent and higher quality final written decisions.[6] We are uncomfortable with such a sweeping change to the statute at our hands and uncertain that Congress would have been willing to adopt such a change. And, importantly, we see a far less disruptive alternative to the scheme Congress laid out.

The government also suggested partially severing 35 U.S.C. § 3(c), the provision that applies Title 5 to officers and employees of the USPTO. Br. of United States at 35 ("Alternatively, this Court could hold that 35 U.S.C. § 3(c)'s provision that USPTO officers and employees are subject to Title 5 cannot constitutionally be applied to Board members with respect to that Title's removal restrictions, and thus must be severed to that extent."). We think this the

[6] In 2015, the USPTO requested comments on a proposed pilot program under which institution decisions for *inter partes* reviews would be decided by a single APJ as opposed to three-APJ panels. Multiple commenters expressed concern that such a change would reduce consistency, predictability, and accuracy in the institution decisions. *See, e.g.*, Comments of the American Bar Association Section of Intellectual Property at 3 (Nov. 12, 2015) ("a single judge panel . . . will increase the likelihood of incorrect decisions); Comments of Various Automotive Companies at 3 (Nov. 17, 2015) ("Using just one APJ to decide a particular matter would greatly dilute . . . deliberativeness."); Comments of Askeladden LLC at 2 (Nov. 18, 2015) ("the inherent safeguard of a three-judge arbiter gives the public confidence"); Comments of Public Knowledge and Electronic Frontier Foundation at 2 (Nov. 18, 2015) ("by changing the institution decision body from a three-judge panel to a single judge, the USPTO risks a decline in quality of institution decisions").

narrowest viable approach to remedying the violation of the Appointments Clause. We follow the Supreme Court's approach in *Free Enterprise Fund*, similarly followed by the D.C. Circuit in *Intercollegiate*. *See* 561 U.S. 477; 684 F.3d 1332. In *Free Enterprise Fund*, the Supreme Court held that a "for-cause" restriction on the removal power of the SEC's Commissioners violated the Constitution. *Id.* at 492. The Court invalidated and severed the problematic "for-cause" restriction from the statue rather than holding the larger structure of the Public Company Accounting Oversight Board unconstitutional. *Id.* at 508.

The D.C. Circuit followed this approach in *Intercollegiate*, by invalidating and severing the restriction on the Librarian's removal power over CRJs. 684 F.3d at 1340. The court held unconstitutional all language in the relevant removal statute other than, "[t]he Librarian of Congress may sanction or remove a Copyright Royalty Judge." *Id.* The Court determined that giving the Librarian of Congress unfettered removal power was sufficient such "that the CRJs' decisions will be constrained to a significant degree by a principal officer (the Librarian)." *Id.* at 1341. And the constraint of that power was enough to render the CRJs inferior officers. *Id.*

Severing Title 5's removal restrictions might arguably be achieved either by severing the words "Officers and" or by concluding that those removal restrictions are unconstitutional as applied to APJs. The government recommends a partial invalidation, namely that we sever the application of Title 5's removal restrictions to APJs. *See United States v. Nat'l Treasury Emps. Union*, 513 U.S. 454 (1995); *United States v. Grace*, 461 U.S. 171 (1983). All parties and the government agree that this would be an appropriate cure for an Appointments Clause infirmity. This as-applied severance is the narrowest possible modification to the scheme Congress created and cures the constitutional violation in the same manner as *Free Enterprise Fund* and

Intercollegiate. Title 5's removal protections cannot be constitutionally applied to APJs, so we sever that application of the statute.

Severability turns on whether "the statute will function in a manner consistent with the intent of Congress." *Alaska Airlines, Inc.* v. *Brock*, 480 U.S. 678, 685 (1987) (emphasis omitted). In *Free Enterprise Fund*, the Court severed the removal provision because it concluded that "nothing in the statute's text or historical context" suggested that Congress "would have preferred no Board at all to a Board whose members are removable at will." 561 U.S. at 509. Indeed, we answer affirmatively the question: "Would the legislature have preferred what is left of its statute to no statute at all?" *Ayotte*, 546 U.S. at 330. It is our view that Congress intended for the *inter partes* review system to function to review issued patents and that it would have preferred a Board whose members are removable at will rather than no Board at all.

The narrowest remedy here is similar to the one adopted in *Intercollegiate*, the facts of which parallel this case. Thus, we conclude that the appropriate remedy to the constitutional violation is partial invalidation of the statutory limitations on the removal of APJs. Title 35 U.S.C. § 3(c) declares the applicability of Title 5 rights to "Officers and employees of the Office." *See also* Supp. Br. of United States at 9–10 (noting that Title 5 definitions might cover APJs). Title 5 U.S.C. § 7513(a) permits agency action against those officers and employees "only for such cause as will promote the efficiency of the service." Accordingly, we hold unconstitutional the statutory removal provisions as applied to APJs, and sever that application. Like the D.C. Circuit in *Intercollegiate*, we believe severing the restriction on removal of APJs renders them inferior rather than principal officers. Although the Director still does not have independent authority to review decisions rendered by APJs, his provision of policy and regulation to guide the outcomes of those decisions, coupled with the power of removal by the Secretary without cause provides significant constraint on issued decisions.

The decision to partially invalidate statutory removal protections limits the effect of the severance to APJs and to their removal protections. We are mindful that the alternative of severing the "Officers and" provision from § 3(c) may not have been limited to APJs (there might have been other officers whose Title 5 rights would have been affected) and it might have removed all Title 5 protections, not just removal protections. Severing the application to APJs of removal protections is the narrowest remedy. The choice to sever and excise a portion of a statute as unconstitutional in order to preserve the statute as a whole is limited, and does not permit judicial rewriting of statutes. *Booker*, 543 U.S. at 258 (to address the constitutional infirmity, we consider "*which* portions of the . . . statute we must sever and excise as inconsistent with the Court's constitutional requirement"); *Ayotte*, 546 U.S. at 329 ("[W]e restrain ourselves from 'rewrit[ing] . . . law to conform it to constitutional requirements' even as we strive to salvage it"). "'Unless it is evident that the Legislature would not have enacted those provisions which are within its power, independently of that which is not, the invalid part may be dropped if what is left is fully operative as a law.'" *Buckley*, 424 U.S. at 108–09 (quoting *Champlin Refining Co. v. Corporation Comm'n of Oklahoma*, 286 U.S. 210, 234 (1932)). We are not, under the guise of severability, permitted to add exceptions for APJs to the language § 3(c) officer protections. *Railroad Retirement Bd. v. Alton R. Co.*, 295 U.S. 330, 362 (1935) (when severing a statute, we must avoid "rewrit[ing] a statute"). We hold that the application of Title 5's removal protections to APJs is unconstitutional and must be severed. And we are convinced that Congress would preserve the statutory scheme it created for reviewing patent grants and that it intended for APJs to be inferior officers. Our severance of the limits on removal of APJs achieves this. We believe that this, the narrowest revision to the scheme intended by Congress for reconsideration of patent rights, is the proper course of action and the action Congress would have undertaken.

Because the Board's decision in this case was made by a panel of APJs that were not constitutionally appointed at the time the decision was rendered, we vacate and remand the Board's decision without reaching the merits. The government argues that while this court has the discretion to vacate and remand in the event there is an Appointments Clause challenge, we should decline to do so because the challenge was not first brought before the Board. The government argues that Arthrex's challenge was not timely and as such we should decline to award the relief *Lucia* deems appropriate. Arthrex argues it would have been futile to raise the Appointments Clause challenge before the Board because the Board lacked the authority to grant it relief. Arthrex argues it raised the challenge at the first stage where it could have obtained relief and therefore its argument is timely. We agree with Arthrex that the Board was not capable of providing any meaningful relief to this type of Constitutional challenge and it would therefore have been futile for Arthrex to have made the challenge there. "An administrative agency may not invalidate the statute from which it derives its existence and that it is charged with implementing." *Jones Bros., Inc. v. Sec'y of Labor*, 898 F.3d 669, 673 (6th Cir. 2018) (citing *Mathews v. Diaz*, 426 U.S. 67, 76 (1976); *Weinberger v. Salfi*, 422 U.S. 749, 765 (1975); *Johnson v. Robison*, 415 U.S. 361, 368 (1974); *PUC v. United States*, 355 U.S. 534, 539-40 (1958)). The PTAB itself has declined to examine this issue in other cases. *See Samsung Elecs. Am., Inc. v. Uniloc*, 2017 LLC, No. IPR2018-01653, 2019 WL 343814, at *2 (PTAB Jan. 25, 2019) (declining to consider constitutional challenge to appointments because "administrative agencies do not have jurisdiction to decide the constitutionality of congressional enactments" and "[t]his is especially true when, as here, the constitutional claim asks the agency to act contrary to its statutory charter") (internal citations and quotation marks omitted); *see also Intel Corp. v VLSI Tech. LLC*, No. IPR2018-01107, 2019 PAT. APP. LEXIS 4893, at *26-27 (P.T.A.B. Feb. 12, 2019); *Unified Patents Inc. v. MOAEC Techs., LLC*, No. IPR2018-01758, 2019 WL 1752807, at *9 (P.T.A.B. Apr. 17, 2019). The only possibility of correction which the government claims the agency could have made is the Director shutting down the IPR regime by refusing to institute. Petitioners argue that if the Appointments Clause challenge had been raised at the Board, it "could have prompted the PTAB to defer institution decisions on all IPRs" and "[t]he Executive Branch could have then championed legislation to address the alleged constitutional infirmity." Arthrex sought to have its case decided by a constitutionally appointed board. The PTO could not provide this relief.

We agree with Arthrex that its Appointments Clause challenge was properly and timely raised before the first body capable of providing it with the relief sought—a determination that the Board judges are not constitutionally appointed. Our decision in *DBC* is not to the contrary. In *DBC,* the Appointments Clause challenge was to the particular APJs who were appointed by the Director, rather than the Secretary. We observed that if the issue had been raised before the agency, the agency could have "corrected the constitutional infirmity." *DBC*, 545 F.3d at 1379. At that time, there were APJs who had been appointed by the Secretary who could have decided the case and thus the agency could have cured the constitutional defect. In *DBC,* we observed that in *LA Tucker* and *Woodford*, had the issue been raised at the agency, the agency could have corrected the problem. *See id.* at 1378 (citing *Woodford v. Ngo*, 548 U.S. 81 (2006); *United States v. LA Tucker Truck Lines*, 344 U.S. 33 (1952)). *Ryder v. United States*, cited by the government, likewise involved a challenge made to a particular judge, and the problem could have been cured by reassigning the case to a different judge at the trial level.

515 U.S. 177 (1995). In contrast, here the Director is the only Presidentially-appointed, Senate confirmed member of the Board. The Board was not capable of correcting the constitutional infirmity. We conclude that this Constitutional challenge is one in which the Board had no authority to provide any meaningful relief and that it was thus futile for Arthrex to have raise the challenge before the Board.

The *Lucia* court explained that Appointments Clause remedies are designed to advance structural purposes of the Appointments Clause and to incentivize Appointments Clause challenges. *Lucia,* 138 S. Ct. at 2055 n.5. We conclude that both of these justifications support our decision today to vacate and remand. *See Collins v. Mnuchin*, 938 F.3d 553, 593 (5th Cir. 2019) (recognizing, "the Court has invalidated actions taken by individuals who were not properly appointed under the Constitution."). The Supreme Court held in *Freytag* that Appointments Clause challenges raise important structural interests and separation of powers concerns. We conclude that challenges under these circumstances should be incentivized at the appellate level and accordingly the remedy provided is appropriate. We have decided only that this case, where the final decision was rendered by a panel of APJs who were not constitutionally appointed and where the parties presented an Appointments Clause challenge on appeal, must be vacated and remanded. Appointments Clause challenges are "nonjurisdictional structural constitutional objections" that can be waived when not presented. *Freytag*, 501 U.S. at 878–79. Thus, we see the impact of this case as limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal.

Finally, on remand we hold that a new panel of APJs must be designated and a new hearing granted. *See* Appellant's Supp. Br. at 12 ("This Court should thus order a remand to a new PTAB panel for a new oral argument.") The Supreme Court has explained that when a judge has heard the case and issued a decision on the merits, "[h]e cannot be expected to consider the matter as though he had not adjudicated it before. To cure the constitutional error, another ALJ . . . must hold the new hearing." *Lucia*, 138 S. Ct. at 2055. *Lucia* suggests that the remedy is not to vacate and remand for the same Board judges to rubber-stamp their earlier unconstitutionally rendered decision. Like *Lucia*, we hold that a new panel of APJs must be designated to hear the *inter partes* review anew on remand. To be clear, on remand the decision to institute is not suspect; we see no constitutional infirmity in the institution decision as the statute clearly bestows such authority on the Director pursuant to 35 U.S.C. § 314. Finally, we see no error in the new panel proceeding on the existing written record but leave to the Board's sound discretion whether it should allow additional briefing or reopen the record in any individual case.

VACATED AND REMANDED

COSTS

The parties shall bear their own costs.

United States Court of Appeals for the Federal Circuit

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

2017-2508

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

ON PETITION FOR REHEARING EN BANC

ADAM GAHTAN, Fenwick & West, New York, NY, filed a petition for rehearing en banc for plaintiffs-appellants. Also represented by ERIC M. MAJCHRZAK, VANESSA PARK-THOMPSON; ANDREW JOSEPH KABAT, EMMETT J. MCMAHON, Robins Kaplan LLP, Minneapolis, MN; DIMITRIOS T. DRIVAS, White & Case LLP, New York, NY.

JONATHAN ELLIOT SINGER, Fish & Richardson, PC, San

Diego, CA, filed a response to the petition for defendants-appellees. Also represented by JOHN CAMERON ADKISSON, ELIZABETH M. FLANAGAN, PHILLIP GOTER, DEANNA JEAN REICHEL, Minneapolis, MN.

MELISSA A. BRAND, Biotechnology Innovation Organization, Washington, DC, for amici curiae Biotechnology Innovation Organization, CropLife International, Pharmaceutical Research and Manufacturers of America, Wisconsin Alumni Research Foundation. Also represented by HANSJORG SAUER. Amicus curiae Biotechnology Innovation Organization also represented by BRIAN PAUL BARRETT, Eli Lilly and Company, Indianapolis, IN. Amicus curiae Pharmaceutical Research and Manufacturers of America also represented by DAVID EVAN KORN, Pharmaceutical Research and Manufacturers Association of America, Washington, DC.

MATTHEW JAMES DOWD, Dowd Scheffel PLLC, Washington, DC, for amici curiae Richard A. Epstein, Christopher Michael Holman, Adam Mossoff, Kristen J. Osenga, Michael Risch, Ted M. Sichelman, Brenda M. Simon. Also represented by ROBERT JAMES SCHEFFEL.

SHERRY M. KNOWLES, Knowles Intellectual Property Strategies, LLC, Atlanta, GA, for amici curiae Freenome Holdings Inc., Achillion Pharmaceuticals, Inc. Also represented by MEREDITH MARTIN ADDY, AddyHart P.C., Atlanta, GA.

Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, HUGHES, and STOLL, *Circuit Judges*.

LOURIE, *Circuit Judge*, with whom REYNA and CHEN, *Circuit Judges*, join, concurs in the denial of the petition for rehearing en banc.

HUGHES, *Circuit Judge*, with whom PROST, *Chief Judge*, and TARANTO, *Circuit Judge*, join, concurs in the denial of the petition for rehearing en banc.

DYK, *Circuit Judge*, with whom HUGHES, *Circuit Judge*, joins, and with whom CHEN, *Circuit Judge*, joins as to Parts IV, V, and VI, concurs in the denial of the petition for rehearing en banc.

CHEN, *Circuit Judge*, concurs in the denial of the petition for rehearing en banc.

MOORE, *Circuit Judge*, with whom O'MALLEY, WALLACH, and STOLL, *Circuit Judges*, join, dissents from the denial of the petition for rehearing en banc.

NEWMAN, *Circuit Judge*, with whom WALLACH, *Circuit Judge*, joins, dissents from the denial of the petition for rehearing en banc.

STOLL, *Circuit Judge*, with whom WALLACH, *Circuit Judge*, joins, dissents from the denial of the petition for rehearing en banc.

O'MALLEY, *Circuit Judge*, dissents from the denial of the petition for rehearing en banc.

PER CURIAM.

O R D E R

A petition for rehearing en banc was filed by appellants Athena Diagnostics, Inc., Oxford University Innovation Ltd., and the Max-Planck-Gesellschaft zur Forderung der Wissenschaften E.V. A response to the petition was invited by the court and filed by appellees Mayo Collaborative Services, LLC and Mayo Clinic. Several motions for leave to file amici curiae briefs were filed and granted by the court. The petition for rehearing, response, and amici curiae briefs were first referred to the panel that heard the appeal, and thereafter, to the circuit judges who are in regular active service. A poll was requested, taken, and failed.

Upon consideration thereof,

IT IS ORDERED THAT:

1) The petition for panel rehearing is denied.

2) The petition for rehearing en banc is denied.

3) The mandate of the court will issue on July 10, 2019.

FOR THE COURT

July 3, 2019
Date

/s/ Peter R. Marksteiner
Peter R. Marksteiner
Clerk of Court

United States Court of Appeals for the Federal Circuit

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Defendants-Appellees

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LOURIE, *Circuit Judge*, with whom REYNA and CHEN, *Circuit Judges*, join, concurring in the denial of the petition for rehearing en banc.

I concur in the court's decision not to rehear this case en banc. In my view, we can accomplish little in doing so, as we are bound by the Supreme Court's decision in *Mayo*. Some of us have already expressed our concerns over current precedent. *E.g.*, *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743, 753 n.4 (Fed. Cir. 2019); *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 809 F.3d 1282, 1284 (Fed. Cir. 2015) (Lourie, J., concurring in the denial of rehearing en banc); *id.* at 1287 (Dyk, J., concurring in the denial of rehearing en banc).

If I could write on a clean slate, I would write as an exception to patent eligibility, as respects natural laws, only claims directed to the natural law itself, *e.g.*, $E=mc^2$, $F=ma$, Boyle's Law, Maxwell's Equations, etc. I would not exclude uses or detection of natural laws. The laws of anticipation, obviousness, indefiniteness, and written description provide other filters to determine what is patentable.

But we do not write here on a clean slate; we are bound by Supreme Court precedent. In *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, the claims at issue were held by the Court to be directed to the relationship between the concentration of metabolites in the blood and the likelihood that a drug dose will be ineffective, which it referred to as a law of nature. 566 U.S. 66, 74–75, 77 (2012). The other steps—administering a drug and detecting the level of a specific metabolite—added only "[p]urely 'conventional or obvious' '[pre]-solution activity'" that was "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 *Parker v. Flook*, 437 U.S. 584, 590 (1978)); *see Bilski v. Kappos*, 561 U.S. 593, 610–11 (2010) ("[T]he prohibition against patenting abstract ideas 'cannot be circumvented by attempting to limit the use of the formula to a particular technological environment' or adding 'insignificant postsolution activity.'" (quoting *Diamond v. Diehr*, 450 U.S. 175, 191–92 (1981))); *Flook*, 437 U.S. at 590 ("The notion that post-solution activity, no matter how conventional or obvious in itself, can transform an unpatentable principle into a patentable process exalts form over substance."). Because the claims recited only what the Court called a natural law together with well-understood, conventional activity, the Court concluded the claims were ineligible under § 101. *Mayo*, 566 U.S. at 73, 79–80.

In applying *Mayo*, we have accordingly held claims focused on detecting new and useful natural laws with conventional steps to be ineligible. *E.g.*, *Cleveland Clinic Found. v. True Health Diagnostics LLC*, 859 F.3d 1352, 1363 (Fed. Cir. 2017), *cert. denied*, 138 S. Ct. 2621 (2018); *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1378 (Fed. Cir. 2015), *cert. denied*, 136 S. Ct. 2511 (2016). In *Cleveland Clinic*, the claims recited a specific assay to detect the protein MPO, the enzyme-linked immunosorbent assay. 859 F.3d at 1357–58, 1362. *Ariosa* similarly involved a specific technique to amplify and detect DNA, the polymerase chain reaction. 788 F.3d at 1377. But in both cases, the patents' specifications described these techniques as well-understood and conventional. *Cleveland Clinic*, 859 F.3d at 1355; *Ariosa*, 788 F.3d at 1377. We concluded that using these routine assays to detect new natural phenomena did not transform the claims into patent eligible applications. *Cleveland Clinic*, 859 F.3d at 1362–63; *Ariosa*, 788 F.3d at 1376–77.

In contrast, new method of treatment patents do not fall prey to *Mayo*'s prohibition. *E.g.*, *Vanda Pharm. Inc. v. West-Ward Pharm. Int'l Ltd.*, 887 F.3d 1117, 1136 (Fed. Cir. 2018). Nor have unconventional arrangements of known laboratory techniques, even if directed to a natural law. *Rapid Litig. Mgmt. Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042, 1051 (Fed. Cir. 2016). But this case involves neither scenario. Athena's claims recite observing a natural law using a radioimmunoassay that the specification describes as "standard" and "known per se in the art." U.S. Patent 7,267,820 col. 3 ll. 33–37, col. 4 ll. 10–12. The claims do not recite a new method of treatment or an unconventional combination of steps to detect the natural law. The only unconventional aspect is the inventors' discovery of what the Supreme Court would call the natural law—the correlation between MuSK autoantibodies and the neurological disorder *myasthenia gravis*—but we cannot premise eligibility solely on the natural law's novelty. *Mayo*, 566 U.S.

at 73 (concluding that "the steps in the claimed processes (*apart from the natural laws themselves*) involve well-understood, routine, conventional activity previously engaged in by researchers in the field" (emphasis added)); *Flook*, 437 U.S. at 591–92 ("[T]he novelty of the mathematical algorithm is not a determining factor at all" and "is treated as though it were a familiar part of the prior art."). Under Supreme Court precedent, I do not believe that specific yet purely conventional detection steps impart eligibility to a claim that otherwise only sets forth what the Court has held is a natural law. That is the situation presented in *Ariosa*, *Cleveland Clinic*, and now *Athena*. Accordingly, as long as the Court's precedent stands, the only possible solution lies in the pens of claim drafters or legislators. We are neither.

Amici and others have complained that our eligibility precedent is confused. However, our cases are consistent. They have distinguished between new method of treatment claims and unconventional laboratory techniques, on the one hand, and, on the other hand, diagnostic methods that consist of routine steps to observe the operation of a natural law, a clear line. Beyond that, I do not see a way clear to distinguish *Mayo* in a useful, principled, fashion. Software is another matter, but such patents are not before us here.

I therefore concur in the decision of the court not to take this case en banc because I do not believe we can convincingly distinguish *Mayo* in this case.

United States Court of Appeals for the Federal Circuit

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Defendants-Appellees

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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.

HUGHES, *Circuit Judge*, with whom PROST, *Chief Judge,* and TARANTO, *Circuit Judge,* join, concurring in the denial of the petition for rehearing en banc.

The multiple concurring and dissenting opinions regarding the denial of en banc rehearing in this case are illustrative of how fraught the issue of § 101 eligibility, especially as applied to medical diagnostics patents, is. I agree that the language in *Mayo*, as later reinforced in *Alice*, forecloses this court from adopting an approach or reaching a result different from the panel majority's. I also agree, however, that the bottom line for diagnostics patents is problematic. But this is not a problem that we can solve. As an inferior appellate court, we are bound by the Supreme Court.

I, for one, would welcome further explication of eligibility standards in the area of diagnostics patents. Such standards could permit patenting of essential life saving inventions based on natural laws while providing a reasonable and measured way to differentiate between overly broad patents claiming natural laws and truly worthy specific applications. Such an explication might come from the Supreme Court. Or it might come from Congress, with its distinctive role in making the factual and policy determinations relevant to setting the proper balance of innovation incentives under patent law.

United States Court of Appeals for the Federal Circuit

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DYK, *Circuit Judge*, with whom HUGHES, *Circuit Judge,* joins, and with whom CHEN, *Circuit Judge,* joins as to Parts IV, V, and VI, concurring in the denial of the petition for rehearing en banc.

I

In the realm of abstract ideas, the *Mayo*/*Alice* framework has successfully screened out claims that few would contend should be patent eligible, for example, those that merely apply well-known business methods and other processes using computers or the Internet.[1] The *Mayo/Alice* framework has thus proven to be both valuable and effective at invalidating overly broad, non-inventive claims that would effectively "grant a monopoly over an abstract idea." *Alice Corp. v. CLS Bank Int'l*, 573 U.S. 208, 216 (2014) (quoting *Bilski v. Kappos*, 561 U.S. 593, 611–612 (2010)). As the Supreme Court has recognized, the concern with such patents is that they would "'inhibit further

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[1] *See, e.g., Trading Techs. Int'l, Inc. v. IBG LLC*, 921 F.3d 1378, 1384–85 (Fed. Cir. 2019) (invalidating claims directed to "providing a trader with additional financial information to facilitate market trades" using "a generic computer"); *SAP Am., Inc., v. Investpic, LLC*, 898 F.3d 1161, 1167–69 (Fed. Cir. 2018) (invalidating claims directed to "the selection and mathematical analysis of [investment] information, followed by reporting or display of the results" using "off-the-shelf computer technology"); *Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1054–57 (Fed. Cir. 2017) (invalidating claims directed to "processing an application for financing a purchase" using "generic computer components"); *Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1353–55 (Fed. Cir. 2016) (invalidating claims directed to "collecting information, analyzing it, and displaying certain results" using "off-the-shelf, conventional computer, network, and display technology"); *Intellectual Ventures I LLC v. Capital One Bank*, 792 F.3d 1363, 1369–70 (Fed. Cir. 2015) (invalidating claims directed to tailoring advertising to individual customers using a "generic web server with attendant software"); *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 715–16 (Fed. Cir. 2014) (invalidating a claim directed to "using advertising as an exchange or currency" "on the Internet"); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1355 (Fed. Cir. 2014) (invalidating a claim directed to "creating a contractual relationship" through "online transactions" using "generic" computer functionality).

discovery by improperly tying up the future use of' these buildings blocks of human ingenuity." *Id.* (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 85 (2012)). At the same time, our § 101 precedent has allowed room for claims that do more than recite conventional applications of abstract concepts.[2]

II

Despite assertions to the contrary, the doctrines of novelty under § 102, obviousness under § 103, and enablement and written description under § 112 cannot adequately guard against the dangers of overclaiming. In *Mayo*, the Supreme Court rejected the argument that "other statutory provisions"—specifically §§ 102, 103, and 112—could adequately "perform th[e] screening function" served by § 101. 566 U.S. at 89. Although the Court recognized that the § 101 patent eligibility inquiry "might sometimes overlap" with considerations of novelty and non-obviousness under §§ 102 and 103, it concluded that "to shift the patent-eligibility inquiry entirely to these later sections risks creating significantly greater legal uncertainty, while assuming that those sections can do work that they are not equipped to do." *Id.* at 90. Those sections and § 112 do not adequately address "the risk that a patent on the [natural]

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[2] *See, e.g.*, *Ancora Techs., Inc. v. HTC Am., Inc.*, 908 F.3d 1343, 1348–49 (Fed. Cir. 2018) (holding that claim to a specific technique for improving computer security against unauthorized use of a program was not directed to an abstract idea); *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299, 1303–04 (Fed. Cir. 2018) (holding that claims to a "behavior-based virus scan" allowing for more flexible and nuanced virus filtering were not directed to an abstract idea); *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1336–38 (Fed. Cir. 2016) (holding that claims to self-referential tables that allowed for more efficient launching and adaptation of databases were not directed to an abstract idea).

law would significantly impede future innovation." *Id.* at 90–91; *see also* Mark Lemley et al., *Life After* Bilski, 63 Stan. L. Rev. 1315, 1329–32 (2011) (outlining differences between §§ 101 and 112). Nor do these other provisions typically allow early stage resolution of the "threshold" issue of patent eligibility, *Bilski*, 561 U.S. at 602, necessary to avoid the costs of lengthy litigation. Thus, § 101 serves an important purpose not served by these other provisions in the Patent Act.

A simple example in the area of diagnostic patents illustrates this point. If the first person to identify the relationship between a genetic abnormality and a disease had sought a broad patent on a method of searching for genetic abnormalities and determining their relationship to disease, the claims would have been neither anticipated nor obvious. Nor is it likely that they would they have been invalid for lack of enablement (since a representative species was disclosed) or written description (the overall conception being in the mind of the inventor). The only barrier to such broad patent claiming is § 101.

In fact, one of the diagnostic patents that we have held unpatentable under § 101 had exactly that problem of overbreadth. In *In re BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litigation*, 774 F.3d 755 (Fed. Cir. 2014), we held that genetic testing claims were directed to the "patent-ineligible abstract idea of comparing BRCA sequences and determining the existence of alterations" of the gene. *Id.* at 763. We noted the breadth of the claims, explaining that they "are not restricted by the purpose of the comparison or the alteration being detected," nor "limited to the detection of risk of breast or ovarian cancer." *Id.* at 763–64. Indeed, the claims encompassed "comparisons for purposes other than detection of cancer." *Id.; see also Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1373–74, 1378 (Fed. Cir. 2015) (invalidating claims to methods of detecting cffDNA in maternal serum or plasma that encompassed any diagnosis of any disease). What was claimed was a broad concept, and we therefore held the claims ineligible under § 101, though the claims may well have survived challenge under §§ 102, 103, and 112.

III

The problem with § 101 arises not in implementing the abstract idea approach of *Alice*, but rather in implementing the natural law approach of *Mayo*. Although *Mayo*'s framework is sound overall, I share the concerns expressed by my dissenting colleagues that the *Mayo* test for patent eligibility should leave room for sufficiently specific diagnostic patents. But it is the Supreme Court, not this court, that must reconsider the breadth of *Mayo*.

Although the Supreme Court's decision in *Mayo* did not make all diagnostic claims patent ineligible, as we previously held in *Ariosa*, 788 F.3d at 1376–77, *Mayo* left no room for us to find typical diagnostic claims patent eligible, absent some inventive concept at *Mayo* step two. The panel here correctly concluded that *Mayo* controls.

The inventors of U.S. Patent 7,267,820 ("the '820 patent") discovered that myasthenia gravis ("MG"), a neurological disorder, can be diagnosed by detecting the presence of MuSK autoantibodies in bodily fluid. *See Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743, 747 (Fed. Cir. 2019). At *Mayo* step one, the claims are directed to a natural law: "the correlation between the presence of naturally-occurring MuSK autoantibodies in bodily fluid" and certain neurological diseases like MG. *Id.* at 750. This is similar to the correlation between "concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm," which the Supreme Court held "sets forth a natural law" in *Mayo*, 566 U.S. at 77.

So too as in *Mayo*, at step two, the additional steps of the claims here, though "set forth with some specificity," *Athena*, 915 F.3d at 752, "only require standard techniques to be applied in a standard way" and thus do not supply the requisite inventive concept, *id.* at 753. The specification explains 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." *Id.* at 753–54 (alteration in original). Similarly, in *Mayo*, adding steps "to determine the level of the relevant metabolites in the blood" was held "not sufficient to transform an unpatentable law of nature into a patent-eligible application" because those steps were "well known in the art." 566 U.S. at 79. Therefore, the panel here correctly held that under the *Mayo* framework, the claims are not patent eligible under § 101. *Athena*, 915 F.3d at 746, 756. And the Supreme Court has instructed us to follow its precedent until the Court itself chooses to expressly overrule it.[3]

IV

It is nonetheless appropriate to point out that there is tension between *Mayo* and the Supreme Court's later decision in *Association for Molecular Pathology v. Myriad*

[3] *See, e.g.*, *Hohn v. United States*, 524 U.S. 236, 252–53 (1998) ("Our decisions remain binding precedent until we see fit to reconsider them, regardless of whether subsequent cases have raised doubts about their continuing vitality."); *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997) ("The Court of Appeals was correct in applying that principle despite disagreement with [the precedent], for it is this Court's prerogative alone to overrule one of its precedents."); *Rodriguez de Quijas v. Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989) ("If a precedent of this Court has direct application in a case, yet appears to rest on reasons rejected in some other line of decisions, the Court of Appeals should follow the case which directly controls, leaving to this Court the prerogative of overruling its own decisions.").

Genetics, Inc., 569 U.S. 576 (2013), and that the holding of *Mayo* may be overbroad. The language of § 101 does cover "discover[ies]," 35 U.S.C. § 101, and there is no doubt that determining the relationship between specific genetic abnormalities and specific diseases constitutes an important discovery with proven utility. There is much to be said for the patentability of claims to such discoveries, if not drafted overbroadly. And *Myriad* suggests that such discoveries may be patent eligible. There, the patent applicant discovered a previously unknown natural phenomenon: the location and sequence of the BRCA1 and BRCA2 genes and their connection to cancer. *Myriad*, 569 U.S. at 582–83. Although the Court held ineligible the claims to naturally occurring DNA sequences, it suggested that "new *applications* of knowledge about the BRCA1 and BRCA2 genes" could be eligible and referred to various "unchallenged claims" discussed in Judge Bryson's concurrence to our court's decision below. *Id.* at 596 (emphasis in original) (citing *Ass'n for Molecular Pathology v. U.S. Patent & Trademark Office, Inc.*, 689 F.3d 1303, 1349 (Fed. Cir. 2012) (Bryson, J. concurring)). One of these "unchallenged claims" was claim 21 of Myriad's U.S. Patent No. 5,753,441, which covered a method of detecting (using conventional methods) any of several specific mutations in the BRCA1 gene, newly discovered by the patent applicant and shown to increase a person's risk of developing particular cancers (a far narrower claim than the claims held unpatentable in *BRCA1- & BRCA2*).

By suggesting that such a claim could be patent eligible, *Myriad* thus recognized that an inventive concept can sometimes come from the discovery of an unknown natural phenomenon and its application for a diagnostic purpose. This appears to be in tension with *Mayo*. Under *Mayo*, a natural phenomenon itself, no matter how narrow and specific, cannot supply the requisite "inventive concept." *See Mayo*, 566 U.S. at 77–78, 88–89.

Thus, it would be desirable for the Supreme Court to refine the *Mayo* framework to allow for sufficiently specific diagnostic patent claims with proven utility. In the life sciences, development of new diagnostic methods is often based on researching complex biological systems. The inventive concepts in this area may lie primarily in the application of a natural law.

V

At the same time, *Mayo*'s central concern was both important and consistent with the Patent Act. There is a substantial risk that overbroad claims involving natural laws may "preempt the use of a natural law" and thus "inhibit further discovery by improperly tying up the future use of laws of nature." *Id.* at 72, 85. In other words, there is a risk that granting overbroad patents could reward a mere concept rather than the work subsequently done by the actual inventor. The risks associated with such overbreadth are shown by the examples discussed earlier.

In my view, the *Mayo* framework should be refined in limited respects. First, at step one of *Mayo*, the natural law cannot be claimed as such. *See Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). As *Mayo* noted, "Einstein could not patent his celebrated law that $E=mc^2$." 566 U.S. at 71 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)); *see also Parker v. Flook*, 437 U.S. 584, 591 (1978). Nor could a patent claimant "simply recite a law of nature and then add the instruction 'apply the law,'" such as if Einstein had claimed "a process consisting of simply telling linear accelerator operators to refer to the law." *Mayo*, 566 U.S. at 78. Where the natural law itself is so broadly claimed, there is no reason to address step 2 (the inventive concept). The claims are simply ineligible.

At the same time, "all inventions at some level embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas." *Id.* at 71. Thus, a sufficiently specific "application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection." *Id.* (emphasis in original) (quoting *Diamond v. Diehr*, 450 U.S. 175, 187 (1981)).

For there to be a patent eligible application of a natural law, there must be a "discover[y]," 35 U.S.C. § 101, and the claims must recite a specific application of that "discovery" with established utility. Otherwise, the natural law may be entirely preempted, even as to those aspects where the patent claimant has done no more than claim a broad conception. Requiring a specific application mitigates against the risk of granting patents too early—that is, before the patent applicant has devised a specific application of the natural law—and thereby prevents monopolization of the "basic tools of scientific and technological work." *Mayo*, 566 U.S. at 71 (quoting *Benson*, 409 U.S. at 67); *Brenner v. Manson*, 383 U.S. 519, 534–35 (1966) (noting that before a claimed invention is sufficiently "refined and developed," granting a patent "may confer power to block off whole areas of scientific development"); *see generally* Lemley, *supra*, at 1337–38 (arguing for a focus on claim scope under § 101 and noting that overly broad claims "make later improvements more costly or even impossible").

The Supreme Court's opinion in *O'Reilly v. Morse*, 56 U.S. (15 How.) 62 (1854), the foundation of the Court's jurisprudence on patent eligibility, appears to make this very distinction. There, the Court allowed Morse's narrower claims, which were tied specifically to his discovery: the telegraph. *See id.* at 112.[4] The Court reasoned that Morse

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[4] For example, Morse's second claim recited "the employment of the machinery called the register or recording instrument, composed of the train of clock-wheels, cylinders, and other apparatus, or their equivalent, for removing the material upon which the characters are to be imprinted, and for imprinting said characters,

"discover[ed] a method by which intelligible marks or signs may be printed at a distance" and that "for the [particular] method or process thus discovered, he is entitled to a patent." *Id.* at 117. But the Court held unpatentable Morse's claim to all "marking or printing [of] intelligible characters, signs, or letters, at any distances" via electric currents, because "the claim is too broad, and not warranted by law." *Id.* at 112–13. As in *Mayo*, the Court was particularly concerned about preempting use of the natural phenomenon: "For aught that we now know some future inventor, in the onward march of science, may discover a [different] mode of writing or printing at a distance by means of the electric or galvanic current . . . . But yet if it is covered by this patent the inventor could not use it, nor the public have the benefit of it without the permission of this patentee." *Id.* at 113.

More recent opinions of the Supreme Court are also consistent with a focus on claims that sweep too broadly. In *Benson*, the Court observed that the claims were "so abstract and sweeping as to cover both known and unknown uses of" the mathematical formula at issue, and so held the claims ineligible. 409 U.S. at 67–68. Similarly, in *Flook*, the claims to "a formula for computing an updated alarm limit" could "cover a broad range of potential uses" and were also held ineligible. 437 U.S. at 586. By contrast, in *Diehr*, the Court held eligible claims that used a well-known mathematical equation in a process of curing synthetic rubber. 450 U.S. at 191–92. The patent claimants did "not seek to pre-empt the use of th[e] equation," but rather sought "only to foreclose from others the use of that equation in conjunction with all of the other steps in their claimed process" for curing rubber. *Id.* at 187. Thus, the

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substantially as set forth in the foregoing description of the second principal part of my invention." *Morse*, 56 U.S. at 85.

Supreme Court's precedents support a requirement of specific application as part of the patent eligibility inquiry as to natural laws.

To ensure against overbroad claims, the scope of the § 101 natural law exception is necessarily informed by the utility requirement of § 101. The utility requirement has its origins in the constitutional grant of Congressional authority, which contemplated that the "discoveries" entitled to patents would be limited to those of proven utility. *See* U.S. Const. art. I, § 8, cl. 8; Sean M. O'Connor, *The Overlooked French Influence on the Intellectual Property Clause*, 82 U. Chi. L. Rev. 733, 792–93 (2015). And the statutory requirement of utility has been held by the Supreme Court to require that the claimed invention have established utility, not merely the prospect of future utility. *Brenner*, 383 U.S. at 534–36. In *Brenner*, the Supreme Court held that a patent claiming an allegedly novel process for making certain known steroids was ineligible for lack of utility. *Id.* The Court reasoned that without a showing of utility, "the metes and bounds of th[e] monopoly are not capable of precise delineation," and "[s]uch a patent may confer power to block off whole areas of scientific development, without compensating benefit to the public." *Id.* at 534. "Unless and until a process is refined and developed to this point—where specific benefit exists in currently available form—there is insufficient justification for permitting an applicant to engross what may prove to be a broad field." *Id.* at 534–35. It follows that the scope of patents involving the application of natural laws should not extend beyond established utility, and that claims that extend further are not patent eligible. Under this approach, because of their breadth, the claims in *Mayo* would not be eligible at step one. *See Mayo*, 566 U.S. at 87 (explaining that the claim steps were "set forth in highly general language covering all processes that make use of the correlations after measuring metabolites, including later discovered processes that measure metabolite levels in new ways").

However, if the claim is sufficiently tied to a specific and useful application of a natural law at *Mayo* step one, that application itself should serve as the necessary inventive concept at *Mayo* step two. Yet at step two, the application must be more than determining the precise correlation of a known relationship using prior art processes, as was the case in *Mayo* itself. In *Mayo*, "scientists already understood that the levels in a patient's blood of certain metabolites, including [those involved in the claims] were correlated with the likelihood that a particular dosage of a thiopurine drug could cause harm or prove ineffective." *Id.* at 73–74. And "scientists routinely measured metabolites as part of their investigations into the relationships between metabolite levels and efficacy and toxicity of thiopurine compounds." *Id.* at 79. "But those in the field did not know the precise correlations between metabolite levels and likely harm or ineffectiveness." *Id.* at 74. Thus, *Mayo*'s claims only involved determining the precise correlations of a law of nature that was already well known. The asserted application of the natural law was therefore no more than determining "the precise correlations between metabolite levels and likely harm or ineffectiveness" of a drug dosage and thus was patent ineligible.

Requiring specific and useful application for the entire scope of the claim at *Mayo* step one, and more than determining precise correlations of a known natural law using prior art processes at *Mayo* step two, would ensure that the claims truly recite an "inventive application" of the natural law that should be eligible under § 101. This approach would help ensure that the reward of a patent goes to those who have actually done the work to develop a specific application of a natural law, not those who are the first to the patent office with broad, conceptual claims lacking proven utility in many applications.

VI

Finally, this case may involve claims that could be patent eligible under this suggested approach. First, claims 7–9 do not claim the natural law itself—the relationship between MuSK autoantibodies and MG, a rare neurological disorder—but rather claim specific methods of diagnosing neurological disorders like MG by detecting MuSK autoantibodies. *See Athena*, 915 F.3d at 747.[5] Second, unlike in

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[5] Claims 7–9 depend from claim 1, not at issue in this appeal, which recites:

> 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].

’820 patent, col. 12, ll. 31–35.

Claim 7 recites:

> 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 (indentation added).

Mayo, this case involves a "discovery" of the relationship, not mere determination of the precise correlations of a known natural law using prior art processes. As the panel noted, "[p]rior to the[] discovery [by the named inventors], no disease had been associated with MuSK." *Id.*

Because at least some of the claims here recite specific applications of the newly discovered law of nature with proven utility, this case could provide the Supreme Court with the opportunity to refine the *Mayo* framework as to diagnostic patents.

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 125I. *Id.* col 13, ll. 8–9.

United States Court of Appeals for the Federal Circuit

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

2017-2508

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

CHEN, *Circuit Judge,* concurring with denial of the petition for rehearing en banc.

"Congress plainly contemplated that the patent laws would be given wide scope." *Bilski v. Kappos*, 561 U.S. 593, 601 (2010) (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980)). As the Court observed, "Congress took this permissive approach to patent eligibility to ensure that 'ingenuity should receive a liberal encouragement.'" *Id.* Consistent with that mandate, the Court in *Diamond v. Diehr*, 450 U.S. 175 (1981) adopted a relatively narrow and more administrable version of the judicial exceptions to the statutory text of 35 U.S.C. § 101 compared to what the Court articulated three years earlier in *Parker v. Flook*, 437 U.S. 584 (1978). Under *Diehr*'s "claim as a whole" principle, which does not divide the claim into new versus old elements, Athena's claims, particularly claims 7 and 9, likely would have been found to be directed to a patent-eligible process comprising a set of technical, transformative steps to test a patient for a particular medical condition. But in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012), the Court set forth an inventive concept/point of novelty framework, which is a more far-reaching, aggressive version of the judicial exceptions to the statute and is largely incompatible with *Diehr*'s core rationale. At the same time, nothing in *Mayo* suggests that it sought to repudiate *Diehr*'s analysis. While I believe our court would benefit from the Supreme Court's guidance as to whether it intended to override central tenets of *Diehr*, *Mayo*'s reasoning is clear and we are bound by it. Because that analysis requires the affirmance of the district court's decision to invalidate Athena's claims, I concur with this court's decision to deny the petition for rehearing en banc.

I. *FLOOK* AND *DIEHR*

In *Flook*, the Court articulated the notion that something else beyond an algorithm or law of nature recited in a claim must provide the key "inventive concept" to make a claim patent-eligible. 437 U.S. at 594. There, the claims recited a formula for computing an updated alarm limit, a number that signals the presence of an abnormal temperature, pressure, and flow rate combination indicating inefficiency or perhaps danger during catalytic conversion processes. *Id.* at 585. While the Court recognized that "a process is not unpatentable simply because it contains a law of nature or a mathematical algorithm," *id.* at 590, it also declared that "the discovery of such a phenomenon cannot support a patent unless there is some other inventive concept in its application." *Id.* at 594. Because the recited field of use of catalytic conversion of hydrocarbons was "well known," and the formula received no credit in the analysis, the Court concluded that Flook's claim "contains no patentable invention." *Id.* The Court indicated that it had considered the claim "as a whole," but it did so by reviewing the claim on an element-by-element basis in search of something new and inventive, discounting the formula as "assumed to be within the prior art." *Id.* In so doing, the Court found no novel "inventive concept" in the claim. *Id.*

The Court advanced a very different analytic approach for the judicial exceptions in *Diamond v. Diehr*, 450 U.S. 175 (1981), one that is difficult to reconcile with much of *Flook*'s reasoning. The Court held patent-eligible under § 101 a claim for a process of constantly measuring the temperature inside a molding press to determine when to remove a cured rubber product. *Id.* at 192–93. The relationship between temperature and cure relied on a known mathematical equation, but the Court found that, when the overall patent claim was considered as a whole, the respondents did "not seek to patent a mathematical formula," but instead "[sought] protection for a process of curing synthetic rubber." *Id.* at 187. Rejecting a point of novelty inquiry for § 101, the Court stated: "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; *id.* at 193 n.15 ("The fact that one or more of the steps in [a claimed] process may not, in isolation, be novel or independently eligible for patent protection is irrelevant to the question of whether the claims as a whole recite subject matter *eligible* for patent protection under § 101.") (emphasis in original); *see also id.* at 190 ("The question therefore of whether a particular invention is novel is 'wholly apart from whether the invention falls into a category of statutory subject matter.'" (quoting *In re Bergy*, 596 F.2d 952, 961 (C.C.P.A. 1979))).

Furthermore, *Bilski* recognized the interplay between *Diehr* and *Flook*, pointing out that *Diehr* "established a limitation on the principles articulated in [*Gottschalk v.*] *Benson* and *Flook*" in that "*Diehr* emphasized the need to consider the invention as a whole, rather than 'dissect[ing] the claims into old and new elements . . . in the analysis.'" *Bilski*, 561 U.S. at 611 (quoting *Diehr*, 450 U.S. at 188). Thus, as recently as *Bilski*, the Court understood *Diehr* as requiring consideration of the claim as a whole, including any mathematical formula or scientific principle, in the § 101 inquiry, and as rejecting any dissection of the claim in search of novel or unconventional components.

Aside from reaffirming the result in *Flook*, the *Diehr* Court addressed *Flook*'s takeaway meaning at two different points in the opinion. First, *Diehr* observed: "Our recent holdings in *Gottschalk v. Benson*, *supra*, and *Parker v. Flook*, *supra*, both of which are computer-related, stand for no more than [the] long-established principles" that "[e]xcluded from such patent protection are laws of nature, natural phenomena, and abstract ideas." 450 U.S. at 185 (citing *Flook* and other cases describing the judicial exceptions, *e.g.*, "[a] principle[] in the abstract . . . cannot be patented."). Second, *Diehr* explained the defect in the *Flook* claim in the following way: "A mathematical formula does not suddenly become patentable subject matter simply by having the applicant acquiesce to limiting the reach of the patent for the formula to a particular technological use . . . . All the application provided was a 'formula for computing an updated alarm limit.'" *Id.* at 192 n.14 (quoting *Flook*, 437 U.S. at 586). The *Diehr* Court thus regarded the *Flook* claim as merely reciting a formula that would be applicable in an industrial process, but not reciting an industrial process itself.[1] Aside from these two points, *Diehr* did not restate any other principles expressed in *Flook*.

That *Diehr* established a limitation on *Flook* and rejected the point of novelty/inventive concept approach to patent eligibility is underscored by the protests within the *Diehr* dissent. *See Diehr,* 450 U.S. at 204–16. "Proper analysis," in the dissent's view, "must start with an understanding of what the inventor claims to have discovered—or phrased somewhat differently—what he considers his inventive concept to be." *Id.* at 212. Because the claim had "no other inventive concept" other than the addition of a mathematical algorithm to the otherwise conventional claimed process for curing rubber, the dissent would have found the *Diehr* claim ineligible. *Id.* at 213–14. The *Diehr* majority responded: "In order for the dissent to reach its conclusion it is necessary for it to read out of respondents' patent application all the steps in the claimed process which it determined were not novel or 'inventive.' That is not the purpose of the § 101 inquiry and conflicts with the proposition recited above that a claimed invention may be entitled to patent protection even though some or all of its elements are not 'novel.'" *Id*. at 193 n.15.

Given *Diehr*'s evident disagreement with *Flook*'s analysis, *Diehr*, as the later opinion, was widely understood to be the guiding, settled precedent on § 101 for three decades. *See*, *e.g.*, *Arrhythmia Research Tech., Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1057 n.4 (Fed. Cir. 1992)

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[1] Citing *Flook*, the *Diehr* Court also stated that "insignificant post-solution activity will not transform an unpatentable principle into a patentable process." *Id*. at 191–92. What that meant (pre-*Mayo*) was not clear, but, at the time, it could be read to refer to the fact that *Flook*'s claim did nothing more than "limit the use of the formula to a particular technological environment." *Id*. at 191.

("Although commentators have differed in their interpretations of *Benson, Flook,* and *Diehr,* it appears to be generally agreed that these decisions represent evolving views of the Court, and that the reasoning in *Diehr* not only elaborated on, but in part superseded, that of *Benson* and *Flook*.") (citing R.L. Gable & J.B. Leaheey, *The Strength of Patent Protection for Computer Products,* 17 Rutgers Computer & Tech. L.J. 87 (1991); D. Chisum, *The Patentability of Algorithms,* 47 U. Pitt. L. Rev. 959 (1986)); *see also* Edward W. Roush, Jr., *Patent Law-Patentable Subject Matter-Manufacturing Process Which Includes Use of Mathematical Formula and Computer Program Constitutes Patentable Subject Matter*, 13 St. Mary's L.J. 420, 428–29 (1981) ("The *Diehr* Court's holding is entirely consistent with title 35, section 101 subject matter standards. Although both the majority and dissent acknowledged that *Diehr* presented a section 101 statutory subject matter question, the dissent improperly injected considerations of section 102 novelty into its analysis. The majority in *Flook* employed the same rationale.").

II. *MAYO* AND *ALICE*

Three decades after *Diehr*, *Mayo* provided a framework for the judicial exceptions that strongly tracked the reasoning of *Flook* and the *Diehr* dissent. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66 (2012). The claims in *Mayo* were for a method of optimizing the treatment of an immune-mediated gastrointestinal disorder comprising two physical steps: (1) administering a synthetic drug to a patient, and (2) determining the concentration level of certain metabolic byproducts in the patient's bloodstream. The claims also included two "wherein" clauses, reciting that the measured level indicates whether the patient has received a safe and effective dose. *Id.* at 74–75. The Court found that the "wherein" clauses incorporate a law of nature: the relationship between concentrations of certain metabolites in the blood and the likelihood that a thiopurine drug dosage will prove ineffective or cause harm. *Id.* at 78. Because the two physical steps were well-known in the prior art, the *Mayo* Court characterized these claims as adding to that law of nature nothing more than "well-understood, routine, conventional activity." *Id.* at 73, 79–80.

Citing primarily to *Flook*, as well as *Bilski*, the Court stated that its prior decisions "insist that a process that focuses upon the use of a natural law also contain other elements or a combination of elements, sometimes referred to as an 'inventive concept,' sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the natural law itself." *Id.* at 72–73. Because, in the Court's view, "the steps in the claimed processes (apart from the natural laws themselves) involve well-understood, routine, conventional activity previously engaged in by researchers in the field," the claims lacked any inventive concept. *Id.* at 73. Moreover, the Court did not share the concerns *Diehr* expressed as to preserving a doctrinal distinction between §§ 101 and 102; instead, the Court noted: "We recognize that, in evaluating the significance of additional steps [beyond the law of nature] the § 101 patent eligibility inquiry and, say, the § 102 novelty inquiry might sometimes overlap." *Id.* at 90. *Mayo*'s rationale thus follows the point of novelty/inventive concept reasoning of *Flook* and the *Diehr* dissent.

As such, *Mayo* is in considerable tension with *Diehr*'s instruction to consider claims "as a whole" and *Diehr*'s disapproval of dissecting claims into elements and ignoring non-novel elements in the § 101 analysis. 450 U.S. at 188. The *Mayo* Court indicated that it considered the claimed steps "as an ordered combination," but it excluded the law of nature from that review and concluded that the "ordered combination adds nothing to the laws of nature that is not already present when the steps are considered separately." 566 U.S. at 79. In other words, after setting aside the law of nature, "any additional steps consist[ed] of well-understood, routine, conventional activity already engaged in by the scientific community; and those steps, when viewed as a whole, add[ed] nothing significant beyond the sum of their parts taken separately." *Id.* at 79–80. The Court found support for this understanding of the judicial exceptions in *Flook*, observing that, for the *Flook* claim, the steps of monitoring a catalytic conversion process "were all 'well known,' to the point where, putting the formula to the side, there was no 'inventive concept' in the claimed application of the formula." *Id.* at 82. That type of "ordered combination" review ("putting the formula to the side"), however, is fundamentally different from *Diehr*'s "claim as whole" principle, which does not carve out the judicial exception from the patent eligibility inquiry, nor does it dismiss elements that lack novelty.[2] *See Diehr*, 450 U.S. at 188–93.

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[2] Both *Mayo* and *Flook* rely on an 1841 English case, *Neilson v. Harford*, 1 Web. P. C. 295 (1841), as supporting an "inventive concept" requirement in which a law of nature is treated as something well-known. *Mayo*, 566 U.S. at 82–83; *Flook*, 437 U.S. at 592. There is reason to believe, however, that the decision in *Neilson* did not turn on such a premise. *See Tilghman v. Proctor*, 102 U.S. 707, 723–25 (1880) (describing *Neilson*'s reasoning as drawing "the true distinction between a mere principle . . . and a process by which a principle is applied to effect a useful result."); *see also* Brief of Professors Jeffrey A. Lefstin and Peter S. Menell as *Amici Curiae* in Support of Petition for Writ of Certiorari at 15–21, *Sequenom, Inc. v. Ariosa Diagnostics, Inc.* (2016) (No. 15-1182) (Lefstin and Menell Br.). Moreover, no Supreme Court patent eligibility case for a process claim prior to *Flook* relied on an inventive concept inquiry or assumption that a scientific discovery should be regarded as well-known. *See*, *e.g.*, *Gottschalk v. Benson*, 409 U.S. 63 (1972); *Expanded Metal Co. v. Bradford*, 214 U.S. 366 (1909); *Dolbear v. Am. Bell Tel. Co.*, 126 U.S. 1 (1888); *Tilghman*, 102 U.S. ; *Cochrane v. Deener*, 94 U.S. 780

In *Alice*, the Court reaffirmed this reversion to *Flook*, reiterating that, if the claims at issue are directed to laws of nature, natural phenomena, or abstract ideas, then we must ask "what else is there in the claims before us?" And in doing so, we must "consider the *elements* of each claim individually and 'as an ordered combination' to determine whether the *additional* elements 'transform the nature of the claim' into a patent-eligible application." *Alice Corp. Pty. v. CLS Bank Int'l*, 573 U.S. 208, 217 (2014) (quoting *Mayo*, 566 U.S. at 78–79) (emphases added). As in *Mayo*, *Alice* described the second step of this analysis "as a search for an 'inventive concept'" that discounts the law of nature or abstract idea from that inquiry. *Id.* (quoting *Mayo*, 566 U.S. at 72–73); *see also id.* at 221 ("A claim that recites an abstract idea must include 'additional features' to ensure 'that the [claim] is more than a drafting effort designed to

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(1876); *Corning v. Burden*, 56 U.S. 252 (1853); *Le Roy v. Tatham*, 55 U.S. 156 (1853) ("A patent will be good, though the subject of the patent consists in the discovery of a great, general, and most comprehensive principle in science or law of nature, if that principle is by the specification applied to any special purpose, so as thereby to effectuate a practical result and benefit not previously attained." (quoting *Househill Coal & Iron Co. v. Neilson*, 1 Web. P. C. 673, 683 (1843))); *see also O'Reilly v. Morse*, 56 U.S. 62, 114–15,118 (1853) (quoting same passage from *Neilson* quoted in *Mayo* and *Flook*, and then stating that "we see nothing" in *Neilson* "which would sanction the introduction of any new principle in the law of patents" and relying on "established principles in the American courts"). Importantly, *Diehr*'s reasoning, which post-dates *Flook* and was controlling authority for 30 years, is incompatible with the inventive concept approach.

monopolize the [abstract idea].'" (quoting *Mayo*, 566 U.S. at 77)).[3]

When it comes to applying the judicial exceptions, it bears noting that the *Mayo* analytical approach is considerably harder to apply consistently than the *Diehr* framework, and more aggressive in its reach. Consider the claim in *Mayo*. If that claim had recited just the single step of administering a synthetic drug to a patient, that single-step claim would be patent-eligible, but lack novelty under § 102. And if that claim added a second step for determining the subsequent level of a non-naturally occurring metabolite in a patient, that claim also would pass muster under § 101, but lack novelty. But when the claim further recites a relationship between a metabolite level and its efficacy in a patient, that claim suddenly would be invalid under § 101 for violating the law of nature exception. In other words, steps 1 and 2 now get pushed aside and declared insignificant, and the last step is designated as the "focus" of the claim, *i.e.*, the heart of the invention. The notion that adding claim language can convert an otherwise patent-eligible claim into a patent-ineligible claim is counterintuitive and a very difficult thing to explain to 8,000 patent examiners.[4] Moreover, the process of

[3] The *Alice* Court, like *Mayo* and *Flook*, states that its approach is consistent with the rule that patent claims must be considered as a whole, because it considers the claim elements separately as well as in combination. *Alice*, 573 U.S. at 218 n.3. But, as explained *supra*, this approach is wholly unlike *Diehr*'s understanding of evaluating the claim "as a whole."

[4] That is not to say that the *Mayo* claim should have been upheld as valid. The "wherein" clauses simply identified a mental inference from practicing a prior art process, which is insufficient to distinguish the claim from the prior art. *See* Brief for United States as *Amicus Curiae*, at

determining what the claim is "really about" when the claim is viewed in pieces, rather than as a whole, can be highly subjective and impressionistic. This approach puts courts and examiners in the position of assigning value judgments to individual limitations, designating some as "significant" and others as "insignificant," and hoping everyone else reaches the same conclusion as to whether the claim contains a truly meritorious inventive contribution as opposed to a judicial exception embellished with insignificant window dressing. And all this just to resolve the threshold question of whether an invention is eligible for the patent system.

As written, *Mayo* requires a patent claim to have an inventive concept apart from the recitation of a natural law. That requirement has consequences that go beyond the facts of *Mayo* and is certainly clear enough that we are obliged to follow it. But, as explained above, *Mayo*'s framework is in tension on its face with *Diehr*, which was equally clear in requiring that a patent claim be considered as a whole, without putting aside any natural law or otherwise dissecting a claim into new versus old elements. Moreover, nothing in *Mayo* suggests that it sought to repudiate anything in *Diehr*; it instead suggests that it sought to maintain continuity with the Court's prior cases in this area. As for *Flook*, the Court in *Bilski* acknowledged that *Diehr* had "established a limitation" on *Flook* by "emphasiz[ing] the need to consider the invention as a whole, rather than 'dissect[ing] the claims into old and new elements . . . in the analysis.'" *Bilski*, 561 U.S. at 611 (quoting *Diehr*, 450 U.S. at 188). Importantly, *Mayo* does not say that it nullified this key "limitation" expressed in *Diehr*. Furthermore, as Judge Dyk points out in his concurrence, the Court's opinion in *Ass'n for Molecular Pathology v. Myriad Genetics,*

26–28, *Mayo v. Prometheus*, 566 U.S. 66 (2012) (No. 10-1150).

Inc., 569 U.S. 576 (2013), which issued after *Mayo*, could be read as potentially maintaining an open door for diagnostic claims such as Athena's, because they may be regarded as applications of knowledge of discovered natural laws. *See* Dyk Concurrence at 7. *Myriad* thus could suggest that *Mayo* should not go as far as its language indicates.

Through it all, there is a serious question today in patent law as to what extent *Diehr* remains good law in light of *Mayo*. We are not in a position to resolve that question, but the Supreme Court can. Resolution of the present confusion is important because if *Mayo* in fact overruled the principles in *Diehr* (as reiterated in *Bilski*), then that would be a significant incursion on the settled expectations that had existed for 30 years since *Diehr*. Relying on the *Diehr* framework, the Patent Office examined and granted many patents for medical diagnostic methods, establishing settled expectations in those granted property rights, and prompted companies and research institutions to organize their conduct and choices accordingly. Many of these diagnostic claims, including the ones at issue here, do not hold up well against *Mayo*'s more searching, claim dissection scrutiny.

III. ATHENA'S CLAIMS

Judge Newman, Judge Moore, the petitioner, and the *amici* raise several valid concerns. But I believe the reasoning underlying recent Supreme Court decisions compels us to affirm the district court's invalidity determination here. While *Diehr* long established that we must evaluate "the claim as a whole" for § 101 purposes, that principle has been considerably undermined, for we've been recently instructed to ask for claims such as Athena's, "do the patent claims add *enough* to their statements of the correlations to allow the processes they describe to qualify as patent-eligible processes that *apply* natural laws?" *Mayo*, 566 U.S. at 77 (emphases in original). Moreover, "[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.

It appears to me that, per *Mayo*, because the association of an antibody and a medical disorder is deemed to be a law of nature rather than an application of a law of nature, detecting that law of nature, by using data gathering steps or devices that can be said to be basic, conventional, or obvious, fails § 101. This is in contrast to examples, such as *Diehr* and *Neilson*, in which, as characterized by *Mayo*, the claimed inventions included unconventional steps beyond reliance on an abstract scientific principle. *Mayo*, 566 U.S. at 80–81, 83–84. In other words, the Supreme Court has made clear that detecting a law of nature (without more than conventional steps for accessing the law of nature) does not qualify as a patent-eligible application of a law of nature.

Here, the inventors of Athena's U.S. Patent No. 7,267,820 discovered an association between the disorder *myasthenia gravis* and the presence of muscle specific tyrosine kinase (MuSK) autoantibodies in a patient's blood. At issue are claims 7–9 reciting:

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 [MuSK].

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

9. A method according to claim 8 wherein said label is 125I.

’820 patent, col. 12 ll. 31–35, col. 12 l. 62 – col. 13 l. 9.

We must accept that the association between the antibody and the disorder is a law of nature. Here, as in *Mayo*, data first must be gathered in order to access and observe the newly-discovered law of nature, and the claimed steps “simply tell doctors to gather data from which they may draw an inference in light of the correlations.” *Mayo*, 566 U.S. at 79. That claims 7 and 9 do not preempt all ways of observing the law of nature isn’t decisive, as none of the steps recited therein add anything inventive to the claims. Claim 7’s label-adding and immunoprecipitating steps are conventional, standard techniques in the art of detecting the presence of a law of nature such as a protein; the panel majority opinion notes that these steps do not recite any improvement in the underlying immunoassay technology. *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743, 751 (Fed. Cir. 2019).

Claim 9 recites use of a particular label, but one that was standard to use in the art. This cannot provide the inventive concept under *Mayo*. As an analogy, we would not find that a claim directed to an abstract idea of communicating information through a device passes muster under § 101 simply because it limits the claimed device to, say, a Samsung Galaxy® smartphone. Nor would the *Mayo* claim be considered to possess an inventive concept if it had recited that the initial step of "administering a drug" be performed in a conventional way, such as orally or intravenously.

One amicus brief points out that § 101 provides that "[w]hoever invents or discovers" a new or useful process, manufacture, machine or composition of matter may be entitled to a patent, and that § 100(a) defines "invention" to mean "invention or discovery." Brief of Freenome Holdings Inc. and Achillion Pharm., Inc. as *Amici Curiae* in Support of Neither Party, *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743 (2019) (No. 17-2508). Section 100 also defines "process" to include "a new use of a known process, machine, manufacture, composition of matter, or material." § 100(b). Arguably, Athena's invention is a claim for a new use (diagnosing *myasthenia gravis*) of a known composition of matter (MuSK autoantibodies). Moreover, given that the dual "invention or discovery" structure consistently has been part of every Patent Act since 1790, this statutory provision suggests that at least some discoveries, including Athena's "discovery" of how to diagnose *myasthenia gravis*, have always been contemplated as patentable subject matter. *See* Lefstin and Menell Br. at 4–14. However, I am not aware of the Supreme Court ever addressing the meaning of "discovers" in § 101 separately from "invents," and it must be the Supreme Court, and not this court, that speaks to that statutory question, because the Court already proclaimed that "[g]roundbreaking, innovative, or even brilliant discovery does not by itself satisfy the section 101 inquiry." *Myriad*, 569 U.S. at 591.

In sum, I do not think the claims here can withstand *Mayo*'s scrutiny.[5] But perhaps when read "as a whole" under *Diehr*, claims such as claims 7 and 9 in this case could be viewed as methods of testing for a specific medical condition, employing a sequence of steps that physically transform materials. By no means do the claims cover a natural principle in the abstract. Rather, this sounds like a contribution to the "useful arts" stated in Article I, Section 8, Clause 8 of the U.S. Constitution. That those physical, transformative steps may apply conventional techniques for locating an antibody in a sample would not be disregarded in the threshold inquiry of whether the claimed invention qualifies as subject matter eligible for the patent system.

New methods for diagnosing medical conditions, as a general matter, intuitively seem to be the kind of subject matter the patent system is designed for: to encourage the risky, expensive, unpredictable technical research and development that people would not otherwise pursue in the hope that *if* they discover something of great medical value, then they will be protected and rewarded for that successful effort with a patent. This category of invention, after all, is not the same as methods of entering into contracts, or horse whispering, or speed dating or other methods that animated many of the concerns underlying *Bilski*. The kind of lab work undertaken in discovering new diagnostics

[5] While this court is bound by *Mayo*, I do not believe this court has turned *Mayo* into a "per se rule" that bars all medical diagnostic claims from patent protection. Moore Dissent at 4. Diagnostic claims grounded in novel, non-obvious techniques that render a given diagnosis possess an inventive concept continue to be granted. As to the difference in outcomes so far in our § 101 decisions between diagnostic and treatment claims, I agree with the analysis in Judge Lourie's concurrence. Lourie Concurrence at 3–4.

and performing the steps of such claimed inventions can only be described as being technical in nature. For several decades before *Mayo*, this has been the basis for why the Patent Office granted patents for many medical diagnostics—not just for the law of nature in the abstract, but as applied in the real-world medical context to diagnose patient health conditions. In any meaningful sense, this represents a practical application of the discovered law of nature, that is, it is applied science in every sense of that term. And it should be patentable subject matter in a well-functioning patent system.

CONCLUSION

The most recent Supreme Court opinions are clear in my view on how to address claims like Athena's. Even though Athena's claims likely would be found patent-eligible under *Diehr*'s framework, it is not an inferior court's role to dodge the clear, recent direction of the Supreme Court. Accordingly, I concur with denial of the petition for rehearing *en banc*.

United States Court of Appeals for the Federal Circuit

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

2017-2508

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

MOORE, *Circuit Judge*, with whom O'MALLEY, WALLACH, and STOLL, *Circuit Judges*, join, dissenting from the denial of the petition for rehearing en banc.

This is not a case in which the judges of this court disagree over whether diagnostic claims, like those at issue in *Athena*, should be eligible for patent protection. They should. None of my colleagues defend the conclusion that claims to diagnostic kits and diagnostic techniques, like those at issue, should be ineligible. The only difference among us is whether the Supreme Court's *Mayo* decision requires this outcome. The majority of my colleagues believe that our hands are tied and that *Mayo* requires this outcome. I believe *Mayo* does not. The Patent Act renders eligible the invention or discovery of any new and useful process. 35 U.S.C. § 101. And the patent system exists to promote exactly this sort of specific, targeted application of a life-saving discovery, which is characterized by extraordinarily high initial market entry costs. The claims in this case should be held eligible, and they are distinguishable from *Mayo*.

DIAGNOSTICS ARE PER SE INELIGIBLE

Since *Mayo*, we have held every single diagnostic claim in every case before us ineligible. *See Cleveland Clinic Found. v. True Health Diagnostics LLC*, 760 F. App'x 1013 (Fed. Cir. 2019) ("*Cleveland Clinic II*"); *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743 (Fed. Cir. 2019); *Roche Molecular Sys., Inc. v.* CEPHEID, 905 F.3d 1363 (Fed. Cir. 2018); *Cleveland Clinic Found. v. True Health Diagnostics LLC*, 859 F.3d 1352 (Fed. Cir. 2017) ("*Cleveland Clinic I*"); *Genetic Techs. Ltd. v. Merial L.L.C.*, 818 F.3d 1369 (Fed. Cir. 2016); *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371 (Fed. Cir. 2015); *In re BRCA1- and BRCA2-Based Hereditary Cancer Test Patent Litig.*, 774 F.3d 755 (Fed. Cir. 2014); *PerkinElmer, Inc. v. Intema Ltd.*, 496 F. App'x 65 (Fed. Cir. 2012).[1] Despite the

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[1] The district courts are following our lead, holding diagnostic methods ineligible. *See, e.g.*, *Illumina, Inc. v. Ariosa Diagnostics, Inc.*, 356 F. Supp. 3d 925 (N.D. Cal. 2018); *Genetic Veterinary Scis., Inc. v. LABOklin GmbH & Co.*, 314 F. Supp. 3d 727 (E.D. Va. 2018); *Mallinckrodt Hosp. Prods. IP Ltd. v. Praxair Distribution, Inc.*, No. 15–170–GMS, 2017 WL 3867649 (D. Del. Sept. 5, 2017); *Esoterix Genetic Labs. LLC v. Qiagen Inc.*, No. 14–CV–13228–ADB, 2016 WL 4555613 (D. Mass. Aug. 31, 2016); *Esoterix*

significance of these diagnostic inventions and the high costs of developing them, we have held, because of *Mayo*, every one of these life-changing inventions and discoveries ineligible. For example, we held a method for assessing a patient's risk of having cardiovascular disease by detecting a specific enzyme, based on the discovery of the correlation between the enzyme and the disease, ineligible. *Cleveland Clinic I*, 859 F.3d at 1363. Cardiovascular disease is the number one cause of death in the United States, killing more than 600,000 people per year, and costing over $200 billion annually.[2] The diagnostic invention in *Cleveland Clinic I* allowed for early diagnosis of cardiovascular disease and had a better predictive value than the clinically used risk factors employed by physicians at the time. There can be no argument but that such early diagnoses will save lives and reduce future treatment costs. But because of *Mayo*, such claims were held ineligible. We also held ineligible claims to a method of screening for alterations in genes linked to hereditary breast and ovarian cancer. *In re BRCA1*, 774 F.3d at 765. It is estimated that breast cancer will kill more than 40,000 people in 2019.[3] Again, there is no reasonable dispute that early diagnoses save lives and future medical costs. To be clear, the method claims were *not* to the gene itself which is found in nature, but rather to a use of the discovered correlation between

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Genetic Labs. LLC v. Qiagen Inc., 133 F. Supp. 3d 349 (D. Mass. 2015); *Genetic Veterinary Scis., Inc. v. Canine EIC Genetics, LLC*, 101 F. Supp. 3d 833 (D. Minn. 2015).

[2] CTRS. FOR DISEASE CONTROL AND PREVENTION, *Heart Disease Fact Sheet* (Aug. 23, 2017), https://www.cdc.gov/dhdsp/data_statistics/fact_sheets/fs_heart_disease.htm.

[3] NAT'L CANCER INSTITUTE, *Cancer Stat Facts: Female Breast Cancer*, https://seer.cancer.gov/statfacts/html/breast.html.

certain mutations and breast cancer for diagnostic purposes. *In re BRCA1*, 774 F.3d at 758. We held ineligible a method for detecting tuberculosis, one of the world's deadliest diseases.[4] *Roche*, 905 F.3d at 1374. And claims to diagnostic methods related to fetal health, characteristics, and genetic disorders, such as Down syndrome, fared no better. *Ariosa*, 788 F.3d at 1378; *PerkinElmer*, 496 F. App'x at 73. The *Ariosa* method of detecting fetal abnormalities based on a simple blood test was an absolute game changer. Prior to the *Ariosa* discovery, such abnormalities were detected with higher cost and higher risk procedures such as amniocenteses which had the potential to harm all involved. That brings us to the *Athena* claims, which are directed to a method of diagnosing patients with an autoimmune disease using a protein that had never before been associated with the disease. *Athena*, 915 F. 3d at 747. One of every five patients with the autoimmune disease experienced symptoms but did not produce the type of autoantibodies previously associated with the disease, and thus were unable to be diagnosed and properly treated at an early stage. *Id.* The claimed diagnostic method in *Athena* solved that problem through a specific, narrowly tailored diagnostic process but was nonetheless held ineligible. None of these diagnostic claims survived because we concluded we had no choice because of *Mayo*.

We have turned *Mayo* into a per se rule that diagnostic kits and techniques are ineligible. That per se rule is "too broad an interpretation of this exclusionary principle [which] could eviscerate patent law." *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66, 71 (2012). The Supreme Court has repeatedly cautioned against rigid or per se rules. *See, e.g.*, *Halo Elecs., Inc. v.*

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[4] CTRS. FOR DISEASE CONTROL AND PREVENTION, *Tuberculosis (TB) Data and Statistics* (Dec. 31, 2018), https://www.cdc.gov/tb/statistics/default.

Pulse Elecs., Inc., 136 S. Ct. 1923, 1932 (2016) (rejecting test which "is unduly rigid"); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 551 (2014) (rejecting test as "unduly rigid"); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 419–20 (2007) (cautioning against "[r]igid preventative rules"); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 738 (2002) (preferring that rules be interpreted "in a flexible way, not a rigid one"); *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 32 (1997) (declining to adopt a "rigid rule"); *Diamond v. Chakrabarty*, 447 U.S. 303, 315 (1980) (declining to create a rule that "inventions in areas not contemplated by Congress when the patent laws were enacted are unpatentable *per se*").

In his opening statement during The State of Patent Eligibility in America Senate hearings, Senator Coons recognized that "for medical diagnostics, . . . [there is] a presumption against eligibility that is nearly impossible to overcome." *The State of Patent Eligibility in America, Part I: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 116th Cong. 15:36–45 (2019) (opening statement of Sen. Coons). And testimony from industry representatives confirmed that industry members and scholars think "it is unclear whether diagnostic methods are patentable in any meaningful way." *See, e.g.*, *The State of Patent Eligibility in America, Part II*, 116th Cong. 7 (2019) (written testimony of Hans Sauer, Ph.D., Deputy General Counsel and Vice President for Intellectual Property, Biotechnology Innovation Organization (BIO)).

Our fervor for clarity and consistency has resulted in a per se rule that excludes all diagnostics from eligibility. I do not agree with my colleagues that *Mayo* requires that all of these claims in all of these cases be held ineligible. But that is where we are.

I do not fault my colleagues, who under protest have concluded that they have no choice but to hold the claims in *Athena* ineligible because of *Mayo*. *See Athena*, 915 F.3d at 753 n.4 ("[W]hether or not we as individual judges might agree or not that these claims only recite a natural law . . . 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 also Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 809 F.3d 1282, 1287 (Fed. Cir. 2015) (Lourie, J., concurring with denial of reh'g en banc) ("[I]t is unsound to have a rule that takes inventions of this nature out of the realm of patent-eligibility . . . [b]ut I agree that the panel did not err in its conclusion that under Supreme Court precedent it had no option other than to affirm the district court."). There is surely some broad language in *Mayo* which could lead to this conclusion. I, however, think we have extended *Mayo* too far. Reading the entirety of *Mayo* and the subsequent *Myriad* decision, the Supreme Court did not intend *Mayo* to be the "sweeping" decision my colleagues have concluded it is. *See, e.g.*, *Ariosa*, 788 F.3d at 1380 (Linn, J., concurring) ("I join the court's opinion invalidating the claims . . . only because I am bound by the sweeping language of the test set out in [*Mayo*]."); *Ariosa*, 809 F.3d at 1290 n.3 (Dyk, J., concurring) (stating that we must "respect the sweeping precedent of *Mayo*"); *see also id.* at 1289 ("[T]here is a problem with *Mayo* insofar as it concludes that inventive concept cannot come from discovering something new in nature . . . . *Mayo* did not fully take into account the fact that an inventive concept can come not just from creative, unconventional application of a natural law, but also from the creativity and novelty of the discovery of the law itself."). It is the role of this court to both faithfully follow *Mayo* and to determine its reach when facts and circumstances differ. I dissent from my colleagues' refusal to rethink our interpretation of *Mayo*.

DIAGNOSTICS DESERVE PATENT INCENTIVES

"Diagnosis is the foundation of medicine," and diagnostic techniques and kits when narrowly claimed are precisely the type of innovation the patent system exists to promote.[5] Diagnostic techniques, while accounting for less than 2.5% of healthcare expenses, "guide[] approximately 66% of clinical decisions."[6] Diagnostics are an essential category of medical technologies, critical to treating illnesses and saving lives. Diagnostic medicine saves lives and money through early detection and reduces the need for high cost pharmaceuticals or curative procedures, but developing diagnostic kits and techniques is expensive and time consuming. Development of a new diagnostic test is estimated to cost up to $100 million and to take nearly 10 years.[7]

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[5] NAT'L RESEARCH COUNCIL, TOWARD PRECISION MEDICINE: BUILDING A KNOWLEDGE NETWORK FOR BIOMEDICAL RESEARCH AND A NEW TAXONOMY OF DISEASE, Epilogue, (2011) https://www.ncbi.nlm.nih.gov/books/NBK92141/.

[6] UP Rohr et al., *The Value of In Vitro Diagnostic Testing in Medical Practice: A Status Report*, PLOS ONE (March 2016), https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0149856.

[7] I. Okeke et al., *Diagnostics as Essential Tools for Containing Antibacterial Resistance*, 14 DRUG RESISTANCE UPDATES 95, 101 (April 2011), https://www.sciencedirect.com/science/article/pii/S1368764611000185?via%3Dihub; s*ee also Mystery Solved! What is the Cost to Develop and Launch a Diagnostic*, DIACEUTICS (Jan. 15, 2013), https://www.diaceutics.com/?expert-insight=mystery-solved-what-is-the-cost-to-develop-and-launch-a-diagnostic (2013) (The average cost of developing a diagnostic in the U.S. is $50–75 million with development of expansion

Diagnostics economically depend on strong patent protection. Because they are typically characterized as "very expensive to develop but relatively cheap to reproduce," patent protection is required to make it financially viable for continued investment in their development.[8] As Senator Tillis explained in his opening statement during The State of Patent Eligibility in America Senate hearings, "[w]hy would anyone in their right mind risk millions if not billions of dollars to develop a product when they have no idea if they're eligible for protection? From a business perspective, it simply isn't worth the risk for many endeavors."[9] Without the possibility of patent protection to recoup the high costs of research and development associated with diagnostic techniques and kits, the impact can only be that there will be fewer advances in diagnostic medicine.[10] Industry leaders make clear that absent dependable patent

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assays on existing platforms costing $10–15 million and development of new platforms costing over $100 million.).

[8] A. Krattiger, *Promoting Access to Medical Innovation*, WORLD INTELLECTUAL PROPERTY ORGANIZATION (Sept. 2013), https://www.wipo.int/wipo_magazine/en/2013/05/article_0002.html.

[9] *The State of Patent Eligibility in America, Part I*, 116th Cong. 3:32–47 (2019) (opening statement of Sen. Tillis).

[10] *The State of Patent Eligibility in America, Part II*, 116th Cong. 1–2 (2019) (written testimony of Rick Brandon, Associate. General Counsel, University of Michigan representing Association of American Universities) ("[I]nventors and investors often require the protection of a period of exclusivity in order to assume the substantial risk of investing the significant resources needed in order to bring a product to the public. In the case of products that require FDA approval, including diagnostics, this can take years and millions of dollars. The public benefits from both

protection, companies will not move forward with diagnostic innovations.[11] As investors routinely recognize, once patent protection over medical technologies is lost, these innovations essentially become gifts to society and the companies that developed them cannot recoup the time and money they spent to do so.[12] It is these life-saving fields though, with such high costs to the initial market investor, where patent protection is critical.

The importance of diagnostics and their cost-reducing effects on patient treatment cannot reasonably be questioned. We are hard-pressed to identify facets of modern medicine that do not employ or rely on diagnostics. Diagnostics are "crucial in mitigating the effect of disease outbreaks."[13] For example, had diagnostic techniques been

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public disclosure and a greater assurance of new products and services.").

[11] *The State of Patent Eligibility in America, Part III*, 116th Cong. 3 (2019) (written testimony of Peter O'Neill, Executive Director of Cleveland Clinic Innovations) (The "[a]bility to get protectable intellectual property (usually in the form of a patent) is the first, and most influential factor in our assessment. If an invention can't get intellectual property protection, usually that is a fatal flaw and the invention is abandoned at that point.").

[12] M. Rosenblatt, The Real Cost of "High-Priced" Drugs, HARVARD BUSINESS REVIEW (Nov. 17, 2014), https://hbr.org/2014/11/the-real-cost-of-high-priced-drugs; *The State of Patent Eligibility in America, Part I*, 116th Cong. 1–2 (2019) (written testimony of Patrick Kilbride, Senior Vice President of the Global Innovation Policy Center at the U.S. Chamber of Commerce).

[13] M. Perkins et al., *Diagnostic Preparedness for Infectious Disease Outbreaks*, 390 SCIENCEDIRECT 2211

developed *before* the 2015 Ebola outbreak, and applied to patients early enough, the population-attack rate of Ebola could have been reduced from 80% to 0%. *Id.* Ebola is only one example. "Poor diagnostic preparedness has [also] contributed to significant delays in the identification of . . . Lassa Fever, yellow fever, and Zika."[14] Disease epidemics are not the only life-threatening conditions to which diagnostics provide a meaningful response. Diagnostics are pivotal to addressing the advent and increase in drug-resistant infections. Current estimates project that by 2050, drug-resistant infections will "lead to 10 million people dying every year and . . . would cost the world up to 100 trillion" dollars.[15] Diagnostic tests are a critical component of the answer to this problem. Methicillin-Resistant Staphylococcus Aureus ("MRSA") is an example of an antibiotic-resistant infection that burdens American hospitals in terms of morbidity, mortality, and healthcare costs.[16] Its treatment, and the outcome of that treatment, depends on appropriate diagnosis and antibiotic administration. *Id.* And the effects of diagnostics in improving the detection and treatment of cancer, human immunodeficiency virus,

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(2017), https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(17)31224-2/fulltext.

[14] C. Kelly-Cirino et al., *Importance of Diagnostics in Epidemic and Pandemic Preparedness*, 4 BMJ GLOBAL HEALTH (2019), https://gh.bmj.com/content/4/Suppl_2/e001179.

[15] J. O'Neill, *Antimicrobial Resistance: Tackling a crisis for the health and wealth of nations*, THE REV. ON ANTIMICROBIAL RESISTANCE, 6 (Dec. 2014).

[16] K. Bauer et al., *An Antimicrobial Stewardship Program's Impact with Rapid Polymerase Chain Reaction Methicillin-Resistant Staphylococcus Aureus/S. aureus Blood Culture Test in Patients with S. aureus Bacteremia*, 51 CLINICAL INFECTIOUS DISEASES 1074 (2010).

as well as *in vitro* care should not be overlooked. *See* Rohr, *supra* note 6. For example, diagnostics improved medical approaches to cancer care, and will continue supporting progress in a field that cost an estimated $125 billion in the United States in 2010.[17] Development of diagnostics plays a central role in American medical innovation as we face increasingly robust medical challenges, with a goal to save lives and improve the quality of those lives.

Not only do diagnostics save lives, they reduce the cost of treatment. The diagnostic industry drives medical costs down, not up. People suffering from illness or disease will do whatever they can to find a cure. Proper diagnoses allow for earlier detection of illness and targeted treatment. But without proper diagnosis, patients have to endure numerous unsuccessful and costly treatments. Both the financial burden of continued testing and treatment and the emotional and physical tolls associated with suffering from symptoms, but not knowing the cause, can be reduced or even prevented thanks to diagnostics. And when there are specific advances, discoveries, or inventions in the diagnostics industry, they must be eligible for patent protection.[18]

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[17] A. Mariotto et al., *Projections of the Cost of Cancer Care in the United States: 2010-2020,* 103 J. NAT'L CANCER INST. 117, 122 (2011), https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3107566/.

[18] *See* R. Davis, *Senate Scrutinizes Patent Bill's Effect on Drug Prices, Genes*, LAW360 (June 6, 2019), https://www.law360.com/ip/articles/1164262/senate-scrutinizes-patent-bill-s-effect-on-drug-prices-genes?nl_pk=c4844ff4-19ab-48d7-b2f9-9fa06ce87648&utm_source=newsletter&utm_medium=email&utm_campaign=ip (discussing Senator Tillis' explanation that patent eligibility uncertainty "has undermined investment in new medical research and could prevent new drugs from being created, making it a moot point how much they cost").

Unless one opposes the notion of patent protection entirely, it cannot be reasonably disputed that claims to diagnostic kits and techniques, like pharmaceuticals, which require enormous initial investments in terms of both time and money, are the reason we suffer the promise of a monopoly. As many have explained, without patent protection, there will be little incentive for companies to invest the monumental amount of time and money necessary to develop diagnostic kits, tools and techniques. A recent article, co-written by Paul Michel, former Chief Judge of the Federal Circuit, and David Kappos, former Director of the PTO, states:

> This uncertain patent climate has a chilling effect on innovation in biosciences to the detriment of public health. . . . [I]nvestors are less interested in funding costly new biomarker diagnostic research. As a result, diseases will go undiagnosed, and patients will suffer the consequences. . . . Investment in diagnostics goes to the core of containing spiraling health care costs, improving patient outcomes and treating illnesses before they become debilitating to suffering Americans.[19]

This sentiment was echoed by industry leaders during The State of Patent Eligibility in America Senate hearings held on June 4–5 & 11, 2019. *See The State of Patent Eligibility in America, Part II*, 116th Cong. 6–7 (2019) (written testimony of Hans Sauer, Ph.D., Deputy General Counsel and Vice President for Intellectual Property, BIO) ("Absent the ability to protect their discoveries with valid patents . . .

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[19] D. Kappos & P. Michel, *Supreme Court Patent Decisions are Stifling Health Care Innovation*, MORNING CONSULT (Oct. 29, 2018), https://morningconsult.com/opinions/supreme-court-patent-decisions-stifling-health-care-innovation/.

companies would lack the necessary incentive to make the risky, expensive, and time-consuming investments in research and development often required to bring new technologies to market."); *The State of Patent Eligibility in America, Part II*, 116th Cong. 9 (2019) (written testimony of Henry Hadad, President, IPO) ("[C]onfusion about what is patent-eligible discourages inventors from pursuing work in certain technology areas, including discovering new genetic biomarkers and developing diagnostic and artificial intelligence technologies. [This] uncertainty disincentivizes the enormous investment in research and development that is necessary to fuel the innovation cycle."); *The State of Patent Eligibility in America, Part I*, 116th Cong. 14:46–15:05 (2019) (opening statement of Sen. Coons) ("I worry that this continuing lack of clarity . . . has led to reduced investment in the expensive and intensive research and development necessary to develop next generation cures . . . ."); *The State of Patent Eligibility in America, Part III*, 116th Cong. 1:22:12–1:22:35 (2019) (testimony of Peter O'Neill, Executive Director of Cleveland Clinic Innovations) ("The work of translating discovery into commercial products requires [patent] protection to justify the investment into those discoveries. And absent clarity . . . we are not moving forward diagnostic discoveries to translate them into commercial products the way we would do otherwise."); *The State of Patent Eligibility in America, Part III*, 116th Cong. 1:42:12–1:42:28 (2019) (testimony of Corey Salsberg, Vice President and Global Head Intellectual Property Affairs for Novartis) ("Make no mistake about section 101, this is the gateway to the patent system. So what that means in practical terms is it's a guide as to which fields of technologies can support sustained investment, and which ones likely cannot, and that's why we have such deep concerns about the status quo."); *The State of Patent Eligibility in America, Part III*, 116th Cong. 1 (2019) (written testimony of Robert Deberardine, Chief Intellectual Property Counsel, Johnson & Johnson) ("It is only because of the United States patent system, and the predictability that it has historically provided, that we have been able to make the investments, conduct the research, and take the risks required to develop these treatments. And only with predictability will we be able [to] solve today's most challenging healthcare problems and develop the groundbreaking treatments of tomorrow. Unfortunately, the patent system in the United States today is anything but predictable.").

The math is simple, you need not be an economist to get it: Without patent protection to recoup the enormous R&D cost, investment in diagnostic medicine will decline. To put it simply, this is bad. It is bad for the health of the American people and the health of the American economy. And it is avoidable depending on our interpretation of the Supreme Court's holding in *Mayo*. I have no doubt that my colleagues agree with the sentiments herein that diagnostics are important, and that patent protection of such diagnostics is critical to incentivizing their very existence. The only point upon which we disagree is over the breadth of the *Mayo* holding.

ATHENA'S SPECIFICALLY CLAIMED METHOD IS ELIGIBLE

While *Mayo* did not require the result the panel reached in this case, the panel could not disregard our binding precedent of cases like *Ariosa, Cleveland Clinics,* and *Roche* which have interpreted *Mayo* as requiring this per se rule. Thus, the only hope was en banc action.

It is my view that § 101 and *Mayo*, when read together and in their entireties, compel the holding that the claims in *Athena* are eligible. Under the Patent Act, "[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. Our decisions have ignored the truth that claims to specific, narrow processes, even if those processes involve natural laws, are not directed to the natural laws themselves. And contrary to the "elementary principle that . . . [we must] 'give effect, if possible, to every clause and word of a statute,'" our § 101 jurisprudence has largely ignored Congress' explicit instruction that a discovery can be the basis for a patentable invention. *King v. Burwell*, 135 S. Ct. 2480, 2498 (2015) (quoting *Montclair v. Ramsdell*, 107 U.S. 147, 152 (1883)). Section 101 refers to both "invent[ion] or discover[y]," and § 100(a) expressly defines invention as any "invention or discovery." We have misread *Mayo* and how it fits within the framework of the judicially-created exceptions to § 101 for laws of nature, natural phenomena, and abstract ideas.

Laws of nature, natural phenomena, and abstract ideas are considered "the basic tools of scientific and technological work." *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208, 216 (2014) (quoting *Assoc. for Molecular Pathology v. Myriad Genetics, Inc.*, 569 U.S. 576, 589 (2013)). The Supreme Court excepted these categories from § 101 to ensure that patent law does not "'inhibit further discovery by improperly tying up the future use of' these building blocks of human ingenuity." *Id.* (quoting *Mayo*, 566 U.S. at 85). Accordingly, "patents cannot issue for the discovery" of a law of nature. *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948). Nor can a claim to the law of nature become patentable by simply "adding the words 'apply it.'" *Mayo*, 566 U.S. at 72 (citing *Gottschalk v. Benson*, 409 U.S. 63, 71–72 (1972)). But "an *application* of a law of nature . . . to a known structure or process may well be deserving of patent protection." *Id.* at 71 (quoting *Diamond v. Diehr*, 450 U.S. 175, 187 (1981)). We have chosen to ignore the legal space between these principles in favor of a swiftly executing, per se rule that all diagnostic claims are ineligible. That conclusion is incorrect.

By distinguishing between claims that recite a law of nature and simply add the words "apply it," and claims that recite a concrete application of a law of nature, the Supreme Court suggests we should consider the level of specificity in the claims to determine whether the claim is even directed to the natural law. *See Alice*, 573 U.S. at 223 ("[I]f a patent's recitation of a computer amounts to a mere instruction to implement an abstract idea on a computer, that addition cannot impart patent eligibility.")); *Mayo*, 566 U.S. at 72 ("[T]o transform an unpatentable law of nature into a patent-eligible *application* of such a law, one must do more than simply state the law of nature while adding the words 'apply it.'"); *Diehr*, 450 U.S. at 192 ("[W]hen a claim recites a mathematical formula (or scientific principle or phenomenon of nature), an inquiry must be made into whether the claim is seeking patent protection for that formula in the abstract. . . . [W]hen a claim containing a mathematical formula implements or applies that formula in a structure or process which, when considered as a whole, is performing a function which the patent laws were designed to protect (*e.g.*, transforming or reducing an article to a different state or thing), then the claim satisfies the requirements of § 101.").

The law of nature at issue in *Mayo* was the "relationship between concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove ineffective or cause harm." 566 U.S. at 77. Importantly, this relationship was not a new discovery. "At the time the discoveries embodied in the patents were made, scientists already understood that the levels in a patient's blood of certain metabolites . . . were correlated with the likelihood that a particular dosage of thiopurine drug could cause harm or prove ineffective." *Id.* at 73. While the inventors characterized the precise correlation, they could not be said to have discovered the relationship in the first place.

The Court began its analysis with the statement that "[i]f a law of nature is not patentable, then neither is a process reciting a law of nature, unless that process has 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 77–78. It examined the limitations of the representative claim, which 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 8×10^8 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 8×10^8 red blood cells indicates a need to decrease the amount of said drug subsequently administered to said subject.

Id. at 74–75.

This claim in its entirety did nothing more than describe the natural relationship between metabolite concentrations and the effective dose of a thiopurine drug. *Id.* at 77. "Unlike, say, a typical patent on a new drug or a new way of using an existing drug, the patent claims d[id] not confine their reach to particular applications of those laws." *Id.* at 87. The claimed steps were set forth in "highly general language covering all processes that make use of the correlations . . . including later discovered processes that measure metabolite levels in new ways." *Id.* at 87. Due to their breadth, the Supreme Court concluded that upholding the claims "would risk disproportionately tying up the use of the underlying natural laws, inhibiting their use in the making of further discoveries." *Id.* at 73; *see also id.* at 87 (holding that "the basic underlying concern that these patents tie up too much future use of laws of nature" reinforced the holding of ineligibility). "[S]imply appending conventional steps, *specified at a high level of generality*," to the law of nature did not make that law patentable. *Id.* at 82 (emphasis added).

The breadth and generality of the *Mayo* claims led to their demise, as they recited nothing more than the natural law. We have since ignored these considerations, treating every claim that includes a law of nature as directed to that law, even if the claim as a whole recites a specific way of applying that law of nature to a new and useful end. We should not ignore the considerations related to claim breadth articulated in *Mayo* in our § 101 analysis.

The *Athena* claims differ significantly from the *Mayo* claims. In 1960, before the invention claimed in U.S. Patent No. 7,267,820 ("the '820 patent"), scientists identified a specific category of autoantibodies that bind to and interfere with the acetyl choline receptor (AChR)—which is responsible for the transmission of signals from neurons to muscle cells—cause *Myasthenia gravis* ("MG"). '820 patent at 1:24–26. The presence of these anti-AChR antibodies thus indicates that the patient suffers from MG. However, 20% of patients who manifested MG-like symptoms did not have the anti-AChR antibodies. *Id.* at 1:34–40. It was unknown if this 20%, "have the same or a distinct and separate MG condition," *id.* at 1:41–42, and there was "no basis for providing an immediate clinical diagnosis for such patients," *id.* at 4:20–22.

The inventors of the '820 patent discovered that a different type of autoantibody that binds to and interferes with muscle-specific tyrosine kinase (MuSK)—another receptor also known to help transmit signals from neurons to muscles—can also cause MG. *Id.* at 1:54–61 ("The present inventors surprisingly found that many of the 20% of MG patients which do not exhibit any autoantibodies to AChR, instead have IgG antibodies . . . indicating that they are afflicted with a form of MG which has a different etiology . . . ."). The inventors in *Athena* discovered that these MG sufferers produced the anti-MuSK antibody, and created a process for diagnosing MG using methods that detect the presence of that antibody. These methods had never before been used to diagnose MG. Claims 7 and 9, on which the majority focused in *Athena*, require the use of specific laboratory techniques to diagnose a patient based on the natural law that 20% of people having MG produce autoantibodies to the MuSK protein. Claim 7 recites:

> 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).

'820 patent at Claims 1, 7.

The claims provide for a method of diagnosing patients with MG using the following concrete steps: (1) contacting the patient's bodily fluid with labeled MuSK, MuSK epitope, or other antigenic determinant that binds any anti-MuSK antibodies that may be present in the bodily fluid; (2) immunoprecipitating any resulting complexes from the bodily fluid; and (3) detecting the presence of the anti-MuSK antibody by monitoring for the label, whereby the presence of the label indicates a diagnosis of MG. *Id.* These steps are not set out at the "high level of generality" that concerned the Court in *Mayo*, and they specifically confine their reach to a specific application of the relationship between anti-MuSK antibodies and MG. While the combination of steps in *Mayo* amounted to little "more than an instruction to doctors to apply the applicable laws when treating their patients," 566 U.S. at 79, claim 7 in *Athena* is a single, specific method for applying the applicable law.

Indeed, the majority in this case repeatedly acknowledged that the claims in *Athena*, unlike the claims in *Mayo*, contain specific, concrete steps applying the law of nature. *See, e.g.*, *Athena*, 915 F.3d at 751 ("The claims at issue here involve both the discovery of a natural law and certain concrete steps to observe its operation."). As the majority further acknowledged, claim 9, which depends on claim 7, "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." *Id.* at 752. In fact, the '820 patent identifies alternate methods for detecting antibodies, such as MuSK-related antibodies. *See* '820 patent at 3:33–4:12. The claims do not "broadly preempt the use of a natural law," and do not prevent any scientist from using the natural law in association with other common processes. *Mayo*, 566 U.S. at 72; *see Myriad*, 569 U.S. at 595–96. The concreteness and specificity of the claims in *Athena* moves them from reciting a law of nature to a particular application of a law of nature. The claims are not directed to a natural law or phenomenon.

The inventiveness of the claimed discovery in the process steps should also be considered when assessing eligibility. New and useful discoveries, such as the before unknown relationship between anti-MuSK autoantibodies and MG, when applied in a "process," should pass muster as eligible under the statutory text of § 101. Our decision to entirely disregard the discovery incorporated in the claims is a misapplication of the statute. This is not to say that a claim on the discovery of a law of nature itself or a natural phenomenon should be eligible. I agree it should not. But to wholly ignore the inventiveness of the discovery when assessing patent eligibility closes our eyes to the statute enacted by Congress. Athena discovered that 20% of people suffering from MG generate autoantibodies that bind to a MuSK protein. Its claims recite concrete steps to detect the presence of autoantibodies to MuSK to diagnose MG. These antibody/MuSK complexes had never been used by prior art MG diagnostic tests. In contrast, the claims in *Mayo* recited a generic "determining" step, with no laboratory test at all specified by the claims, and the specification itself stated that the methods were "well-understood, routine, and conventional activity already engaged in by the scientific community." 566 U.S. at 79. Moreover, the Court explained that scientists had routinely performed that very step on thiopurine metabolites, the metabolite being detected in the claim. *Id.* at 78. This is not at all the case in *Athena*. The claims are directed to a new and useful process of specific, concrete steps for diagnosing MG using a particular immunoassay that had never been previously used to diagnose MG. The claims should be held patent eligible under § 101 and *Mayo*.

I do not believe that the Supreme Court intended *Mayo* to be the sweeping decision it has become. Indeed, it warned us that "too broad an interpretation of" its judicial exceptions to eligibility "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. I do not understand *Mayo* to render ineligible a claim which covers a specific, concrete application of a natural law simply because such a claim is diagnostic as opposed to therapeutic. Both should be eligible. The last word on this from the Supreme Court came in *Myriad* where the Court made clear "patents on new applications of knowledge about BRCA1 and BRCA2 genes" could be eligible. 569 U.S. at 596. To the extent that this Court has read *Mayo* so broadly that it precludes exactly that sort of patent, we have erred. Doing so leaves *Mayo* at odds with the patent statutes and the later *Myriad* decision.

CONCLUSION

"It's important for the judiciary to first recognize that there is a problem that needs to be addressed . . . 101 remains the most important substantive patent law issue in the United States today. And it's not even close." R. Davis, *Courts Can Resolve Patent Eligibility Problems, Iancu Says*, LAW 360 (Apr. 11, 2019) (quoting U.S. Patent and Trademark Office Director Iancu). In the wake of *Mayo*, we have painted with a broad brush, suggesting that improved diagnostic techniques are not patent eligible. *Mayo* did not go so far, and given the import of diagnostic techniques, we should reconsider this case and clarify our precedent. Because my colleagues have declined to do so, there are no more options at this court for diagnostic patents. My colleagues' refusal deflates the Amici's hopeful suggestion that our precedent leaves the eligibility of a diagnostic claim in front of the Federal Circuit "uncertain." It is no longer uncertain. Since *Mayo*, every diagnostic claim to come before this court has been held ineligible. While we believe that such claims should be eligible for patent protection, the majority of this court has definitively concluded that the Supreme Court prevents us from so holding. No need to waste resources with additional en banc requests. Your only hope lies with the Supreme Court or Congress. I hope that they recognize the importance of these technologies, the benefits to society, and the market incentives for American business. And, oh yes, that the statute clearly permits the eligibility of such inventions and that no judicially-created exception should have such a vast embrace. It is neither a good idea, nor warranted by the statute. I dissent.

United States Court of Appeals for the Federal Circuit

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

2017-2508

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

NEWMAN, *Circuit Judge,* with whom WALLACH, *Circuit Judge*, joins, dissenting from denial of the petition for rehearing en banc.

The majority of the court has voted not to rehear this case en banc. I write again in dissent because of the importance of medical diagnosis and the critical role of the patent system in achieving new diagnostic methods. Diagnostic methods are costly in research and development, from scientific discovery through federal approval, and are of substantial public benefit—exemplified by Athena's method of diagnosing *Myasthenia Gravis* in persons previously undiagnosable. The patent system provides the economic foundation for the cycle of experimental study, clinical evaluation and proof, and implementation in commerce. This foundation applies to diagnosis as well as to treatment.

The panel majority held that the new diagnostic method in U.S. Patent No. 7,267,820 ("the '820 patent") was not eligible for patenting under section 101 of the Patent Act. *Athena Diagnostics, Inc. v. Mayo Collaborative Servs., LLC*, 915 F.3d 743 (Fed. Cir. 2019) (Newman, J., dissenting). The panel majority stated that "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," and therefore methods for determining previously unknown correlations for diagnostic purposes are not patent-eligible. *Id.* at 753 n.4.

The majority's position is a flawed interpretation of the Court's decision in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012). The Court did not hold that methods of diagnosis are subject to unique patent-eligibility rules. We have mistakenly enlarged the Court's holding, in substance and in application. Rehearing en banc is warranted.

I summarize the reasons for concern:

I

The Supreme Court's Mayo decision did not convert diagnostic methods into laws of nature

Until Athena's invention of the diagnostic method described in the '820 patent, some 20% of patients suffering from *Myasthenia Gravis* were not capable of being diagnosed. The '820 patent describes and claims a multi-step method wherein for such patients the presence in bodily fluid of autoantibodies to a protein, muscle-specific tyrosine kinase (MuSK), is detected by "binding of a MuSK or its epitope, together with a revealing label, to the autoantibodies in the serum or bodily fluid." '820 patent, col. 3, l. 66–col. 4, l. 2. The '820 patent explains that "[t]he present inventors surprisingly found that many of the 20% of MG patients which do not exhibit any autoantibodies to AChR [acetyl choline receptor] instead have IgG [immunoglobulin] antibodies directed against the extracellular N-terminal domains of MuSK." *Id.*, col. 1, ll. 54–57.

These antibodies and their reaction with the MuSK protein were not known, nor the use of this procedure to diagnose *Myasthenia Gravis*. The separate chemical steps of radioactive labelling, reaction of an antibody with a protein, separation of the reaction product, and analysis of radioactivity, are described in the specification as conducted by conventional methods. However, the panel majority held that this new diagnostic method is not patent-eligible, stating 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." *Athena*, 915 F.3d at 751. This statement is a misapplication of the patent statute, and a misperception of the Court's decision in *Mayo*.

At issue are patent claims 7–9, shown with claim 1 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.
>
> 9. A method according to claim 8 wherein said label is 125I [iodine isotope 125].

The reaction between the specified antibodies and the MuSK protein was not previously known, and the specified claim steps had not previously been performed, separately or in combination. This method of diagnosing *Myasthenia Gravis* and related disorders is conceded to be new and unobvious.

The ’820 patent specification teaches that each claim step is conducted by conventional procedures, that is, procedures for creating a radioactively labelled compound, reacting an antibody with a protein, separating any antibody-protein complex, and monitoring the radioactivity of the product. The panel majority holds that since the separate steps are “conventional,” they do not count in the section 101 analysis, leaving claims 7–9 with only the general “concept” of “the correlation between the presence of naturally-occurring MuSK autoantibodies in bodily fluid and MuSK-related neurological diseases like MG.” *Athena*, 915 F.3d at 750. The panel majority concluded 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." *Id.* at 751.

The Court in *Mayo* admonished against "too broadly preempt[ing] the use of a natural law." 566 U.S. at 72. Claims 7–9 claim a new multi-step method of diagnosis; it is incorrect to omit from the claims the steps by which the method is performed, leaving only the "concept" of the general purpose. En banc review is needed to provide consistent and correct application of statute and precedent to methods of medical diagnosis.

II

Statute and precedent require that the claimed invention is considered as a whole

The Court explained this principle in *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007):

> [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. The Court had explored this principle 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.

Id. at 188. The Court stressed that:

> 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. The Court further explained that this rule applies to patent eligibility as it does to patentability:

> 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; *see also, e.g.*, *Parker v. Flook*, 437 U.S. 584, 594 (1978) ("[A] patent claim must be considered as a whole."); *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.").

This established rule does not evaporate when the subject matter is a diagnostic method. The *Mayo* Court did not effect such a change. The Court reiterated in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208, 217 (2014), that "an invention is not rendered ineligible for patent simply because it involves an abstract concept" in some of its claim elements. There is no support in the Court's precedent for our abandonment of the invention-as-a-whole in determining eligibility under section 101.

The purpose of section 101 is to provide a broad statutory scope to inventive activity. *See Bilski v. Kappos*, 561 U.S. 593, 605 (2010) ("Section 101 is a dynamic provision designed to encompass new and unforeseen inventions." (internal quotation marks omitted)); *Diehr*, 450 U.S. at 187 ("[A]n *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection."). In *Diamond v. Chakrabarty*, 447 U.S. 303 (1980), the Court observed that "Congress employed broad general language in drafting § 101 precisely because such inventions are often unforeseeable," *id.* at 316, and that the legislative history of the 1952 Patent Act showed that "Congress intended statutory subject matter to 'include anything under the sun that is made by man,'" *id.* at 309 (quoting S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H.R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952)). The *Mayo* 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.

566 U.S. at 71.

The Federal Circuit has respected this long-standing principle in contexts other than for diagnostic methods. *See, e.g.*, *McRO, Inc. v. Bandai Namco Games America Inc.*, 837 F.3d 1299, 1313 (Fed. Cir. 2016) ("[C]ourts must be careful to avoid oversimplifying the claims by looking at them generally and failing to account for the specific requirements of the claims." (internal quotation marks omitted)). However, we have strayed in our rulings on diagnostic methods; our flawed analysis is summarized by the majority in *Athena*, 915 F.3d at 753 n.4 ("We have since confirmed that applying somewhat specific yet conventional techniques . . . to detect a newly discovered natural law does not confer eligibility under § 101.").

When viewed on correct law and precedent, Athena's diagnostic method meets the requirements of section 101. The appropriate analysis of patentability is under sections 102, 103, and 112; not section 101.

III

The Court in Mayo did not create a section 101 distinction between diagnostic methods and therapeutic methods

In *Mayo* the Court discussed the method at issue in that case, and concluded that "upholding the patents would risk disproportionately tying up the use of the underlying natural laws, inhibiting their use in the making of further discoveries." 566 U.S. at 73. The Court did not hold that every diagnostic method ties up a natural law, and the *Athena* panel majority acknowledged that "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." 915 F.3d at 752.

Athena's diagnostic method is not a law of nature; it is a novel man-made method of diagnosis of a neurological disorder. The Athena diagnostic method, a multi-step method performed by a combination of specific chemical and biological steps, was unknown in the prior art. The Court in *Mayo* did not exclude such methods from eligibility for patenting.

Following is an outline of this court's inconsistent rulings between diagnosis and treatment of disease:

A. Methods of diagnosis, held ineligible under section 101

1. *In re BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litigation*, 774 F.3d 755 (Fed. Cir. 2014). The claimed invention is a method for screening for genes linked to inherited breast and ovarian cancer, by analyzing for certain mutations in the DNA. The court held the claims ineligible under section 101 as directed to a law of nature, and also held that identifying genetic mutations is an ineligible abstract idea.

2. *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371 (Fed. Cir. 2015). The claimed invention is a method for detecting paternally-inherited fetal abnormalities by analyzing the blood or serum of a pregnant female. The court held the claims ineligible under section 101, while recognizing that "detecting cffDNA in maternal plasma or serum that before was discarded as waste material is a positive and valuable contribution to science." *Id.* at 1380.

3. *Genetic Technologies Ltd. v. Merial L.L.C.*, 818 F.3d 1369 (Fed. Cir. 2016). The claimed invention is a method for detecting a coding region of DNA based on its relationship to non-coding regions, by amplifying genomic DNA with a primer spanning a non-coding sequence in genetic

linkage to an allele to be detected. The court stated that "the patent claim focuses on a newly discovered fact about human biology," *id.* at 1376, and that this is a law of nature and is ineligible subject matter under section 101.

4. *Cleveland Clinic Foundation v. True Health Diagnostics LLC*, 859 F.3d 1352 (Fed. Cir. 2017). The claimed invention is a method for diagnosing risk of cardiovascular disease by analyzing for the enzyme myeloperoxidase ("MPO"). The court held that even though prior methods for detecting MPO were inferior, the discovery of how to directly analyze for MPO, and discovery of the relation to the risk of cardiovascular disease, although "groundbreaking, 'even such valuable contributions can fall short of statutory patentable subject matter.'" *Id.* at 1363 (quoting *Ariosa*, 788 F.3d at 1380).

5. *Roche Molecular Systems, Inc. v. CEPHEID*, 905 F.3d 1363 (Fed. Cir. 2018). The claimed invention is a method for detecting the pathogenic bacterium Mycobacterium tuberculosis ("MTB"), based on nucleotide content and a novel method of analysis. The court stated that the method is new, unobvious, and "both faster and more accurate than the traditional MTB detection methods," *id.* at 1366, but held that the method is ineligible under section 101.

6. *Cleveland Clinic Foundation v. True Health Diagnostics LLC*, 760 F. App'x 1013 (Fed. Cir. 2019). The claimed invention is the novel immunoassay to detect the correlation between blood MPO levels and cardiovascular disease. The court held that the claims are for a law of nature and ineligible under section 101.

In all of these diagnostic cases the claims were held ineligible under section 101, whether or not the method of diagnosis was new and unobvious, and independent of patentability under sections 102, 103, and 112.

B. Methods of treatment, held eligible under section 101

1. *Rapid Litigation Management Ltd. v. CellzDirect, Inc.*, 827 F.3d 1042 (Fed. Cir. 2016). The claimed invention is a "method of producing a desired preparation of multi-cryopreserved hepatocytes [liver cells]." *Id.* at 1047. The court stated 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 omitted), and "[t]his type of constructive process, carried out by an artisan to achieve 'a new and useful end,' is precisely the type of claim that is eligible for patenting," *id.* at 1048 (quoting *Alice*, 573 U.S. at 217).

2. *Vanda Pharmaceuticals Inc. v. West-Ward Pharmaceuticals Int'l Ltd.*, 887 F.3d 1117 (Fed. Cir. 2018). The claimed invention is a method of treating schizophrenia with the known drug iloperidone, where the dose is adjusted based on whether the patient is a "CYP2D6 poor metabolizer." *Id.* at 1121. The method uses genetic testing to determine CYP2D6 metabolism. The court held that this is "a specific method of treatment for specific patients using a specific compound at specific doses to achieve a specific outcome," *id.* at 1136, and is eligible under section 101.

3. *Natural Alternatives Int'l, Inc. v. Creative Compounds, LLC*, 918 F.3d 1338 (Fed. Cir. 2019). The claimed invention is a method of increasing athletic performance by administering beta-alanine in larger quantities. The court held the method eligible under section 101, although the mechanism was a natural effect.

4. *Endo Pharmaceuticals Inc. v. Teva Pharmaceuticals USA, Inc.*, 919 F.3d 1347 (Fed. Cir. 2019). The claimed invention is a method of treating patients with oxymorphone, based on the discovery that patients with impaired kidney function need less oxymorphone for pain relief. The court stated that the method was patent-eligible, for "the claims

here are directed to a *treatment* method, not a detection method." *Id.* at 1356 (emphasis in original).

IV

The amici curiae advise on the consequences of our rulings[1]

The major biotech industry organizations advise that our court's application of *Mayo* "has caused great uncertainty to the industry, and . . . has called into doubt innumerable biotech patents." Biotechnology Innovation Organization (BIO) Br. at 3. BIO discusses the inconsistency of our section 101 rulings, and points out that "[t]he panel decision reflects a troubling divergence in this court's section 101 jurisprudence between software and biotech inventions," explaining that in software cases the threshold analysis focuses on whether the claims contain a technical improvement over the prior art, whereas this aspect is absent from our biotech analyses. *Id.* at 9.

The *amici* discuss the adverse effect of our section 101 rulings on advances in medical diagnosis. Seven Law Professors state that "diagnostic tests form[] the basis of 60%–70% of all medical treatment decisions," and "[d]iagnostic tests have immense benefits for patient care and greatly reduce associated costs, including decreasing hospitalization and avoiding unnecessary treatment." Profs. Br. at 11 (citing *The Value of Diagnostics Innovation, Adoption and Diffusion into Health Care* (July 2005), *available at*

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[1] *Amicus curiae* briefs were filed by the Biotechnology Innovation Organization, Pharmaceutical Research and Manufacturers of America, Croplife International, Wisconsin Alumni Research Foundation, Seven Law Professors, and Freenome Holdings Inc. and Achillion Pharmaceuticals, Inc.

https://dx.advamed.org/sites/dx.advamed.org/files/resource/Lewin%20Value%20of%20Diagnostics%20Report.pdf).

The Law Professors state that "[t]he economics of the R&D and commercialization of innovative diagnostic tests reflect the core economic justification for the patent system: The marginal cost of making a diagnostic test is relatively low, but the *ex ante* R&D costs can be enormous," stating that the cost of commercializing a diagnostic test is between $50-$100 million. *Id.* at 11–12 (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). The Law Professors state that by "creat[ing] an unduly restrictive patent eligibility doctrine under § 101, the majority decision and many other court decisions send the wrong message to innovators that groundbreaking diagnostic tests born of the biotechnological arts in the modern biopharmaceutical industry are virtually per se unpatentable under § 101." *Id.* at 13.

Amici curiae Freenome Holdings and Achillion Pharmaceuticals suggest that our jurisprudence contravenes "promot[ing] the Progress of Science and useful Arts." U.S. Const. art. I, § 8, cl. 8. These *amici* point to the judicial duty to construe section 101 to include both inventions and discoveries, and that discovery of a new diagnostic method is within the constitutional purpose.

I repeat 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." *Athena*, 915 F.3d at 762 (Newman, J., dissenting).

The need for en banc action

The judicial responsibility is to provide clear and consistent law in conformity with statute. Our holdings on medical diagnostics contravene the admonition that courts "should not read into the patent laws limitations and conditions which the legislature has not expressed." *Chakrabarty*, 447 U.S. at 308.

The legislative plan is for an incentive system that supports advances in useful technologies by enabling innovators to benefit economically. The patent statute requires that the new knowledge is disclosed to the public, where it adds to the body of knowledge and, in turn, may be studied and built upon. No benefit has been suggested by excluding medical diagnostic methods from the patent incentive system.

This case presents an opportunity for judicial review and judicial remedy. Although diagnostic methods are not the only area in which section 101 jurisprudence warrants attention, Federal Circuit precedent is ripe for reconsideration specific to diagnostic methods, to correct our application of the *Mayo* decision and to restore the necessary economic incentive. As summarized by Senators Chris Coons and Thom Tillis, co-chairs of the Senate Subcommittee that is conducting hearings on proposed remedial legislation, "courts have clouded the line to exclude critical medical advances like life-saving precision medicine and diagnostics," and "studies showed that investors familiar with the current lack of clarity invest less in critical research and development in areas like medical diagnostics." The Senators stated that "[e]ven some witnesses advocating against broad reform conceded that there are problems with the current system, particularly in the life sciences." *Report available at* https://www.law360.com/articles/1171672/what-coons-and-tillis-learned-at-patent-reform-hearings (June 21, 2019).

From my colleagues' denial of en banc review, I respectfully dissent.

United States Court of Appeals for the Federal Circuit

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

2017-2508

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

STOLL, *Circuit Judge,* with whom WALLACH, *Circuit Judge,* joins, dissenting from the denial of the petition for rehearing en banc.

In a series of cases since the Supreme Court's decision in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012), we have established a bright-line rule of ineligibility for all diagnostic claims. *See, e.g., Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1377 (Fed. Cir. 2015) (rejecting a diagnostic claim because the "only subject matter new and useful as of the date of the application was the discovery of the presence of cffDNA in maternal plasma or serum"). This rule as applied to the facts of this case dictated that the majority panel find the claimed invention ineligible. But, because this court's bright-line rule is based on an over-reaching and flawed test for eligibility, a test that undermines the constitutional rationale for having a patent system—promoting the progress of science and useful arts—the court should take this opportunity to correct its erroneous rule. So, while I stand by the panel decision in this case, I write separately to dissent from the denial of en banc rehearing because the question of the eligibility of diagnostic inventions is exactly the type of exceptionally important issue that warrants full consideration by this court.

Federal Rule of Appellate Procedure 35 directs us to order rehearing en banc when "the proceeding involves a question of exceptional importance." Fed. R. App. P. 35(a)(2). A question is of exceptional importance if it creates "important systemic consequences for the development of the law and the administration of justice." *Watson v. Geren*, 587 F.3d 156, 160 (2d Cir. 2009). As Judge Newman and Judge Moore aptly describe, a wholesale bar on patent eligibility for diagnostic claims has far-reaching and long-ranging implications for the development of life-saving diagnostic methods. The eligibility of life-saving inventions is not only one of the most important issues of patent law, but of human health. Thus, the importance of the issue here mandates that we consider it en banc.

Interpreting *Mayo*, our prior opinions seem to take for granted that the Supreme Court has foreclosed all avenues of patent protection for diagnostic claims. As Judge Moore points out, we have held every diagnostic claim in every case before us ineligible. Dissent Op. at 2 (Moore, J.). Our inflexible following of *Mayo* has created flawed decisions that are inconsistent with the precepts of *Mayo* and our patent system as a whole. The *Mayo* test was guided by broad-sweeping principles that are not applicable to every individual diagnostic claim. For example, *Mayo* emphasizes that patent eligibility cannot apply to "processes that too broadly preempt the use of a natural law." 566 U.S. at 72. Certain diagnostic claims, such as the ones at issue in this case, are so narrowly tailored that preemption is not a reasonable concern.

Given the importance of this question, I would urge the en banc court to take the opportunity to entertain the thoughtful argument and fully developed record that such review would provide, and reconsider this critically important issue. As Congress's recent interest in § 101 legislation has demonstrated, there are a variety of stakeholders that consider this issue to be vitally important. En banc rehearing would not only permit us to have a more extensive view of the various considerations underlying *Mayo*, but it would also allow us to create judicial doctrine geared toward the practical application of *Mayo*'s principles. At the very least, en banc review would help the court develop an articulable standard for its § 101 jurisprudence moving forward.

In my view, by consistently bypassing en banc review of a critical issue that goes to the heart of this court's jurisdiction, we are abdicating our responsibility. For this reason, I respectfully dissent.

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O'MALLEY, *Circuit Judge*, dissenting from the denial of the petition for rehearing en banc.

I agree with all aspects of Judge Moore's thoughtful dissent. Indeed, I agree with all my dissenting colleagues that our precedent applies the Supreme Court's holding in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66 (2012) too broadly. I write separately, however, because I believe that confusion and disagreements over patent eligibility have been engendered by the fact that the Supreme Court has ignored Congress's direction to the courts to apply 35 U.S.C. sections 101, *et seq* ("Patent Act") as written. Specifically, the Supreme Court has instructed federal courts to read into Section 101 an "inventive concept" requirement—a baffling standard that Congress removed when it amended the Patent Act in 1952. I encourage Congress to amend the Patent Act once more to clarify that it meant what it said in 1952.

I begin with some historical perspective. After World War II, federal courts were invalidating patents at breakneck speed. Lawrence Baum, *The Federal Courts and Patent Validity: An Analysis of the Record*, 56 J. Patent Office Soc'y 758, 760 tbl. 1 (1974) (showing that federal appellate courts, on average, invalidated patents at a rate of 77% between 1941–1945), 777 tbl. 5 (showing that the Supreme Court invalidated patents at a rate higher than 81% from 1921–1973, except during 1953–1964 when the Court did not issue any decisions on patent validity). As Justice Jackson wrote, it seemed the only valid patent was "one which [the Supreme Court] ha[d] not been able to get its hands on." *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949) (Jackson, J., dissenting). This was due, in large part, to what became known as the "invention requirement"—itself "invented" by the Supreme Court rather than Congress or the Constitution. Applying this requirement meant asking whether a patent evidenced "invention."

Prominent jurists of that time remarked that the requirement was unworkable. Judge Learned Hand opined that, under this requirement, "'invention' became perhaps the most baffling concept in the whole catalogue of judicial efforts to provide postulates for indefinitely varying occasions." *Lyon v. Bausch & Lomb Optical Co.*, 224 F.2d 530, 536 (2d Cir. 1955). According to Judge Giles Rich, because inventiveness "is an unmeasurable quantity having different meanings for different persons," the invention requirement "left every judge practically scott-free to decide this often controlling factor according to his personal philosophy of what inventions *should* be patented." Giles S. Rich, *The Vague Concept of Invention as Replaced by Sec. 103 of the 1952 Patent Act*, 46 J. Patent Office Soc'y 855, 865 (1964) (internal quotations and citations omitted). If the invention requirement and its criticisms sound familiar, that is because they are.

Congress attempted to address these criticisms by amending the Patent Act to replace the ill-defined and judicially-created invention requirement with the more workable anticipation and obviousness tests codified in Sections 102 and 103. Patent Act of 1952, Pub. L. No. 82-593, § 103, 66 Stat. 792, 798 (1952); *see, e.g.*, H.R. 4061, 80th Cong. (1947) (as introduced to the H. Comm. on the Judiciary, July 1, 1947) ("A BILL To establish a criterion of invention with respect to patent applications and issued patents[.]"); Nat'l Patent Planning Comm'n, The American Patent System, June 18, 1943, H.R. Doc. 78-239, at 10 ("One of the greatest technical weaknesses of the patent system is the lack of a definitive yardstick as to what is invention."); *id.* at 5 ("The most serious weakness in the present patent system is the lack of a uniform test or standard for determining whether the particular contribution of an inventor merits the award of the patent grant. . . . The difficulty in applying this statute arises out of the presence of the words 'invented' and 'discovered.' Novelty alone is not sufficient, nor is utility, nor is the final accomplishment. There must also be present some mysterious ingredient connoted in the term 'invented.'").

But although Congress so amended the Act decades ago, we continue to apply the invention requirement today under a new name—the "inventive concept" requirement. Early cases applying § 101 after the 1952 amendment, such as *Parker v. Flook*, 437 U.S. 584 (1978), drew heavily from cases decided under the "invention" requirement. *Compare Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 131 (1948) (concluding that the "aggregation of species" at issue "fell short of invention" because "[i]f 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"), *with Flook*, 437 U.S. at 591 ("*Mackay Radio* and *Funk Bros.* point to the proper analysis for this case."). *Flook* therefore forged a two-part test, with respect to § 101, that is seemingly indistinguishable from the one that had been applied in many "invention" cases over twenty-five years earlier. First, *Flook* treated the natural law as part of "the prior art." *Flook*, 437 U.S. at 594. Second, *Flook* asked whether what remained—apart from the prior art, *i.e.* the natural law—constituted "invention." *Id.* ("Respondent's process is unpatentable under § 101, not because it contains a mathematical algorithm as one component, but because once that algorithm is assumed to be within the prior art, the application, considered as a whole, contains no patentable invention."); *see also Diamond v. Diehr*, 450 U.S. 175, 204 (1981) ("Under this procedure, the algorithm is treated for § 101 purposes as though it were a familiar part of the prior art; the claim is then examined to determine whether it discloses 'some other inventive concept.'") (quoting *Flook*, 437 U.S. at 594)). Against this backdrop, the search for an inventive concept—now enshrined in the § 101 inquiry via *Mayo*—calls back to the invention requirement that Congress quite deliberately abrogated through the Patent Act of 1952.

In fact, the disagreement here centers on whether the additional limitations in the claims, either individually or as an ordered combination, satisfy the inventive concept requirement. *Compare* Lourie Op. at 4 ("Under Supreme Court precedent, I do not believe that specific yet purely conventional detection steps impart eligibility to a claim that otherwise only sets forth what the Court has held is a natural law." (internal quotations omitted)), *with* Moore Op. at 20 ("These [additional] steps are not set out at the 'high level of generality' that concerned the Court in *Mayo*, and they specifically confine their reach to a specific application of the relationship between anti-MuSK antibodies and MG."). Had the Supreme Court not disregarded Congress's wishes for a second time, perhaps the outcome in this case would be different. *See* Lourie Op. at 2 ("If I could write on a clean slate, . . . I would not exclude uses or detection of natural laws."). Indeed, claims directed to uses of natural laws rather than the natural laws themselves would be eligible under § 101 as written. Because the Supreme Court judicially revived the invention requirement and continues to apply it despite express abrogation, I dissent to encourage Congress to clarify that there should be no such requirement read into § 101; to clarify that concepts of novelty and "invention" are to be assessed via application of other provisions of the Patent Act Congress designed for that purpose.

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Defendants-Appellees

2017-2508

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

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 Forderung 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.[1] *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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[1] 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 125I, 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 125I 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 125I. *Id.* col. 10 ll. 50–52. Then iodinated MuSK is separated from any free 125I by gel filtration. *Id.* col. 10 ll. 55–56. Next, the 125I-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 125I-labeled MuSK. Any 125I-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 labeling 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,[2] 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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[2] 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.[3] 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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[3] 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.[4]

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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[4] 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 125I 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

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

2017-2508

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

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[1] (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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[1] *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 125I [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."); *Mercoid 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.;[2] Five Life Sciences Patent Practitioners Br.[3] 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

[2] *Amici Curiae* Ten Law Professors, ECF No. 54 (Nov. 13, 2017) ("Ten Law Professors Br.").

[3] *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[4] 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,[5] 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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[4] *Amicus Curiae* Biotechnology Innovation Organization, ECF No. 53 (Nov. 13, 2017) ("BIO Br.").

[5] *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 phenomen[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[6] 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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[6] *Amicus Curiae* ARUP Laboratories, ECF No. 76 (Feb. 6, 2018) ("ARUP Br.").

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

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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[7] 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).

[8] 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.

United States Court of Appeals for the Federal Circuit

AUTOMOTIVE BODY PARTS ASSOCIATION,
Plaintiff-Appellant

v.

FORD GLOBAL TECHNOLOGIES, LLC,
Defendant-Appellee

2018-1613

Appeal from the United States District Court for the Eastern District of Michigan in No. 2:15-cv-10137-LJM-RSW, Judge Laurie J. Michelson.

SEALED OPINION ISSUED: July 11, 2019
PUBLIC OPINION ISSUED: July 23, 2019*

ROBERT GLENN OAKE, JR., Oake Law Office, Allen, TX, argued for plaintiff-appellant. Also represented by PAUL KITTINGER, Cardelli Lanfear PC, Royal Oak, MI.

JESSICA LYNN ELLSWORTH, Hogan Lovells US LLP, Washington, DC, argued for defendant-appellee. Also represented by KATHERINE BOOTH WELLINGTON; FRANK A.

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* This opinion was originally filed under seal and has been unsealed in full.

ANGILERI, MARC LORELLI, Brooks Kushman PC, Southfield, MI.

Before HUGHES, SCHALL, and STOLL, *Circuit Judges*.

STOLL, *Circuit Judge*.

This case involves both differences and similarities between design patents and utility patents. A design patent protects a "new, original and ornamental design for an article of manufacture." 35 U.S.C. § 171(a). While established law bars design patents on primarily functional designs for lack of ornamentality, utility patents must be functional to be patentable. In many other ways though, design and utility patents are similar. Section 171(b) of Title 35 demands as much, directing that the requirements that apply to "patents for inventions shall apply to patents for designs" unless otherwise provided.

Here, we decide what types of functionality invalidate a design patent and determine whether long-standing rules of patent exhaustion and repair rights applicable to utility patents also apply to design patents. Automotive Body Parts Association (ABPA) asks us to hold that the aesthetic appeal—rather than any mechanical or utilitarian aspect—of a patented design may render it functional. And it asks us to expand the doctrines of exhaustion and repair to recognize the "unique nature" of design patents. Both theories invite us to rewrite established law to permit ABPA to evade Ford Global Technologies, LLC's patent rights. We decline ABPA's invitation and affirm the district court's summary judgment.

BACKGROUND

I

Ford's U.S. Patent No. D489,299 and U.S. Patent No. D501,685 protect designs used in certain models of Ford's F-150 trucks. The D'299 patent, titled "Exterior of

Vehicle Hood," claims "[t]he ornamental design for exterior of vehicle hood." Figure 1, below, illustrates the hood.

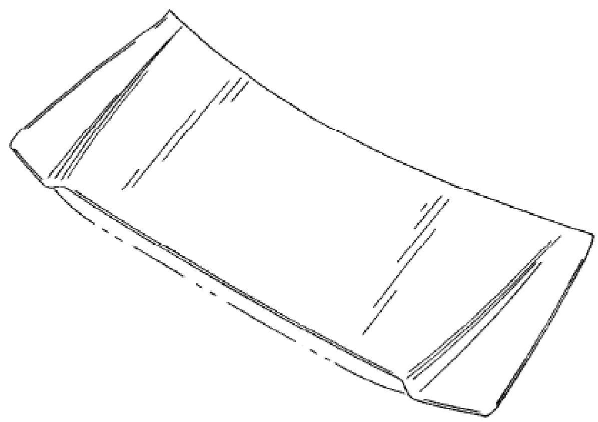

FIG. 1

The D'685 patent, titled "Vehicle Head Lamp," claims "[t]he ornamental design for a vehicle head lamp," as shown in Figures 1 and 2, reproduced below.

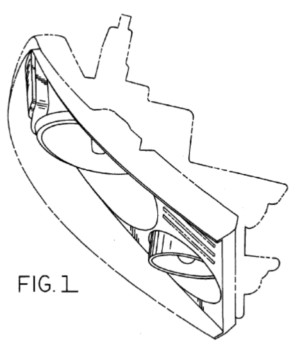

FIG. 1

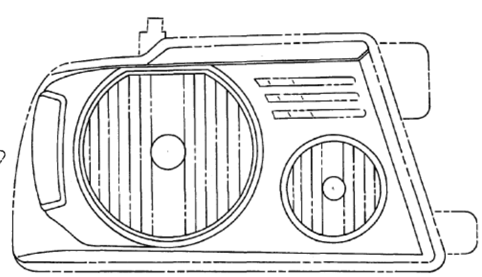

FIG. 2

The inventors of these designs are artists holding Bachelor of Fine Arts degrees from the College for Creative Studies. In a declaration, one inventor explained that the inventors had "full control and responsibility for the exterior appearance of the . . . Ford F-150 truck," that "the design team created and selected part designs based on aesthetic appearance," and that although engineers reviewed the final designs, "[t]here were no changes to the aesthetic designs of the[] parts based on engineering or functional requirements." J.A. 2538–39.

II

ABPA, an association of companies that distribute automotive body parts, clashed with Ford at the International Trade Commission when Ford accused a number of ABPA members of infringing the D'299 and D'685 patents, among others. The ITC actions eventually settled, but only after the administrative law judge ruled that "respondents' [invalidity] defense that the asserted patents do not comply with the ornamentality requirement of 35 U.S.C. § 171 has no basis in the law," J.A. 256, and that "there is no legal basis for respondents' assertion of [unenforceability based on] either the patent exhaustion or permissible repair doctrines," J.A. 242.

Undeterred, ABPA sued Ford in district court, seeking a declaratory judgment of invalidity or unenforceability of the D'299 and D'685 patents. ABPA eventually moved for summary judgment. The district court considered ABPA's arguments and denied the motion, noting that ABPA "effectively ask[ed] this Court to eliminate design patents on auto-body parts." *Auto. Body Parts Ass'n v. Ford Glob. Techs., LLC*, 293 F. Supp. 3d 690, 694 (E.D. Mich. 2018). Though Ford had not moved for summary judgment, the district court announced its intention to enter judgment in favor of Ford sua sponte pursuant to Federal Rule of Civil Procedure 56(f)(1). *Id.* at 707. ABPA responded, agreeing that it had not "include[d] any additional argument, authorities, or evidence beyond that which has already been considered by this Court," and stating that it "d[id] not object to the prompt entry of final judgment so that [it could] file a notice of appeal." J.A. 2149. The district court entered summary judgment, and ABPA appeals.

DISCUSSION

We review the district court's sua sponte grant of summary judgment under the law of the regional circuit. *See Charles Mach. Works, Inc. v. Vermeer Mfg. Co.*, 723 F.3d 1376, 1378 (Fed. Cir. 2013). In the Sixth Circuit, "[t]he substance of the district court's decision is reviewed de novo under the normal standards for summary judgment." *Leffman v. Sprint Corp.*, 481 F.3d 428, 430 (6th Cir. 2007) ("The district court's procedural decision to enter summary judgment sua sponte, however, is reviewed for abuse of discretion." (quoting *Shelby Cty. Health Care Corp. v. S. Council of Indus. Workers Health & Welfare Trust Fund*, 203 F.3d 926, 931 (6th Cir. 2000))). Accordingly, we determine whether, after weighing all inferences in favor of ABPA, Ford is entitled to judgment as a matter of law.[1] *See Leary v. Daeschner*, 349 F.3d 888, 897 (6th Cir. 2003).

I

We first address ABPA's invalidity arguments. Section 171 of Title 35 authorizes patents claiming "new, original and *ornamental* design[s] for an article of manufacture." 35 U.S.C. § 171(a) (emphasis added). Our precedent gives weight to this language, holding that a design patent must claim an "ornamental" design, not one "dictated by function." *See, e.g.*, *High Point Design LLC v. Buyers Direct, Inc.*, 730 F.3d 1301, 1315 (Fed. Cir. 2013). We have recognized, however, that a valid design may contain some functional elements. After all, "a design patent's

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[1] Ordinarily, we review a district court's determination of whether a patented design is invalid due to functionality for clear error. *See Ethicon Endo-Surgery, Inc. v. Covidien, Inc.*, 796 F.3d 1312, 1328 (Fed. Cir. 2015). ABPA invites us to revisit this standard and establish de novo review. Given the de novo standard inherent in review of summary judgment, we do not reach this question.

claim protects an article of manufacture, which 'necessarily serves a utilitarian purpose.'" *See Sport Dimension, Inc. v. Coleman Co.*, 820 F.3d 1316, 1320 (Fed. Cir. 2016) (quoting *L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1123 (Fed. Cir. 1993)). But a design patent may not claim a "primarily functional" design. *Id.* "If [a] particular design is essential to the use of the article, it can not be the subject of a design patent." *L.A. Gear*, 988 F.2d at 1123.

While "[w]e have not mandated applying any particular test," certain considerations assist courts in assessing whether a design is dictated by function. *Ethicon*, 796 F.3d at 1329. These include:

> [W]hether the protected design represents the best design; whether alternative designs would adversely affect the utility of the specified article; whether there are any concomitant utility patents; whether the advertising touts particular features of the design as having specific utility; and whether there are any elements in the design or an overall appearance clearly not dictated by function.

Berry Sterling Corp. v. Pescor Plastics, Inc., 122 F.3d 1452, 1456 (Fed. Cir. 1997). We have often emphasized the presence or absence of alternative designs, noting that the existence of "several ways to achieve the function of an article of manufacture," though not dispositive, increases the likelihood that a design serves a primarily ornamental purpose. *Id.* (quoting *L.A. Gear*, 988 F.2d at 1123); *see also Nordock, Inc. v. Sys. Inc.*, 803 F.3d 1344, 1361 (Fed. Cir. 2015) (affirming ornamentality where record showed "alternate designs available achieve the same utilitarian purpose"), *vacated on other grounds*, 137 S. Ct. 589 (2016); *Rosco, Inc. v. Mirror Lite Co.*, 304 F.3d 1373, 1378 (Fed. Cir. 2002) ("[I]f other designs could produce the same or similar functional capabilities, the design of the article in question is likely ornamental, not functional.").

A

ABPA posits (without record support) that consumers seeking replacement parts prefer hoods and headlamps that restore the original appearance of their vehicles. It concludes that there is a functional benefit to designs that are aesthetically compatible with those vehicles. *See, e.g.*, Appellant's Br. 8–9 ("The function of the claimed designs includes their appearance . . . ."). From there, rather than arguing that Ford's designs are functional because they achieve some mechanical or utilitarian goal, ABPA argues that Ford's hood and headlamp designs are functional because they aesthetically match the F-150 truck. But ABPA does not identify, nor can we find, any design patent case ruling aesthetic appeal of this type functional.

We hold that, even in this context of a consumer preference for a particular design to match other parts of a whole, the aesthetic appeal of a design to consumers is inadequate to render that design functional. As the Supreme Court acknowledged almost 150 years ago, "giving certain new and original appearances to a manufactured article may enhance its salable value, [and] may enlarge the demand for it." *Gorham Mfg. Co. v. White*, 81 U.S. 511, 525 (1871). But regardless of the market advantage conferred by a patented appearance, competitors may not utilize a protected design during the patent's life. *See id.*; *see also* 35 U.S.C. § 289. To hold that designs that derive commercial value from their aesthetic appeal are functional and ineligible for protection, as ABPA asks, would gut these principles. The very "thing . . . for which [the] patent is given, is that which gives a peculiar or distinctive appearance," its aesthetic. *Gorham*, 81 U.S. at 525. If customers prefer the "peculiar or distinctive appearance" of Ford's designs over that of other designs that perform the same mechanical or utilitarian functions, that is exactly the type of market advantage "manifestly contemplate[d]" by Congress in the laws authorizing design patents. *Id.*

B

ABPA's contrary arguments are unpersuasive. It first asks us to borrow the principle of "aesthetic functionality" from trademark law. In that context, courts have explained that a party cannot use trademark protection to prevent its competitors from using "important product ingredient[s]," *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 170 (1995), or "from making their products as visually entrancing as [its] own," *Pub'ns Int'l, Ltd. v. Landoll, Inc.*, 164 F.3d 337, 339 (7th Cir. 1998) (Posner, J.) (explaining that trademark and trade dress protection are unavailable "if consumers derive a value from the fact that a product looks a certain way that is distinct from the value of knowing at a glance who made it"). In *Qualitex*, the Supreme Court permitted a party to trademark a particular color only after explaining that protection might not be available if the "color serve[d] a significant nontrademark function." *Qualitex*, 514 U.S. at 170.

ABPA acknowledges that no court has applied "aesthetic functionality" to design patents, but it asks us to become the first. Appellant's Br. 28–29. We decline. Though trademarks and design patents have certain similarities, *see id.* at 29–30, it does not follow that trademark principles apply equally to design patents. Trademarks and design patents serve different purposes and have different governing law. Trademarks promote competition by permitting a perpetual monopoly over symbols that "distinguish[] a firm's goods and identif[y] their source, without serving any other significant function." *Qualitex*, 514 U.S. at 166. Trademarks ensure that a particular producer reaps the rewards—and bears the risks—of its products' quality and desirability. *See id.* at 163–64. It follows that a company may not indefinitely inhibit competition by trademarking features, whether utilitarian or aesthetic, "that either are not associated with a particular producer or that have value to consumers that is independent of identification." *Pub'ns Int'l*, 164 F.3d at 339; *see also*

Qualitex, 514 U.S. at 164–65 (holding companies may not "inhibit[] legitimate competition" by trademarking desirable features to "put competitors at a significant non-reputation-related disadvantage"). In contrast, design patents expressly grant to their owners exclusive rights to a particular aesthetic for a limited period of time. *See Qualitex*, 514 U.S. at 164; *see also* U.S. Const. art. I, § 8, cl. 8. The considerations that drive the aesthetic functionality doctrine of trademark law simply do not apply to design patents.

ABPA also attempts to justify its functionality argument with reference to our case law, but it misunderstands our precedent. In *Best Lock Corp. v. Ilco Unican Corp.*, 94 F.3d 1563 (Fed. Cir. 1996), we considered a design patent for a key "blade," the portion of the key that interacts with a lock to open or close it. *Id.* at 1564. The parties agreed that "the key blade must be designed as shown in order to perform its intended function—to fit into its corresponding lock's keyway. An attempt to create a key blade with a different design would necessarily fail because no alternative blank key blade would fit the corresponding lock." *Id.* at 1566. On those facts, we affirmed the district court's finding that the claimed key blade design was dictated solely by function, and the design patent was invalid. *Id.* ABPA argues that only Ford's patented designs aesthetically "match" the F-150,[2] and attempts to analogize *Best Lock* to the instant case. But *Best Lock* turned on the admitted fact that no alternatively designed blade would mechanically operate the lock—not that the blade and lock

[2] ABPA also briefly suggests that insurers require repair parts to use Ford's original designs with the F-150 but cites no evidentiary support. ABPA's own witness explained that insurers simply pay a sum of money for repairs; they do not dictate whether a repair is even made. J.A. 1312.

were aesthetically compatible. *Id.*; *see also Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 395, 422 (6th Cir. 2012) (holding a printer cartridge design functional where "each company's cartridges will work with only its brand of printers" and "the design of the printer dictated the exact design of the cartridge").

Best Lock is distinguished for yet another reason. Ford introduced abundant evidence of alternative headlamp and hood designs that physically fit its trucks. *See Auto. Body Parts*, 293 F. Supp. 3d at 703 (reproducing images); J.A. 2442–43. ABPA's own witnesses testified to the existence of "performance parts" that have a different "design or shape" than the manufacturer's parts so that they have "some aesthetic appeal or something like that." J.A. 940–41; *see also* J.A. 1312–13 (testifying that customers select performance parts because "[t]hey want [their vehicles] to look different"). And ABPA admitted that a "performance part" "will fit the associated vehicle . . . but may differ in appearance from the original part." J.A. 1330; *see also* J.A. 1340 (same). On these facts, *Best Lock* bears little similarity to this case.

Similarly, ABPA urges us to rule that Ford's designs are not a "matter of concern" to consumers. We have explained that a design is generally not a "matter of concern," and lacks ornamentality, if it may not be observed or if it is assessed only for functionality. *See In re Webb*, 916 F.2d 1553, 1557–58 (Fed. Cir. 1990). ABPA avers that consumers assess Ford's designs only to assess their aesthetic compatibility with the F-150. But by definition, if a consumer assesses the aesthetic of a design in considering whether to purchase it, the design *is* a matter of concern. *See id.* Indeed, ABPA and its witnesses admitted that customers select replacement parts from among multiple different designs based on their preferred aesthetic, further undermining ABPA's position. *See* J.A. 940–41, 1312–13, 1330, 1340. And regardless, the district court found that "it is beyond reasonable debate that the design of an auto-body part is important to consumers at least when they are deciding which car to buy." *Auto. Body Parts*, 293 F. Supp. 3d at 701. ABPA fails to explain how that well-supported finding constitutes error.

Finally, ABPA asks this court to rule, as a matter of policy, that Ford's design patents may be enforced only in the initial market for sale of the F-150, and not in the market for replacement components. Appellant's Br. 36. ABPA argues that a market-specific rule is appropriate because customers have different concerns in different contexts. It declares that customers care about design in the initial sales market, but not when they select replacement parts. But ABPA cites no supporting facts. Instead, it ignores abundant record evidence regarding performance parts available as replacements for customers who "want [their vehicles] to look different." J.A. 1312–13. It cites no patent case to support its argument. And it seeks to sidestep our precedent, which asks "whether *at some point* in the life of the article an occasion (or occasions) arises when the appearance of the article becomes a 'matter of concern.'" *Webb*, 916 F.2d at 1557 (emphasis added). Finding neither legal nor factual support for ABPA's argument, we reject it.[3] We therefore affirm the district court's determination that ABPA failed, as a matter of law, to prove Ford's designs functional by clear and convincing evidence. *See Ethicon*, 796 F.3d at 1328 (discussing burden and standard of proof).

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[3] A bill seeking to create a market-based analysis specifically for auto-body design patents was introduced in a previous Congress but has not become law. *See* PARTS Act, S. 780, 113th Cong. (2013); J.A. 664. "[I]t is not our job to apply laws that have not yet been written." *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984).

II

We next address ABPA's contention that Ford's patents are unenforceable against its members under the related doctrines of exhaustion and repair.

A

"The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee." *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852). But when the patentee sells his invention, the thing sold "is no longer within the limits of the monopoly." *Id.*; *see also United States v. Masonite Corp.*, 316 U.S. 265, 277–78 (1942). This "well-established" rule, dubbed exhaustion, "marks the point where patent rights yield to the common law principle against restraints on alienation." *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1531 (2017). An authorized sale compensates the patentee for his invention. After such a sale, the patentee may no longer "'control the use or disposition' of the product." *Id.* (quoting *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942)). And the purchaser may use or dispose of that product without incurring liability for infringement. *See, e.g.*, *ExcelStor Tech., Inc. v. Papst Licensing GMBH & Co. KG*, 541 F.3d 1373, 1376 (Fed. Cir. 2008) ("patent exhaustion is a defense to patent infringement").

Ford concedes that when it sells an F-150, its patents are exhausted as to the components actually sold as part of that truck. Oral Arg. at 17:58–18:24, http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2018-1613.mp3. ABPA argues that exhaustion extends further, asserting that the sale of an F-150 truck totally exhausts any design patents embodied in the truck and permits use of Ford's designs on replacement parts so long as those parts are intended for use with Ford's trucks. *See* Appellant's Br. 43–45. But exhaustion attaches only to items sold by, or with the authorization of, the patentee. *See Jazz Photo Corp. v.*

Int'l Trade Comm'n, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (explaining that an authorized sale "'exhausts' the patentee's right to control further sale and use of *that article*" but does not permit a "second creation of the patented entity" (emphasis added)), *overruled on other grounds by Impression Prod.*, 137 S. Ct. at 1538; *see also Bowman v. Monsanto Co.*, 569 U.S. 278, 286 (2013) ("The exhaustion doctrine is limited to the 'particular item' sold . . . ."). ABPA's members' sales are not authorized by Ford; it follows that exhaustion does not protect them. *See Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1302 (Fed. Cir. 2015) ("[T]he decisions finding exhaustion . . . have done so *only* when . . . *an authorized acquirer* was using the same invention by infringing the asserted claims." (emphases added)).

ABPA asks us to "adapt[]" this rule for design cases. *See* Appellant's Br. 49. But we apply the same rules to design and utility patents whenever possible. *See* 35 U.S.C. § 171(b) ("The provisions of this title relating to patents for inventions shall apply to patents for designs, except as otherwise provided."). Accordingly, we have held that principles of prosecution history estoppel, inventorship, anticipation, and obviousness apply to both design patents and utility patents. *See, e.g.*, *Pac. Coast Marine Windshields Ltd. v. Malibu Boats, LLC*, 739 F.3d 694, 702 (Fed. Cir. 2014) ("The same principles of public notice that underlie prosecution history estoppel apply to design patents as well as utility patents."); *Hoop v. Hoop*, 279 F.3d 1004, 1007 (Fed. Cir. 2002) ("We apply the same standard of inventorship to design patents that we require for utility patents."); *Hupp v. Siroflex of Am., Inc.*, 122 F.3d 1456, 1461 (Fed. Cir. 1997) ("In determining whether a design patent is invalid based on a description in a printed publication, . . . the factual inquiry is the same as that which determines anticipation by prior publication of the subject matter of a utility patent . . . ."); *In re Borden*, 90 F.3d 1570, 1574 (Fed. Cir. 1996) ("Design patents are subject to the same conditions on patentability as utility patents, including the nonobviousness requirement of 35 U.S.C. § 103."). We see no persuasive reason to depart from this standard for the exhaustion doctrine.

ABPA points to the Supreme Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), to assert that we should nevertheless create a design-patent-specific rule for exhaustion. Appellant's Br. 49. In *Quanta*, the Court rejected an attempt to exempt method claims from exhaustion. *See Quanta*, 553 U.S. at 628. After reviewing the history and purpose of the doctrine, the Court noted that "[o]ur precedents do not differentiate transactions involving embodiments of patented methods or processes from those involving patented apparatuses or materials." *Id.* at 628–29. It therefore held that like other utility patents, method patents are exhausted by the authorized sale of an item embodying the claimed invention. *Id.* at 638. And accordingly, it determined that the sale of a microprocessor embodying a method patent exhausts that patent. *See id.* It did not, however, hold that purchasers of those microprocessors could make their own, new microprocessors using the patented invention, as ABPA suggests. Far from supporting ABPA's position, *Quanta* supports our reluctance to establish special rules for design patents—our precedents do not differentiate transactions involving embodiments of patented designs from those involving patented processes or methods. *See, e.g.*, *Jazz Photo*, 264 F.3d at 1110 ("[T]he principle of exhaustion applies to the design patents as well as to the utility patents.").

B

ABPA's right of repair argument is equally unpersuasive. The right of use transferred to a purchaser by an authorized sale "include[s] the right to repair the patented article." *Kendall Co. v. Progressive Med. Tech., Inc.*, 85 F.3d 1570, 1573 (Fed. Cir. 1996). The right of repair does not, however, permit a complete reconstruction of a patented device or component. *See Helferich*, 778 F.3d at 1303–05 (noting purchaser cannot recreate patented product); *Kendall*, 85 F.3d at 1573–74 (explaining that while a purchaser may not undertake a "complete 'reconstruction'" of the patented device, he may replace "individual *unpatented* components" of the patented article (emphasis added)). And it does not permit a purchaser to infringe other patents by manufacturing separately patented components of the purchased article. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961) ("[R]eplacement of a spent, *unpatented element* does not constitute reconstruction. The decisions of this Court require the conclusion that reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to 'in fact make a new article' . . . ." (emphasis added) (quoting *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 425 (2d Cir. 1945) (Hand, J.))); *Helferich*, 778 F.3d at 1303–05 (noting prohibition on reconstruction).

ABPA argues that purchasers of Ford's F-150 trucks are licensed to repair those trucks using replacement parts that embody Ford's hood and headlamp design patents. But straightforward application of long-standing case law compels the opposite conclusion. Over 150 years ago, a New Hampshire court considered facts similar to those of this case in *Aiken v. Manchester Print Works*, 1 F. Cas. 245 (C.C.D.N.H. 1865). There, the patentee sold a patented knitting machine whose needles wore out on a regular basis. *Id.* at 245–46. Though the needles were covered by a separate patent, the accused infringers argued that they could properly manufacture replacement needles to continue using the knitting machine they had purchased. The court disagreed, holding that "the needle is subject to a patent, and in making and using it they have infringed." *Id.* at 247. It distinguished an earlier Supreme Court case in which a purchaser had been permitted to replace the knives used in a patented cutting machine, noting "the cutters and knives, in [*Wilson v. Simpson*, 50 U.S. 109 (1850)], were not subject to a patent." *Id.* The Supreme Court endorsed *Aiken*'s reasoning in *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 435–36 (1894), and its reasoning governs here. Ford's patents claim "[t]he ornamental design for exterior of vehicle hood," *see* D'299 patent, Claim, and "[t]he ornamental design for a vehicle head lamp," *see* D'685 patent, Claim. The designs may be embodied in the hoods and headlamps that form part of the full F-150 truck or in separate hoods and headlamps. But though a sale of the F-150 truck permits the purchaser to repair the designs as applied to the specific hood and headlamps sold on the truck, the purchaser may not create new hoods and headlamps using Ford's designs. Like the needles in *Aiken*, such new hoods and headlamps are subject to Ford's design patents, and manufacturing new copies of those designs constitutes infringement.

ABPA attempts to distinguish *Aiken* and its progeny by asserting that these cases apply only to utility patents. ABPA urges us to adopt a new rule that recognizes the "unique nature" of design patents. *See* Appellant's Reply Br. 18. In particular, ABPA claims that the statutory language authorizing design patents dictates such a rule. Unlike 35 U.S.C. § 101, which authorizes utility patents for a "process, machine, manufacture, or composition of matter, or any new and useful improvement thereof," 35 U.S.C. § 171 permits design patents for a "design for an article of manufacture." ABPA argues that because "article of manufacture," is a term broad enough to include both a product component and the product itself, *see Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429, 434 (2016), sale of either the component (i.e., the hood or headlamp) or the whole product (i.e., the F-150) totally exhausts a design patent and permits unlimited repair. *See* Appellant's Br. 43–58.

We disagree. In our view, the breadth of the term "article of manufacture" simply means that Ford *could* properly have claimed its designs as applied to the entire F-150 or as applied to the hood and headlamp. To determine what repair rights apply, we look to what Ford actually claimed. As always, "the name of the game is the claim." *Arlington Indus., Inc. v. Bridgeport Fittings, Inc.*, 632 F.3d 1246, 1255 n.2 (Fed. Cir. 2011) (quoting Giles S. Rich, *The Extent of the Protection and Interpretation of Claims–American Perspectives,* 21 Int'l Rev. Indus. Prop. & Copyright L. 497, 499, 501 (1990)). Ford chose to claim designs as applied to portions of particular components, and the law permits it to do so. *See, e.g.*, *Samsung*, 137 S. Ct. at 435; *Gorham*, 81 U.S. at 512. That the auto-body components covered by Ford's patents may require replacement does not compel a special rule. Just as the patentee in *Aiken* could have only claimed the needles in conjunction with the knitting machine, Ford could have only claimed its design as applied to the whole truck. Unfortunately for ABPA, Ford did not do so; the designs for Ford's hood and headlamp are covered by distinct patents, and to make and use those designs without Ford's authorization is to infringe. *See Aiken*, 1 F. Cas. at 247.[4]

We thus reject ABPA's attempts to develop design patent-specific exhaustion and repair rules.[5] Consequently,

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[4] ABPA asserts that Ford's purchasers are unaware of the design patents covering the hood and headlamp and suggests that as a result we should permit their use of the patented designs. Appellant's Br. 56–57. Even if purchasers are unaware—and ABPA cites no factual support for that assertion—direct infringement does not require knowledge of a patent. *See Glob.-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 761 n.2 (2011) ("[A] direct infringer's knowledge or intent is irrelevant.").

[5] As an additional argument for affirmance, Ford asserts that because ABPA and its members are not themselves the purchasers of Ford's trucks, they cannot benefit

we affirm the district court's ruling that ABPA has not shown that Ford's designs for an F-150 hood and headlamp are exhausted when Ford sells an F-150 truck.

CONCLUSION

Having considered the parties' remaining arguments and found them unpersuasive, we affirm the district court.

AFFIRMED

COSTS

Costs to Appellee.

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from an implied license to repair the trucks. *See* Appellee's Br. 43–45. For purposes of this opinion, we do not reach this issue.

United States Court of Appeals for the Federal Circuit

MARK A. BARRY,
Plaintiff-Appellee

v.

MEDTRONIC, INC.,
Defendant-Appellant

2017-2463

Appeal from the United States District Court for the Eastern District of Texas in No. 1:14-cv-00104-RC, Chief Judge Ron Clark.

Decided: January 24, 2019

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Before PROST, *Chief Judge,* MOORE and TARANTO, *Circuit Judges.*

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

Opinion dissenting in part filed by *Chief Judge* PROST.

TARANTO, *Circuit Judge*.

Dr. Mark Barry brought this action against Medtronic, Inc., alleging that Medtronic induced surgeons to infringe U.S. Patent Nos. 7,670,358 and 8,361,121, which Dr. Barry owns and which name him as the sole inventor. The jury found infringement of method claims 4 and 5 of the ’358 patent and system claims 2, 3, and 4 of the ’121 patent, rejected Medtronic’s several invalidity defenses, and awarded damages. In post-trial rulings on the jury issues, *Barry v. Medtronic, Inc.*, 230 F. Supp. 3d 630 (E.D. Tex. 2017) (*Barry*), the district court upheld the verdict as relevant here—rejecting challenges as to induced infringement and associated damages for domestic conduct, *id.* at 640–47, 650–51, invalidity of the asserted ’358 patent claims under the public-use and on-sale bars, *id.* at 653–59, and invalidity of all asserted claims due to another’s prior invention, *id.* at 659–63. The district court then rejected Medtronic’s inequitable-conduct challenge, *Barry v. Medtronic, Inc.*, 245 F. Supp. 3d 793, 823 (E.D. Tex. 2017) (*Inequitable Conduct Op.*), and, in a ruling not separately challenged on appeal, enhanced damages by twenty percent while denying attorney’s fees to Dr. Barry, *Barry v. Medtronic, Inc.*, 250 F. Supp. 3d 107, 111, 119 (E.D. Tex. 2017) (*Enhancement Op.*). Medtronic appeals on numerous grounds, principally concerning the public-use and on-sale statutory bars, but also concerning prior invention, inequitable conduct, and induced infringement and associated damages. We affirm.

I

A

Both patents at issue are entitled "System and Method for Aligning Vertebrae in the Amelioration of Aberrant Spinal Column Deviation Conditions." The patents claim methods and systems for correcting spinal column anomalies, such as those due to scoliosis, by applying force to multiple vertebrae at once. '358 patent, col. 2, line 63, through col. 3, line 6; '121 patent, col. 3, line 53, through col. 4, line 2. The '358 issued in 2010 from an application that Dr. Barry filed on December 30, 2004. The '121 patent issued in 2013 from an application—a continuation of an August 2005 application that was a continuation-in-part of the December 30, 2004 application—that Dr. Barry filed in 2010.

The asserted claims of the '358 patent are method claims 4 and 5. They depend ultimately on independent claim 1, which reads:

> 1. A method for aligning vertebrae in the amelioration of aberrant spinal column deviation conditions comprising the steps of:
>
> > selecting a first set of pedicle screws, said pedicle screws each having a threaded shank segment and a head segment;
> >
> > selecting a first pedicle screw cluster derotation tool, said first pedicle screw cluster derotation tool having first handle means and a first group of pedicle screw engagement members which are mechanically linked with said first handle means, each pedicle screw engagement member being configured for engaging with, and transmitting manipulative forces applied to said first

handle means to said head segment of each pedicle screw of said first set of pedicle screws,

implanting each pedicle screw in a pedicle region of each of a first group of multiple vertebrae of a spinal column which exhibits an aberrant spinal column deviation condition;

engaging each pedicle screw engagement member respectively with said head segment of each pedicle screw of said first set of pedicle screws; and

applying manipulative force to said first handle means in a manner for simultaneously engaging said first group of pedicle screw engagement members and first set of pedicle screws and thereby in a single motion simultaneously rotating said vertebrae of said first group of multiple vertebrae in which said pedicle screws are implanted to achieve an amelioration of an aberrant spinal column deviation condition;

selecting a first length of a spinal rod member; wherein one or more of said pedicle screws of said first set of pedicle screws each includes:

> a spinal rod conduit formed substantially transverse of the length of said pedicle screw and sized and shaped for receiving passage of said spinal rod member therethrough; and
>
> spinal rod engagement means for securing said pedicle screw and said spinal rod member, when extending through said spinal rod conduit, in a substantially fixed relative position and orientation;

extending said first length of said spinal rod member through said spinal rod conduits of one

> or more of said pedicle screws of said first set of pedicle screws; and
>
> after applying said manipulative force to said first handle means, actuating said spinal rod engagement means to secure said vertebrae in their respective and relative positions and orientations as achieved through application of said manipulative force thereto.

'358 patent, col. 6, lines 7–56. Claim 2, which depends on claim 1, adds steps requiring a second set of pedicle screws and a second derotation tool with a second group of engagement members and a second "handle means." *Id.*, col. 6, line 57, through col. 7, line 15. Claim 3, which depends on claim 2, adds steps requiring a second spinal rod. *Id.*, col. 7, line 16, through col. 8, line 11. Claim 4, which depends on claim 3, adds that the steps of applying "manipulative force" to the first and second handle means "are carried out substantially simultaneously to cooperatively achieve an amelioration of an aberrant spinal column deviation condition." *Id.*, col. 8, lines 12–17. Claim 5 adds the same requirement to claim 2 (on which it depends). *Id.*, col. 8, lines 18–23.

The asserted claims of the '121 patent are system claims 2–4. Claim 2, an independent claim, reads:

> 2. A system for aligning vertebrae in the amelioration of aberrant spinal column deviation conditions comprising:
>
> > a first set of pedicle screws, each pedicle screw having a threaded shank segment and a head segment; and
> >
> > a first pedicle screw cluster derotation tool, said first pedicle screw cluster derotation tool having a first handle means for facilitating simultaneous application of manipulative forces to

said first set of pedicle screws and a first group of three or more pedicle screw engagement members which are mechanically linked with said first handle means, said first handle means having a handle linked to each pedicle screw engagement member of the first group of three or more pedicle screw engagement members and a linking member to join together the handles linked to the pedicle screw engagement members, wherein the handle means is configured to move simultaneously each pedicle screw engagement member; wherein each pedicle screw engagement member is configured to engage respectively with said head segment of each pedicle screw of said first set of pedicle screws; and wherein each pedicle screw engagement member is configured to transmit manipulative forces applied to said first handle means to said head segment of each pedicle screw of said first set of pedicle screws;

a second set of pedicle screws, each pedicle screw having a threaded shank segment and a head segment;

a second pedicle screw cluster derotation tool, said second pedicle screw cluster derotation tool having a second handle means for facilitating simultaneous application of manipulative forces to said second set of pedicle screws and a second group of three or more pedicle screw engagement members which are mechanically linked with said second handle means, said second handle means having a handle linked to each pedicle screw engagement member of the second group of three or more pedicle screw engagement members and a handle linking member to join together the handles linked to the

> pedicle screw engagement members, wherein the handle means is configured to move simultaneously each pedicle screw engagement member; wherein each pedicle screw engagement member is configured to engage respectively with said head segment of each pedicle screw of said second set of pedicle screws; and wherein each pedicle screw engagement member is configured to transmit manipulative forces applied to said second handle means to said head segment of each pedicle screw of said second set of pedicle screws;
>
> a cross-linking member that links the first handle means to the second handle means.

'121 patent, col. 7, line 57, through col. 8, line 45. The parties have highlighted the "cross-linking member" element in identifying the advance of the '121 patent claims over those of the '358 patent. Claim 3, which depends on claim 2, and claim 4, which depends on claim 3, add requirements that have had no material role in the arguments made to this court. *Id.*, col. 8, lines 46–58.

B

The following facts form the core of the background needed to understand the issues before us. Dr. Barry began working in late 2002 or early 2003 on trying to link derotation components (which grab screws in vertebrae to move the vertebrae) of devices for ameliorating spinal column deviation conditions. During 2003 he worked with a sales representative from the DePuy medical-device company, Mr. Pfefferkorn, to adjust standard DePuy tools for Dr. Barry's purposes and in accordance with Dr. Barry's ideas. Dr. Barry also spoke about his ideas with representatives from another company, Spine-Vision. By July 2003, Dr. Barry had a tool that allowed him to link the screw-grabbing, vertebrae-moving wrenches together.

Dr. Barry used that tool in three surgeries—on August 4, August 5, and October 14. Dr. Barry testified, without contradiction by any evidence the jury had to credit, that the three surgeries represent the three most common types of scoliosis-caused spinal deviation conditions that surgeons typically see. Between August 2003 and January 2004, the patients in those surgeries returned to Dr. Barry several times for follow-up appointments. During the follow-up appointments, Dr. Barry viewed x-rays of the patients' spines, after they had been able to stand up and walk following the three-month acute phase of recovery, to determine if the curvature conditions had been successfully ameliorated by the surgery.

According to Dr. Barry's testimony at trial, it was only in January 2004, after the three-month follow-up for the October 14, 2003 surgery, that he felt confident that his invention functioned for its intended purpose and was ready to publicize it in a professional forum. J.A. 1161–65, 1195–96. He prepared an abstract summarizing the development of his methods and submitted it, by February 1, 2004, for inclusion in the materials to be presented at a July 2004 International Meeting of Advanced Spinal Techniques—the selection committee for which accepted it in April. On December 30, 2004, he filed the application for what issued as the '358 patent, making December 30, 2003, the critical date for that patent for purposes of the public-use and on-sale bar issues under 35 U.S.C. § 102(b) (2002).[1]

[1] We refer throughout this opinion to the Title 35 provisions in effect before the changes made by the Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-

Around the same time, Dr. Lawrence Lenke, a surgeon who works with Medtronic, was also working on a spinal derotation project. His work began in 2002. Medtronic contends that Dr. Lenke, through that work, was a prior inventor and that Dr. Barry's patents are therefore invalid under 35 U.S.C. § 102(g).

By 2006, Medtronic introduced its Vertebral Column Manipulation (VCM) kit, which is used in conjunction with Medtronic's CD Horizon Legacy and Solera spinal-surgery systems. Dr. Barry alleges that surgeons' use of that combination infringes the asserted claims of the two patents at issue and that Medtronic has induced such infringement through its extensive training materials and instructions relating to its VCM kit. As to the latter, instructions appear on the lid of each kit. Medtronic employees have trained surgeons in how to use the VCM kit. Medtronic has included instructions for using the VCM kit in surgical guides, which Dr. Barry's expert, Dr. Walid Yassir, testified Medtronic "put . . . out all of the time." J.A. 1782. And Dr. Lenke testified that he used the VCM kit when performing derotations, even after 2010, the year the '358 patent issued.

In this case, the jury found for Dr. Barry, and specifically did so on the key issues contested by Medtronic in this appeal—involving whether Dr. Barry's '358 invention was in public use or on sale before December 30, 2003; whether Dr. Lenke was a prior inventor for both patents; and whether, and to what extent, Medtronic induced infringement. As relevant here, the jury awarded Dr. Barry $15,095,970 for domestic infringement of the '358 patent and $2,625,210 for domestic infringement of the

29, 125 Stat. 284 (2011), took effect. As the parties agree, the pre-AIA provisions apply here.

’121 patent. J.A. 135.[2] The district court denied Medtronic’s post-trial challenges regarding induced infringement, *Barry*, 230 F. Supp. 3d at 640–47; domestic in-infringement damages, *id.* at 650–51; invalidity under § 102(b), *id.* at 653–59; and invalidity under § 102(g), *id.* at 659–63. The district court also rejected Medtronic’s charge of inequitable conduct by Dr. Barry in his interactions with the Patent and Trademark Office, based on an admitted mistake in identifying Figure 6 in both patents, finding absent the intent required for unenforceability on that ground in a case like this. *Inequitable Conduct Op.* at 797–98.

On appeal, Medtronic raises issues involving the § 102 statutory bars as to the ’358 patent, Br. of Appellant at 26–41; inequitable conduct as to both patents, *id.* at 44–48; prior invention as to both patents, *id.* at 48–58; and induced infringement and associated damages as to both patents, *id.* at 58–67 (infringement), 67–69 (damages). We have jurisdiction under 28 U.S.C. § 1295(a)(1).

II

We review the denial of judgment as a matter of law de novo, and we review the denial of a new trial as well as rulings on jury instructions for abuse of discretion. *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 841 (Fed. Cir. 2010) (following Fifth Circuit law), *aff’d on other issues*, 564 U.S. 91 (2011). We review evidentiary rulings for an abuse of discretion. *Summit 6, LLC v. Samsung Elecs.*

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[2] The district court eliminated non-domestic infringement and damages from the judgment, a ruling not on appeal here. *Barry*, 230 F. Supp. 3d at 647–49. The court also enhanced the domestic damages by twenty percent (while denying Dr. Barry attorney’s fees), a ruling not on appeal here. *Enhancement Op.* at 111, 119; *see* J.A. 309 (final judgment).

Co., 802 F.3d 1283, 1294–95 (Fed. Cir. 2015) (following Fifth Circuit law).

A

We begin with Medtronic's argument for judgment as a matter of law that the '358 patent's asserted claims are invalid under § 102(b)'s statutory bar on patenting of inventions in "public use" in the United States more than one year before the application for the patent was filed. Here, the application was filed on December 30, 2004, so the critical date for an invalidating domestic public use is December 30, 2003. We reject Medtronic's challenge.

"The public use bar is triggered where, before the critical date, the invention is in public use *and* ready for patenting." *Polara Eng'g Inc v. Campbell Co.*, 894 F.3d 1339, 1348 (Fed. Cir. 2018) (emphasis added) (internal quotation marks omitted); *see also Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998); *Invitrogen Corp. v. Biocrest Mfg., L.P.*, 424 F.3d 1374, 1379 (Fed. Cir. 2005). "[T]he determination of whether a patent is invalid for public use is a question of law that we review *de novo*," but "the disputed facts found to support that determination are reviewed for substantial evidence." *Polara*, 894 F.3d at 1348; *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 549 (Fed. Cir. 1990). "We treat the jury's verdict of no invalidating public use as a resolution of all genuinely disputed underlying factual issues in favor of the verdict winner"—here, Dr. Barry. *Polara*, 894 F.3d at 1348 (internal quotation marks omitted).

We discuss "ready for patenting" first, then "in public use." We conclude that Medtronic's § 102(b) public-use challenge fails on two grounds, which are substantively related. First, the invention was not ready for patenting before the critical date. Second, there was no public use except for an experimental use, and "[p]roof of experimental use serves as a negation of the statutory bars," *Polara*, 894 F.3d at 1348 (internal quotation marks omitted); *see New Railhead Mfg., L.L.C. v. Vermeer Mfg. Co.*, 298 F.3d 1290, 1297–98 (Fed. Cir. 2002); *EZ Dock, Inc. v. Schafer Sys., Inc.*, 276 F.3d 1347, 1352 (Fed. Cir. 2002).

We place our discussion of experimental use within our discussion of the "public use" element. This placement fits the facts that commercial exploitation may sometimes satisfy that element, *Invitrogen*, 424 F.3d at 1380, and "[t]he law has long recognized the distinction between inventions put to experimental use and products sold commercially," *Pfaff*, 525 U.S. at 64; *id.* at 64–65 (discussing *Elizabeth v. American Nicholson Pavement Co.*, 97 U.S. 126, 133–37 (1877)). But this placement is not inevitable: we have observed that "evidence of experimental use may negate either the 'ready for patenting' or 'public use' prong [of the public-use-bar standard]" and "recogniz[ed] an overlap of the experimental use negation and the ready for patenting standard." *Invitrogen*, 424 F.3d at 1379–80 (citing *EZ Dock*, 276 F.3d at 1352). The overlap is reflected in the fact that the timing of knowledge that the invention will "work for its intended purpose" is important to both experimental use and readiness for patenting. *Polara*, 894 F.3d at 1348 (describing such an inquiry for both the "ready for patenting" and "experimental use" standards); *see EZ Dock*, 276 F.3d at 1356–57. In any event, whatever the best doctrinal organization, experimental use negates invalidity under the public use bar. We discuss both readiness for patenting and experimental use because they are related and because the dissent, agreeing with Medtronic about the first, addresses the second to complete its reasoning to support its conclusion of invalidity under § 102(b).[3]

[3] The dissent proposes several changes to the legal standards stated in governing case law, such as a change to impose a (high) burden of persuasion on the patent owner to establish experimental use. Dissent at 14–19.

1

The jury could reasonably find facts that support rejection of Medtronic's contention that Dr. Barry's '358 invention was ready for patenting before December 30, 2003. Medtronic's contention required it to prove that, before that date, the method was "'shown or known to work for its intended purpose.'" *Polara*, 894 F.3d at 1348 (quoting *Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, 855 F.3d 1356, 1371 (Fed. Cir. 2017), *cert. granted on a different issue*, 138 S. Ct 2678 (2018)); *see Electromotive Div. of Gen. Motors Corp. v. Transp. System Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1211 (Fed. Cir. 2005); *Manville*, 917 F.2d at 550–51. But there is substantial evidence that Dr. Barry's invention was not ready for patenting until January 2004 because the final follow-up from the October surgery was reasonably needed for the determination that the invention worked for its intended purpose.

This court has long held that "the Supreme Court's 'ready for patenting test'" from *Pfaff*, involving the on-sale bar, also "applies to the public use bar under § 102(b)." *Invitrogen*, 424 F.3d at 1379. Medtronic accepts in this appeal that, to show readiness for patenting, it had to show (a) a reduction to practice or (b) drawings or descriptions enabling an ordinarily skilled artisan to practice the invention. *Pfaff*, 525 U.S. at 67–68.[4] Here, Medtronic's

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Medtronic has not argued for such changes. We follow existing case law. We also note that we see nothing in the dissent's proposed changes that would alter our § 102(b) result—at the least on the sufficient ground that Medtronic failed to establish readiness for patenting.

[4] The dissent states that readiness for patenting might be shown in some other way. Dissent at 7–9. We have no such alternative before us. Reduction to practice and enabling drawings or descriptions are the sole bases on which Medtronic argues for readiness for patenting.

ability to support judgment as a matter of law in its favor under that test depends on its succeeding under the reduction-to-practice alternative.[5]

Under the test for a reduction to practice, the challenger must show that "the inventor (1) constructed an embodiment or performed a process that met all the limitations and (2) determined that the invention would work for its intended purpose." *In re Omeprazole Patent Litig.*, 536 F.3d 1361, 1373 (Fed. Cir. 2008) (internal quotations omitted). What testing was in order to determine whether an invention would work for its intended purpose is one of the subsidiary fact questions underlying a determination of whether an invention was in public use. *See Z4 Techs., Inc. v. Microsoft Corp.*, 507 F.3d 1340, 1352 (Fed. Cir. 2007) ("Because the necessity and sufficiency of such testing [of an invention to determine if it will work for its intended purpose] are factual issues,

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Br. of Appellant at 29–34. The jury instructions, not challenged here, are similarly limited. J.A. 158–61.

[5] On appeal, Medtronic also points to drawings prepared in November 30, 2003, by a device company, SpineVision, based on conversations with Dr. Barry, and argues that the drawings show that "prior to the critical date the inventor [Dr. Barry] had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention." *Pfaff*, 525 U.S. at 67–68 (footnote omitted). But Medtronic identifies no expert testimony making the necessary enablement showing. The jury could reasonably find that Medtronic failed to prove that descriptions by Dr. Barry (leading to the SpineVision-prepared drawings of devices), or even the drawings, enabled a person of ordinary skill in the art to practice the surgical-procedure claims. We therefore limit our discussion in text to Medtronic's argument based on reduction to practice.

substantial evidence . . . will suffice to support the jury's verdict."); *Slip Track Sys., Inc. v. Metal-Lite, Inc.*, 304 F.3d 1256, 1268 (Fed. Cir. 2002) ("[W]e leave to the fact finder the determination of whether testing was necessary . . . or whether the mere construction of the First Prototype, in and of itself, was enough to demonstrate to one of skill in the art that the invention would work for its intended purpose without any testing."); *Seal-Flex, Inc. v. Athletic Track & Court Const.*, 98 F.3d 1318, 1324 (Fed. Cir. 1996) ("The trier of fact must determine whether the invention was completed and known to work for its intended purpose . . . .").[6]

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[6] *Pfaff* supports the "intended purpose" standard in several ways. In a footnote, *see* 525 U.S. at 57 n.2, *Pfaff* quotes the statement in *Corona Cord Tire Co. v. Dovan Chemical Corp.*, 276 U.S. 358, 383 (1928), that "[a] process is reduced to practice when it is successfully performed." What "successfully" means in *Corona* is achieving the purpose of accelerating the curing of rubber, as detailed extensively in *Corona* and summarized just before the "successfully performed" language—"It was the fact that it would work with great activity as an accelerator that was the discovery, and that was all, and the necessary *reduction to use* is shown by instances making clear *that it did so work*, and was a completed discovery*,"* *id.* at 382–83 (emphasis added)—a summary that the Court quoted in *Pfaff*, 525 U.S. at 66 n.12. The "intended purpose" standard is also reflected in *Pfaff*'s reliance, in its rationale leading to the "ready for patenting" standard, on the statement in *Elizabeth* that a public use does not include an inventor's "*bona fide* effort to bring his invention to perfection, *or to ascertain whether it will answer the purpose intended,*" *Elizabeth*, 97 U.S. at 137 (emphasis added), which was quoted in *Pfaff*, 525 U.S. at 64–65. That reliance reflects the intertwining, as opposed to any

Here, Medtronic relied on the August and October 2003 surgeries as reductions to practice that immediately proved that the claimed invention of the ’358 patent would work for its intended purpose. But the evidence allows a reasonable finding that Dr. Barry did not know that his invention would work for its intended purpose until January 2004, when he completed the follow-ups on those surgeries, which were on three patients who fairly reflected the real-world range of application of the inventive method.

We have already noted the evidence that the three surgeries involved “the three most common[] curve types of scoliosis” seen by surgeons, J.A. 1195, and that it was not until January 2004 that Dr. Barry completed the standard-practice follow-up on the third patient, at which point the three-month acute phase of recovery was over and the patient could stand up and walk. We also have noted Dr. Barry’s testimony that only then did he conclude that the surgical method would work for its intended purpose, testimony confirmed by the fact that only then did he write up his development work for publication in a professional forum.

The record contains further supporting evidence. Dr. Lenke noted the range of scoliosis conditions. J.A. 2644. Evidence from several sources confirmed that, to evaluate the success of a spinal-deviation correction, it is important for the surgeon to evaluate the patient after some time has elapsed following the surgery, particularly once the patient can stand. *See* J.A. 1159–60, 1190–95, 1372, 5406, 5417, 13016. Dr. Barry’s expert testified that “you know nominally if you have performed a correction of the

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clean separation, of experimental use and reduction to practice standards, which is further reinforced in a later footnote in *Pfaff*, 525 U.S. at 66 n.12.

spine"—agreeing to the "some amelioration" characterization by Medtronic's counsel only to that limited extent—and then immediately explained, starting in the same answer, that what happened afterward was crucial: "when the patient stands up, there are some changes that happen over time." J.A. 1959–60. As a result, he added, although "normally you can see the straightening" at the time of the surgery, "follow-up is absolutely required to determine that it lasts," J.A. 2906, and the follow-up appointments allowed Dr. Barry to conclude, "'[o]kay, this thing is holding up' and . . . '[n]ow I know I've got a method that works,'" J.A. 2899. Both Dr. Barry and his expert indicated that at least that amount of follow-up is not just prudent but consistent with standards for peer-reviewed publications reporting new techniques.

That evidence suffices for the jury to have rejected Medtronic's contention that Dr. Barry is charged with knowing that the surgical technique worked for its intended purpose immediately upon completion of the surgical operation—at least the last operation, in October 2003. The evidence is not limited to Dr. Barry's own testimony, as just indicated. And credibility assessments, within a broad range, are for the factfinders, especially when they have seen the witnesses live, as the jurors in this case did. *See*, *e.g.*, *Cooper v. Harris*, 137 S. Ct. 1455, 1474 (2017); *Perry v. New Hampshire*, 565 U.S. 228, 237 (2012); *Kansas v. Ventris*, 556 U.S. 586, 594 n.* (2009); *Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150 (2000); *Aetna Life Ins. Co. v. Ward*, 140 U.S. 76, 88 (1891); *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 843 F.3d 1315, 1341 (Fed. Cir. 2016); *Comark Comm'ns, Inc. v. Harris Corp.*, 156 F.3d 1182, 1192–93 (Fed. Cir. 2000). On the evidence in this case, the jury could readily credit the testimony of Dr. Barry—who has extensive medical experience and day-to-day professional responsibility for patient health and safety—about what evaluation was reasonably necessary for a prudent determination that his technique worked for its intended purpose.

To the extent that Medtronic contends, and the dissent concludes, that the patent claims compel narrowing the "intended purpose" determination to a single surgery, or even two surgeries, assessed for success immediately upon its completion, we disagree. The claims do not limit the intended purpose in that way. They are not limited to a particular type of curvature correction. Nor do they indicate that the intended purpose is limited to observing a straightening at the completion of surgery, without regard to the correction lasting so as to improve the patient's health. To the contrary, the preamble to the independent claim calls for "the amelioration of aberrant spinal column deviation conditions," '358 patent, col. 6, lines 8–9, which Medtronic argues is the intended purpose, Br. of Appellant at 30. *See also* '358 patent, col. 3, lines 10–34 (specification statement of first four objects of the invention using materially the same language). In a ruling not disputed on appeal, the district court concluded that the phrase would be given its "normal, customary meaning," without further construction, and that no indefiniteness problem would result because, in this medical context, a skilled artisan, focused on "benefit to a patient," would understand the scope of the phrase. J.A. 33. That common-sense approach to identifying the intended purpose is rooted in the preamble claim language as well as the specification. And it is properly understood, consistent with the specification's background discussion of patients' conditions beyond the end of surgery, '358 patent, cols. 1–2 (discussing patient health over time), as looking past the time of a surgery to evaluate the improvement in patients' conditions and allowing the withholding of judgment about the technique reliably working until follow-up on a small but representative range of "deviation conditions" surgeons would regularly encounter.[7]

The "intended purpose" need not be stated in claim limitations that define the claim scope. Even in this case, the claim language that Medtronic treats as identifying

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[7] The dissent suggests that at most two surgeries, not three, were needed for the plural "conditions." Dissent at 12–13. But Medtronic has not meaningfully presented, let alone supported, such a rationale for reversal. Only a single sentence in Medtronic's opening brief, where arguments must be made, is of even possible relevance. After reciting the district court's reliance on Dr. Barry's testimony that "he wanted to follow up with his patients three months after the surgery," citing J.A. 215, 1196, Medtronic said: "That reasoning fails even on its own terms: three months after surgeries on August 4 and 5, 2003, would mean reduction to practice in early November, which is still nearly two months before the December 30, 2003 critical date." Br. of Appellant at 30, lines 6–9. If the dissent's point is one about the claim preamble's plural language, Medtronic's sentence says nothing about that. If the dissent's point is a medical-judgment point about the need for three rather than two surgeries, Medtronic's sentence is doubly deficient. The testimony Medtronic says it is answering is not about three versus two, but merely about the length of follow-up time, as confirmed by the citations to J.A. 215, 1196. In any event, and decisively, a medical-judgment point must be supported by evidence, but Medtronic's sentence is unaccompanied by any citation to the record at all. Specifically, there is no citation to evidence contrary to Dr. Barry's testimony as a factual matter about the need for follow-ups of three surgeries, much less evidence that compelled a determination in Medtronic's favor on this point.

the “intended purpose” is preamble language that, it is undisputed here, is not limiting, *i.e.*, it does not state a requirement that must be proved to establish infringement. *See* J.A. 152 (unchallenged jury instruction). The case law cited by the dissent (at 10–11) looks to the claims and specification as a whole for guidance, without declaring strict requirements even as to those sources. We note that it is hardly surprising that intended purpose need not be stated in claim limitations, given that one typical way of claiming is simply to define the physical steps of the process, or the physical elements of a product, without building functional or purpose language into the claim limitations at all. *See*, *e.g.*, *In re Schreiber*, 128 F.3d 1473, 1478 (Fed. Cir. 1997) (explaining that “[a] patent applicant is free to recite features of an apparatus *either* structurally *or* functionally” but that the latter choice presents distinctive risks) (emphasis added).

Case law confirms this approach. For example, in *Corona Cord*, the Supreme Court, for its reduction-to-practice analysis, inferred the accelerate-curing purpose from the specification. And it described the main claims at issue (No. 1,411,231, claims 4, 8, and 12) as stating simple process steps without any reference to that purpose. 276 U.S. at 366.

In *Manville*, the patentee designed a light pole assembly that could be easily raised and lowered. 917 F.2d at 547–48. None of the claims included language about the light pole being durable in different weather conditions, but we determined that the patentee’s testing of the invention “under wind, cold and corrosive atmospheric conditions” did not qualify as a public use because “[p]rior to its testing in the winter environment, there really was no basis for confidence by the inventor that the invention would perform as intended, and hence no proven invention to disclose.” *Id.* at 550. It was not necessary for the patent to claim durability in order for durability to be part of the patent’s intended purpose because a certain function can be "inherent to the purpose of an invention," necessitating further testing even when that inherent purpose is not claimed. *Id.* at 551.

Similarly, in *Polara*, we agreed with Polara that it "needed to test the claimed invention at actual crosswalks of different sizes and configurations and where the prototype would experience different weather conditions to ensure that the invention would work for its intended purpose." 894 F.3d at 1349. The patent in that case was for a control system that would alert pedestrians when it was safe to cross the street. *Id.* at 1344. The claim language did not include limitations about the weather conditions or the size of the crosswalk, *id.*, but we determined that the inventor could not know if the invention worked for its intended purpose until it had been tested in a variety of settings where it would operate, *id.* at 1349. Testing an invention in practical situations was part of the determination of whether it was ready for patenting.

In *Honeywell International v. Universal Avionics Systems*, we likewise recognized that an invention might not be ready for patenting until the inventor ascertains how that invention will function in practical circumstances. *Honeywell Int'l Inc. v. Universal Avionics Systems Corp.*, 488 F.3d 982 (Fed. Cir. 2007). Honeywell was developing a terrain warning system for airplanes to address a problem in the prior art, whose ground proximity detectors could not detect sudden changes in terrain. *Id.* at 987. Honeywell's system "compare[d] the aircraft's position with an on-board digitized map of the earth's terrain and man-made obstacles." *Id.* at 987–88. Because there was evidence that Honeywell negotiated to sell its system to a customer, raising an issue under the on-sale bar, we had to determine if the invention was ready for patenting under the *Pfaff* test for that statutory bar. *Id.* at 997. We held that Honeywell's system was not ready for patenting before the critical date because the sale and integration of the system in real planes flown by human pilots "were a part of Honeywell's program to determine that the invention worked for its intended purpose." *Id.* at 996. In short, Honeywell's determination that the system worked for its intended purpose was reasonably dependent on completion of a range of tests in a variety of real-world situations in which the system would be used.[8]

In *TP Laboratories, Inc. v. Professional Positioners, Inc.*, 724 F.2d 965 (Fed. Cir. 1984), moreover, we confirmed the common-sense proposition that, for medical procedures, follow-up appointments can be necessary to determine when an invention is performing its intended purpose. The invention at issue was a means of correcting irregularities in teeth. *Id.* at 972. We determined that the inventor could not have immediately assessed after implantation whether the device was working for its intended purpose; therefore, it was reasonable for the doctor to continue to follow patients and test the invention on several patients before determining if it was working for the purpose intended. *Id.*

The three types of curvature addressed by Dr. Barry's three surgeries are analogous to the different weather conditions in *Manville* and *Polara*, the different crosswalk dimensions in *Polara*, and the different types of terrain in *Honeywell*. And Dr. Barry's reliance on follow-up appointments is analogous to the role of follow-up appointments in *TP Laboratories.* We therefore affirm the determination that the claimed '358 patent invention was not ready for patenting before the critical date.

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[8] In the related context of experimental use, we have likewise recognized that sometimes testing for a property can fall outside the statutory bars even if that property is not required by a claim limitation. *See Electromotive*, 417 F.3d at 1212 (first citing *Manville* as well as *EZ Dock*, 276 F.3d at 1353, then citing *Seal-Flex*, 98 F.3d at 1320).

2

Although the foregoing discussion suffices to affirm the rejection of Medtronic's invalidity challenge under § 102(b)'s public-use bar, we think it worthwhile to address Medtronic's contentions regarding the other element of the test of invalidity under the public-use bar: whether the invention was "in public use." We conclude that Medtronic also fails under this element.

Medtronic sought to establish this element by showing that the invention was accessible to the public and that it was commercially exploited. We conclude, however, that the evidence permitted a reasonable finding that Dr. Barry's '358 patent invention was not accessible to the public before the critical date. We also conclude that the asserted acts of commercial exploitation, namely, the August and October 2003 surgeries, come within the experimental-use exception.

i

In assessing accessibility to the public, we have focused on several underlying facts: "the nature of the activity that occurred in public; the public access to and knowledge of the public use; [and] whether there was any confidentiality obligation imposed on persons who observed the use." *Dey, L.P. v. Sunovion Pharm., Inc.*, 715 F.3d 1351, 1355 (Fed. Cir. 2013). Here, the alleged public use consisted of Dr. Barry's surgeries. But there is substantial evidence that Dr. Barry's surgeries were not exposed or accessible to the public.

Unlike in the classic case of *Egbert v. Lippmann*, 104 U.S. 333, 335 (1881), the inventor here did not relinquish control of his invention. Dr. Barry was the only one who actually practiced the invention, *i.e.*, performed the surgery using the claim-required manipulation of linked derotators. And while other people were present in the operating room—an anesthesiologist, two assistant physicians, a scrub technician, a neurophysiologist, a circulating nurse, and an equipment representative—there was sufficient evidence for the jury to find facts establishing that the technique was not accessible to the public through those people.

The evidence showed that very few of the people in the operating room had a clear view of the surgical field, where Dr. Barry was using his invention, because they were either not permitted near the sterile field or because there was a drape blocking the view. More dispositively, although sometimes (as in *Egbert*) even a limited disclosure can make an invention accessible to the public, *see Dey* 715 F.3d at 1355–56, an accessibility determination may be rejected where the evidence establishes a sufficient obligation of confidentiality, which can be implied rather than express. *Id.* at 1357; *Delano Farms Co. v. Cal. Table Grape Comm'n*, 778 F.3d 1243, 1249 (Fed. Cir. 2015) ("[D]emonstration of a prototype to 'friends and colleagues' was not invalidating because the evidence supported the existence of 'a general understanding of confidentiality.'"); *Invitrogen*, 424 F.3d at 1381 ("[T]his court has determined that a use before the critical period was not public even without an express agreement of confidentiality."). Here, the jury could find that those in the operating room were under an implied duty of confidentiality covering at least the tools and techniques used. *See* J.A. 1311, 1167–68, 1679, 2388–89. These confidentiality understandings suffice to support the jury's finding of no public accessibility.

ii

For commercial exploitation, as for public accessibility, Medtronic relies on the August and October surgeries. It rightly recognizes that "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." *Woodland Tr. v. Flowertree Nursery, Inc.*, 148

F.3d 1368, 1370 (Fed. Cir. 1998); *see TP Labs.,* 724 F.2d at 972. And it points out, correctly, that Dr. Barry was compensated for the three surgeries in which he used his invention. It also cites precedents to support its contention that a determination of commercial exploitation would not be defeated simply because Dr. Barry charged his standard fee for the surgeries, not an extra amount reflecting use of the inventive method. *See*, *e.g.*, *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1369, 1370 (Fed. Cir. 2007); *In re Kollar*, 286 F.3d 1326, 1333 (2002) (citing *Scaltech, Inc. v. Retec/Tetra, LLC*, 269 F.3d 1321, 1328 (Fed. Cir. 2001)) (relying on "[a]ctually performing the process itself for consideration"); *Application of Dybel*, 524 F.2d 1393, 1401 (CCPA 1975); *Application of Josserand*, 188 F.2d 486, 493–94 (C.C.P.A. 1951). *But cf. TP Labs.*, 724 F.2d at 968, 973 (finding no commercial exploitation, in part, because "the inventor[s] made no extra charge for fitting the three patients" with the invention and "followed 'their' regular practice of setting a fixed total fee").

But regardless of the foregoing, the August and October surgeries come within the experimental-use exception. An inventor's use, while public in one sense, will not be considered a statutory public use if the use was experimental. *Electromotive*, 417 F.3d at 1211; *City of Elizabeth*, 97 U.S. at 134–35 ("The use of an invention by the inventor himself, or of any other person under his direction, by way of experiment, and in order to bring the invention to perfection, has never been regarded as [a public] use. . . . [Testing an invention in a building even with the doors open] is not a public use, within the meaning of the statute, so long as the inventor is engaged, in good faith, in testing its operation. He may see cause to alter it and improve it, or not. His experiments will reveal the fact whether any and what alterations may be necessary."). "[I]n the context of a public use bar, evidence of experimental use may negate either the 'ready for patenting' or 'public use' prong." *Invitrogen*, 424 F.3d at 1379–80. "A use may be experimental if its purpose is: '(1) [to] test claimed features of the invention or (2) to determine whether an invention will work for its intended purpose—itself a requirement of patentability.'" *Polara*, 894 F.3d at 1348; *see Clock Spring, L.P. v. Wrapmaster, Inc.*, 560 F.3d 1317, 1327 (Fed. Cir. 2009).

This court has identified a host of factors that can be relevant to assessing whether a use is experimental, including:

> (1) the necessity for public testing, (2) the amount of control over the experiment retained by the inventor, (3) the nature of the invention, (4) the length of the test period, (5) whether payment was made, (6) whether there was a secrecy obligation, (7) whether records of the experiment were kept, (8) who conducted the experiment, (9) the degree of commercial exploitation during testing, (10) whether the invention reasonably requires evaluation under actual conditions of use, (11) whether testing was systematically performed, (12) whether the inventor continually monitored the invention during testing, and (13) the nature of contacts made with potential customers.

Id.; *see Allen Eng'g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1353 (Fed. Cir. 2002). Many of those considerations are factual, but "[e]xperimental use is a question of law to be analyzed based on the totality of the surrounding circumstances." *Petrolite Corp. v. Baker Hughes Inc.*, 96 F.3d 1423, 1426 (Fed. Cir. 1996).

In this case, the evidence—including the evidence already discussed when addressing "ready for patenting"—shows that many of the above-recited factors point toward a conclusion of experimental use. Dr. Barry was not sure that the device would work on different types of scoliosis, so he performed surgeries on the three main types. He was not confident that the new procedure was effective until the January 2004 follow-up appointment for the third of those surgeries. In the context of this medical patent, as we have discussed, it is reasonable, to truly determine whether a method works, to engage in such testing for a brief time on a small but representative range of expected circumstances of use and to rely on follow-up. *See TP Labs.*, 724 F.2d at 972. Dr. Barry earned no more from the surgeries than he would have earned had he used prior-art methods; and there is no basis for finding that he attracted the three customers because of the new technique—indeed, Medtronic insists that they did not even know it was being used.[9] In addition, Dr. Barry was the only one to perform the method using his device. More generally, he did not surrender control of the claimed invention before the critical date. J.A. 1312. He kept control through the expectation of secrecy binding the other medical professionals present at the surgeries and the other circumstances that, as explained above, support the jury's determination of no public accessibility. And other people were aware that he was experimenting, including one doctor, one of the nurses in the operating room, and a representative of the DePuy medical-device firm who was helping with the

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[9] Contrary to the dissent (at 21–22), this fact reduces the "degree of commercial exploitation," *Clock Spring*, 560 F.3d at 1327, in the sense at the heart of the § 102(b) policy of preventing an overlong period of commercial exploitation of an invention. Though earning his normal fees from the three surgeries, Dr. Barry did not "exploit" his invention as a means to attract the three patients for those surgeries or to charge more because he used his new technique. The jury could find that he would have gotten the same business, and earned the same fee, even if he had not planned to use or used the inventive process.

instrumentation. *See* J.A. 1370, 1178–79, 1733–35. These are all facts that the jury could reasonably find; considered together, not in isolation from each other, they weigh in favor of a determination of experimental use.

Medtronic relies centrally on two factors as pointing against a finding of experimental use: that Dr. Barry charged his patients for the surgeries; and that Dr. Barry did not inform his patients that he was engaged in testing of his particular technique. The first factor is not by itself weighty in this case. Receipt of payment, if sufficiently incidental to an experiment, is not automatically disqualifying. *See, e.g.*, *Int'l Tooth Crown Co. v. Gaylord*, 140 U.S. 55, 62–63 (1891); *Allen*, 299 F.3d at 1354. The evidence permitted the jury to find that Dr. Barry earned no more from the surgeries than he would have earned from using prior-art methods and did not attract his three patients based on use of the inventive method. On these facts, his fee can be viewed as merely incidental to experimental work—a very limited number of tests, "reasonably necessary" to the experimental purpose, *Int'l Tooth Crown*, 140 U.S. at 63—if the surgeries are otherwise experimental.

Medtronic must rely, therefore, on the second factor, at least when present together with the first. Both circumstances were present in *Sinskey v. Pharmacia Ophthalmics, Inc.*, 982 F.2d 494 (Fed. Cir. 1992), *overruled on other grounds by Pfaff*, 525 U.S. 55 (1998), on which Medtronic heavily relies. Dr. Sinskey was working on an intraocular lens that would be "implanted in the human eye to restore or improve the visions of patients who ha[d] had their natural lens removed because of damage or disease." *Id.* at 496. Between January and February 1980—before the critical date of February 24, 1980—Dr. Sinskey implanted the lens in eight patients. *Id.* at 497. He followed standard hospital procedures and was paid for the surgery. *Id.* We determined that the "objective evidence . . . cut[] heavily against experimental use." *Id.* at 499. We noted that he "charged his usual surgical fee for the operation and a standard price for the implants." *Id.* And we relied on the fact that he "did not inform the patients that they were being treated with a 'new' or 'experimental' lens." *Id.*

The facts in *Sinskey* differ from the facts here in ways that we think are crucial. First, there was evidence here that not just Dr. Barry, but others, understood the surgeries to be experimental. In *Sinskey*, there was no such objective confirmation; and Dr. Sinskey himself, during his deposition, had stated that he did *not* consider his prior uses to be experimental. *Id.* at 497–98. Second, the nature of the invention and conduct is critically different in the two cases. Whereas Dr. Barry's invention is of a method, Dr. Sinskey's patent was for a physical product, *i.e.*, a lens. *Id.* at 496 ("The patent is directed to an intraocular lens."). And when Dr. Sinskey implanted the lens in a patient, he was surrendering control of his invention, whereas Dr. Barry did not surrender control of his invention when he performed the derotation surgeries.

The experimental-use inquiry asks whether the inventor's conduct would lead the "'public' to reasonably believe the invention was in the public domain," *Manville*, 917 F.2d at 550, and in particular whether there has been "any use of that invention by a person other than the inventor who is under no limitation, restriction or obligation of secrecy to the inventor," *In re Smith*, 714 F.2d 1127, 1134 (Fed. Cir. 1983). When Dr. Sinskey surrendered control of the invention to another, without explaining that the device was experimental, the public was entitled to believe that the device was in the public domain. That conclusion answered the statutory question at least in the absence of any objective evidence supporting Dr. Sinskey's litigation claim of experimental use.

This court stated the principle in *LaBounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*: "When sales are made in an ordinary commercial environment and the goods are placed outside the inventor's control, an inventor's secretly held subjective intent to 'experiment,' even if true, is unavailing without objective evidence to support the contention. Under such circumstances, the customer at a minimum must be made aware of the experimentation." 958 F.2d 1066, 1072 (Fed. Cir. 1992) (citation omitted). That statement ties a demand for a warning of experimentation to at least two premises (which were present in *Sinskey* and *LaBounty*) beyond the "ordinary commercial environment"—there was no other objective evidence of experimentation, but merely a subjective inventor belief; and "the goods [were] placed outside the inventor's control." *Id.* But both of those premises are missing in the present case. There is objective evidence of experimentation, not just a purely subjective intent of Dr. Barry. And there was no loss of control—a factor that this court has stressed "is critically important." *Lough v. Brunswick Corp.*, 86 F.3d 1113, 1120 (Fed. Cir. 1996). No person left the operating room with the (method) invention, and no person learned the method without an obligation of confidentiality. In these circumstances, there was no placing of the invention in the public domain that is inconsistent with experimentation.

Medtronic cites several of our opinions that contain language that, taken out of context, might be read as making a necessary requirement for experimental use that the experimenter inform patients or customers of the experimental nature of the product. But the statements should not be taken out of context. Like *LaBounty*, which expressly tied the inform-customers statement to placing a product invention outside the inventor's control, every one of those cases in fact involved a device placed into a patient's or customer's control, and out of the inventor's control. *See*, *e.g.*, *Electromotive*, 417 F.3d at 1213 (focusing on the importance of customer awareness when the invention is put squarely in the hands and in the control of the customer); *Paragon Podiatry Lab., Inc. v. KLM*

Labs., Inc., 984 F.2d 1182, 1186–87 (Fed. Cir. 1993) (discussing the importance of communicating with customers the experimental nature of orthotic devices placed in the customer's shoes); *Sinskey*, 982 F.2d at 499 (discussing how Mr. Sinskey fitted the patients with a new kind of lens); *LaBounty*, 958 F.2d at 1069–70, 1072 (discussing the need to inform customers who used the scrap metal shears that the shears were experimental); *In re Dybel*, 524 F.2d at 1394–95, 1401 (discussing how the inventor's failure to disclose the experimental nature of his "load sensing piezoelectric transducer" when he sold it to a customer was fatal to the inventor's experimental-use argument). We have not applied the inform-customer principle in a context, like the present, involving a method kept within the inventor's control. The underlying logic of the principle does not justify its extension here: explaining to patients (or their parents or insurers) that the procedure was experimental was not vital to keeping it from the public domain.

The experimental-use exception is properly applied in light of the recognized mix of § 102(b) policies—permitting experimental testing, protecting existing public domain knowledge, limiting extension of the statutory period of gaining revenues due to the invention, and encouraging prompt disclosure. *See*, *e.g.*, *Lough*, 86 F.3d at 1119–20. Here, on all the facts the jury could properly find, we conclude that the surgeries fall within the experimental-use exception.[10]

B

The second asserted § 102(b) ground of invalidity of the asserted claims of the '358 patent is the on-sale bar.

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[10] We discuss Medtronic's new-trial challenge to a jury instruction regarding experimental use in our discussion of the on-sale bar next.

"A person shall be entitled to a patent unless . . . the invention was . . . 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(b) (2002). To be rendered invalid under the on-sale bar, an invention "must be the subject of a commercial offer for sale" in the United States and it "must be ready for patenting." *Pfaff*, 525 U.S. at 67; *see Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.*, No. 17-1229, slip op. at 1, 6 (U.S. Jan. 22, 2019). But experimental use negates applicability of the on-sale bar, as it does the public-use bar. *Polara*, 894 F.3d at 1348.

We have already concluded, in discussing the public-use bar, that the '358 patent's invention was not ready for patenting before the critical date and that the August and October 2003 surgeries come within the experimental-use exception. Those conclusions leave only one aspect of Medtronic's on-sale-bar challenge that requires discussion.[11]

Medtronic argues on one ground for a new trial regarding experimental use. It challenges a jury instruction that informed the jury that "there is a difference between 'experimental use' in the context of patent law and the way that the word 'experiment' is used in the context of medicine." J.A. 160. We reject this challenge.

Although underlying questions of patent law are matters of this court's law, we generally apply regional-circuit law on the overall standards for setting aside a verdict because of asserted error in jury instructions. *See Kinetic*

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[11] We need not discuss whether certain pre-critical-date communications between Dr. Barry and two device makers, DePuy and SpineVision, would constitute offers for sale under "traditional contract law principles." *Allen Eng'g*, 299 F.3d at 1352.

Concepts, Inc. v. Blue Sky Med. Grp., Inc., 554 F.3d 1010, 1021 (Fed. Cir. 2009); *Voda v. Cordis Corp.*, 536 F.3d 1311, 1328 (Fed. Cir. 2008). The Fifth Circuit asks whether "the 'charge as a whole leaves [the court] with substantial and ineradicable doubt whether the jury [was] properly guided in its deliberations' and the challenged instructions, separately or collectively, 'affected the outcome of the case.'" *Janvey v. Dillon Gage, Inc. of Dallas*, 856 F.3d 377, 388 (5th Cir. 2017).

The district court's instruction was not an abuse of discretion. In light of Medtronic's suggestions regarding the impropriety of medical experimentation without informed consent, it was reasonable for the court to address potential confusion about borrowing, for § 102(b), legal standards that govern experiments in quite different legal contexts. And what the court said on the subject was both modest and consistent with our holdings. This court has explained, specifically with regard to testing, that legal standards in other contexts do not control in the patent-validity context. *Pennwalt Corp. v. Akzona Inc.*, 740 F.2d 1573, 1580 (Fed. Cir. 1984) ("The fact that a sale or use occurs under a regulatory testing procedure, such as a FIFRA15 experimental use permit, does not make such uses or sales per se experimental for purposes of 35 U.S.C. § 102(b)." (footnote omitted)); *see also Helsinn*, 855 F.3d at 1373 (explaining that the standards for FDA experimentation are different from patent law's "ready for patenting" standards); *Clock Spring*, 560 F.3d at 1328 (explaining that actions and regulations by the Department of Transportation did not impact the analysis of whether the inventor's use was experimental). The district court's jury instruction in this case reasonably made that point to reduce the potential for a confused application of § 102(b)'s standards.

C

Medtronic's final invalidity challenge, applicable to both patents at issue here, is that Dr. Lenke invented the claimed matter before Dr. Barry, rendering the asserted claims invalid under 35 U.S.C. § 102(g). "A person shall be entitled to a patent unless . . . before such person's invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it." 35 U.S.C. § 102(g)(2) (2002). "[P]riority of invention goes to the first party to reduce an invention to practice unless the other party can show that it was the first to conceive the invention and that it exercised reasonable diligence in later reducing that invention to practice." *Z4 Techs.*, 507 F.3d at 1352.

Reduction to practice requires that the inventor prove that "(1) he constructed an embodiment or performed a process that met all the limitations . . . and (2) he determined that the invention would work for its intended purpose." *Id.* Medtronic had the burden of showing by clear and convincing evidence that Dr. Lenke reduced to practice first. *See id.* Reduction to practice is a mixed question of law and fact. *Id.* "[W]e must sustain the jury's conclusion unless the jury was not presented with substantial evidence to support any set of implicit findings sufficient under the law to arrive at its conclusion." *Eli Lilly & Co. v. Aradigm Corp.*, 376 F.3d 1352, 1362 (Fed.Cir.2004).

We uphold the jury's rejection of Medtronic's § 102(g) challenge because there is substantial evidence to support a finding that Dr. Lenke did not reduce the claimed inventions to practice before February 2006, after Dr. Barry did so (for both patents at issue here). Weaknesses in Medtronic's evidence, including credibility issues, allowed the jury to reject Medtronic's assertion that Dr. Lenke, having worked on linked derotators since 2002, reduced the Barry-claimed inventions to practice before

Dr. Barry did so in 2004. *See Barry*, 230 F. Supp. 3d at 659–63. At the same time, substantial evidence supports Dr. Barry's account of his invention and reduction to practice before February 9, 2006, including his 2003 surgeries and follow-up appointments, his securing of assistance from device makers, and his continued work in 2004.

D

Medtronic asserted in the district court that the two patents are unenforceable because Dr. Barry engaged in inequitable conduct during patent prosecution in the PTO. The district court found no such inequitable conduct. We affirm that determination.

"Inequitable conduct is an equitable issue committed to the discretion of the trial court and is, therefore, reviewed by this court under an abuse of discretion standard." *Energy Heating, LLC v. Heat On-The-Fly, LLC*, 889 F.3d 1291, 1299 (Fed. Cir. 2018). Inequitable conduct here requires a showing of both materiality and intent. *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011) (en banc). "[W]e review the district court's findings of materiality and intent for clear error." *Regeneron Pharm., Inc. v. Merus N.V.*, 864 F.3d 1343, 1351 (Fed. Cir. 2017) (quotation marks omitted).

The basis of the charge of inequitable conduct is Figure 6 of both patents, which Dr. Barry initially described incorrectly. Both patents describe Figure 6 as displaying "a three frame x-ray view showing 'before and after' views of a scoliosis patient who was treated in an investigational procedure using the system and method of the present invention." '358 patent, col. 4, lines 38–41; '121 patent, col. 4, lines 44–47. In January 2008, during the initial prosecution, the examiner requested clearer drawings than those originally submitted, including the x-rays that make up Figure 6. J.A. 5077 ("Figures 1-4 and 6-7 are objected [to] as they are unclear and do not distinctly show features which are pertinent to the understanding of the disclosed device. New corrected drawings are required.”). In September 2008, Dr. Barry’s counsel submitted a different set of x-rays for Figure 6. The evidence in this case indicates that counsel was not aware that, contrary to the description, the subject of the submitted x-rays actually was not a patient treated with the inventive methods, but instead was a patient treated on June 23, 2003, using a method that was not the invention claimed in the ’358 patent (or the ’121 patent’s follow-on invention).

In March 2016, Dr. Barry sought to correct the description during this litigation. For the ’121 patent, the PTO allowed the correction, issuing a Certificate of Correction in August 2016. Dr. Barry simultaneously requested the same correction of the ’358 patent, but the ’358 patent was the subject of an inter partes review proceeding at the time, so he withdrew the request in April 2016. Dr. Barry then filed a motion to correct under 37 C.F.R. § 1.323. The Patent Trial and Appeal Board denied the motion, expressing uncertainty about why the mistake had happened and why Dr. Barry had taken as long as he did to ask for the correction. When Dr. Barry again requested a certificate of correction from the PTO on May 25, 2017, the PTO granted the request and issued a Certificate of Correction in June 2017.

The district court found that there was no intent to deceive the PTO on the part of Dr. Barry and his counsel. *Inequitable Conduct Op.*, 245 F. Supp. 3d at 804–06. The district court found that both Dr. Barry and his counsel were credible in explaining why the errors occurred, without any intent to deceive, and why the errors were not discovered until this litigation. *Id.* We see no clear error in the court’s finding that the intent required for inequitable conduct is absent here. We need not reach the issue of materiality.

E

Medtronic challenges the jury's finding that Medtronic directly infringed the patents and that it induced others to infringe. "Whoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b). "[I]nducement liability may arise if, but only if, [there is] . . . direct infringement." *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2117 (2014) (internal quotation marks omitted). "The patentee must also show that the alleged infringer possessed the requisite intent to induce infringement, which we have held requires that the alleged infringer knew or should have known his actions would induce actual infringements." *Eli Lilly & Co. v. Teva Parenteral Medicines, Inc.*, 845 F.3d 1357, 1364 (Fed. Cir. 2017) (internal quotation marks omitted). "Circumstantial evidence can support a finding of specific intent to induce infringement." *Vanda Pharm. Inc. v. W.-Ward Pharm. Int'l Ltd.*, 887 F.3d 1117, 1129 (Fed. Cir. 2018); *Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 824 F.3d 1344, 1347 (Fed. Cir. 2016). "[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." *Vanda*, 887 F.3d at 1129 (internal quotation marks omitted). Direct infringement and inducement are issues of fact. *Sanofi v. Watson Labs., Inc.*, 875 F.3d 636, 645 (Fed. Cir. 2017); *01 Communique Lab., Inc. v. LogMeIn, Inc.*, 687 F.3d 1292, 1296 (Fed. Cir. 2012).

1

Substantial evidence supports the jury's finding of underlying direct infringement by surgeons. Dr. Barry presented the results of a survey—the Neal Survey—that asked spine surgeons questions about the spine derotation surgeries they had performed in the last two years. *See* J.A. 5449–57.[12] In particular, the survey asked doctors whether they had performed surgeries that included the following steps:

> Insert 2 spinal rods through pedicle screws on multiple vertebrae (at any stage of the procedure)[.] Attach derotators to pedicle screws on 2 or more vertebrae. Mechanically link 2 or more derotators. Link 2 or more different derotators attached to screws in a second group of 2 or more vertebrae (the 2 groups may have vertebrae in common). Both sets of linked derotators are moved simultaneously[.] Engage pedicle screw locking mechanism to hold vertebrae in derotated position[.]

J.A. 5454.

Medtronic argues insufficiency, or even inadmissibility, of the Neal Survey because it did not specifically name the accused Medtronic VCM kit in asking doctors what they did. We do not think, however, that Medtronic has shown error in the admission of or reliance on the survey as reasonably indicating the amount of activity by surgeons that would infringe.

The steps recited in the survey's inquiry track the claim language in the patent. The patent claim language includes: "implanting . . . each pedicle screw in a pedicle region of each . . . first group of multiple vertebrae of a spinal column," '358 patent, col. 6, lines 22–23; "a first group of pedicle screw engagement members which are

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[12] The parties have not specified precisely when the Neal Survey was conducted. But the district court said that it was not completed when Dr. Barry filed a motion concerning non-VCM products, a motion filed in late February 2016. J.A. 15168 n.8.

mechanically linked with said first handle means" of the "first pedicle screw cluster derotation tool, *id.*, col. 6, lines 13–17; "in a single motion simultaneously rotating said vertebrae of said first group of multiple vertebrae," *id.*, col. 6, lines 33–35; and "actuating said spinal rod engagement means to secure said vertebrae in their respective and relative positions," *id.*, col. 6, lines 53–55. On the record before us, we cannot say, as a matter of law, that a survey like this one had to itemize every single claim element: some claim elements might, for example, be essentially universal accompaniments of the steps included in the questions, making their inclusion pointlessly complicating. To establish the inadequacy of the survey, Medtronic had to show with specificity that the absence of some inquiry made the questions asked and answers given an unreliable indicator of the occurrence of activity that constitutes direct infringement. It has not done so. And if the identification of substantive steps in the survey was adequate, the omission of the "VCM" name makes no difference.

The Neal Survey asked not only about specific steps but also about surgeons' use of Medtronic's Horizon System. J.A. 5451. According to Dr. Barry's expert, moreover, any use of the Horizon System to derotate a spine would have used the VCM kit. The jury could accept that testimony. Although Medtronic has argued that use of certain tube derotators might not infringe yet would have been captured by the Neal Survey about what surgeons actually used, the jury could reject that contention. There was evidence indicating that such derotators would not have worked as the claims require. Medtronic has also argued, in this court and in its post-trial motion, that the Neal Survey would have captured use of its SmartLink product, which it says would be non-infringing; but all evidence of SmartLink was excluded from the trial, with Medronic's agreement, so such evidence cannot support Medtronic's challenge to the verdict. *Barry*, 230 F. Supp. 3d at 642 n.9.

The Neal Survey is not the only evidence of direct infringement. The jury could find that Dr. Lenke himself used the accused VCM kit. Dr. Lenke testified that when he performed derotations, the technique involving the VCM kit "would be the technique . . . that [he] would use" and continued to use after 2010 (the year the '358 patent issued). J.A. 2706–08. He also continued to educate other surgeons on this technique after 2010.

Medtronic also makes an argument directed specifically to infringement of the '121 patent. It points to the requirement, stated in that patent's claim 2 as quoted above, of a cross-linking member connecting two handle means, each of which links three screw engagement members (for simultaneous manipulation). Medtronic contends that there was insufficient evidence, from the Neal Survey or otherwise, of surgeons' using such a three-by-three linking step with the VCM kit. We disagree. The Neal Survey asked about surgeons' using "6 or more derotators linked by lateral and transverse connections and moved simultaneously," J.A. 5454, and Dr. Barry's expert testified that the three-by-three linking step would be carried out by surgeons following the instructions on the VCM kit's lid. *See Barry*, 230 F. Supp. 3d at 644–45.

In sum, the jury could properly find that there was direct infringement of both patents at issue here, of a scope indicated by the Neal Survey.

2

Substantial evidence also supports the finding that Medtronic induced infringement after issuance of Dr. Barry's two patents. On appeal, Medtronic focuses on the timing of its inducing actions to contend otherwise, arguing that there was insufficient proof of inducement after the patents' issuance. We reject the contention, agreeing with the district court. *See Barry*, 230 F. Supp. 3d at 245–46.

VCM was on the market four years before the ’358 patent issued and seven years before the ’121 patent issued. The Neal Survey asked whether surgeons “received any information or training (formal or informal) regarding derotation of multiple vertebrae using linked derotators from that source,” without asking the dates of the information received. J.A. 5455. There was extensive evidence about the training materials provided by Medtronic and its sales representatives. Importantly, every VCM kit that went out had instructions on it, and the Medtronic sales force was constantly teaching surgeons the nuances of and techniques for using the devices. Dr. Lenke also testified that he was still instructing surgeons on using the VCM kit after 2010. On the evidence of record, we conclude, the jury could permissibly find inducement in the period after patenting.

F

Medtronic challenges the jury’s damages award. But the challenge is dependent on our accepting Medtronic’s challenges to use of the Neal Survey to establish infringement, which we have rejected. We add here only that the district court carefully considered Medtronic’s challenges to the methodology of the Neal Survey and denied Medtronic’s motion to exclude the survey, concluding that Medtronic’s criticisms went to the weight of the evidence, not its relevance and reliability. *Barry*, 230 F. Supp. 3d at 641. We see no abuse of discretion in that evidentiary ruling.

III

For the foregoing reasons, we reject Medtronic’s challenges on appeal and affirm the judgment of the district court.

Costs to Dr. Barry.

AFFIRMED

United States Court of Appeals for the Federal Circuit

MARK A. BARRY,
Plaintiff-Appellee

v.

MEDTRONIC, INC.,
Defendant-Appellant

2017-2463

Appeal from the United States District Court for the Eastern District of Texas in No. 1:14-cv-00104-RC, Chief Judge Ron Clark.

PROST, *Chief Judge*, dissenting in part.

I join the majority's opinion regarding the '121 patent. I respectfully dissent, however, from its conclusion regarding the '358 patent.

The facts are simple. More than one year before filing for the '358 patent, Dr. Barry successfully performed his claimed surgical method on three different patients, charging each his normal fee. Dr. Barry's method was thus *prima facie* "on sale" or in "public use" before the critical date under 35 U.S.C. § 102(b).[1]

The majority concludes otherwise based on Dr. Barry's litigation testimony. Dr. Barry testified that, even though he charged his patients and successfully performed the claimed method three times before the critical date, he was not truly satisfied with his method until a follow-up after the third surgery—a follow-up that occurred just after the critical date. Never mind that Dr. Barry appreciated that his method worked as of a surgery's completion. And never mind that successful follow-ups for the first two surgeries occurred *before* the critical date. Dr. Barry testified that he needed that third follow-up to be satisfied. On this basis, the majority concludes Medtronic failed to show that the asserted claims of the '358 patent are invalid under § 102(b)'s statutory bars.

Both the Supreme Court's and our precedent require invalidating the asserted claims under § 102(b) as a matter of law on this record. For this reason, I dissent.

I

A

Whether an invalidating sale or public use has occurred is a question of law reviewed de novo, based on underlying facts reviewed for substantial evidence following a jury verdict. *Leader Techs., Inc. v. Facebook, Inc.*, 678 F.3d 1300, 1305 (Fed. Cir. 2012).

The § 102(b) on-sale bar applies when, before the critical date, the claimed invention was (1) the subject of a commercial offer for sale; and (2) ready for patenting.

[1] All citations to sections of Title 35 are to their pre-AIA version.

Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 67 (1998).[2] Medtronic needed to prove the facts underlying these two conditions by clear and convincing evidence. *See, e.g.*, *Allen Eng'g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1352 (Fed. Cir. 2002).

This case mostly concerns *Pfaff*'s ready-for-patenting prong. This prong may be satisfied "in at least two ways": by proof of reduction to practice before the critical date; or by proof that before the critical date the inventor had prepared enabling drawings or other descriptions. 525 U.S. at 67–68. And to establish a reduction to practice, we have held that a patent challenger must show that the inventor "(1) constructed an embodiment or performed a process that met all the [claim] limitations and (2) determined that the invention would work for its intended purpose." *In re Omeprazole Patent Litig.*, 536 F.3d 1361, 1373 (Fed. Cir. 2008) (internal quotation marks omitted) (quoting *z4 Techs., Inc. v. Microsoft Corp.*, 507 F.3d 1340, 1352 (Fed. Cir. 2007)).

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[2] I focus the rest of my discussion on § 102(b)'s on-sale bar as opposed to its public-use bar, though my ultimate conclusion is the same for each. The public-use bar applies when, before the critical date, the claimed invention was (1) in public use; and (2) ready for patenting. *Invitrogen Corp. v. Biocrest Mfg., L.P.*, 424 F.3d 1374, 1379 (Fed. Cir. 2005). The ready-for-patenting prong is the same for both bars, and the public-use prong is met if the purported use was accessible to the public or commercially exploited. *Id.* at 1379–80. The claimed inventions were commercially exploited for essentially the same reasons that they were the subject of a commercial sale or offer for sale. I see no material difference between the two bars in this case or in the way that evidence of experimental use would affect their application.

Even if a patent challenger makes out a *prima facie* case of the on-sale bar, a patentee may negate the bar's application with evidence that the sale was primarily for experimental purposes. *See Electromotive Div. of Gen. Motors Corp. v. Transp. Sys. Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1210 (Fed. Cir. 2005) (proceeding in a "step-wise fashion," analyzing first whether there were any pre-critical-date sales and then whether any such sales were negated by experimentation); *Netscape Commc'ns Corp. v. Konrad*, 295 F.3d 1315, 1321 (Fed. Cir. 2002) ("To establish that an otherwise public use does not run afoul of [§] 102(b), it must be shown that the activity was substantially for purposes of experiment." (internal quotation marks omitted)); *TP Labs., Inc. v. Prof'l Positioners, Inc.*, 724 F.2d 965, 971–72 (Fed. Cir. 1984).

B

The majority provides two bases for its conclusion that the asserted claims are not invalid under § 102(b) and *Pfaff*. Majority Op. 11–12. First, it says that the claimed methods were not ready for patenting before the critical date because they did not satisfy this court's reduction-to-practice test before that date. Majority Op. 13–18. Second, it says that the three pre-critical-date surgeries were for experimental purposes, thus negating application of a § 102(b) bar. Majority Op. 24–31.

Part II below concerns how Medtronic met *Pfaff*'s two-prong test. Specifically, Part II.A shows that *Pfaff*'s commercial-sale prong was satisfied. Part II.B shows that *Pfaff*'s ready-for-patenting prong was satisfied because our reduction-to-practice test was satisfied. Part II.C shows that, regardless of whether the claimed methods were "reduced to practice," they were ready for patenting.

Part III concerns how the majority misapplies our reduction-to-practice test. This part also addresses a confusing aspect of our case law that the majority's opinion perpetuates. Part IV concerns the experimental-use doctrine.

II

The key facts are undisputed. The ’358 patent’s critical date is December 30, 2003. Dr. Barry performed three pre-critical-date surgeries that practiced all the limitations of the asserted ’358 patent claims. These surgeries occurred on August 4, 2003; August 5, 2003; and October 14, 2003. Dr. Barry charged his normal fee for them.

A

The foregoing evidence establishes *Pfaff*’s commercial-sale prong for each of the three pre-critical-date surgeries. *See Plumtree Software, Inc. v. Datamize, LLC*, 473 F.3d 1152, 1163 (Fed. Cir. 2006) (“[P]erforming the patented method for commercial purposes before the critical date constitutes a sale under § 102(b).”); *In re Kollar*, 286 F.3d 1326, 1333 (Fed. Cir. 2002) (“[P]erforming the process itself for consideration would . . . trigger the application of § 102(b).”). Therefore, absent sufficient evidence that these surgeries were done for primarily experimental purposes, they would satisfy the first *Pfaff* prong as a matter of law.

B

Medtronic also established that the inventions were reduced to practice no later than the second surgery’s completion, and therefore were ready for patenting by then. *Pfaff*, 525 U.S. at 67–68 (identifying reduction to practice as a basis for establishing the ready-for-patenting prong).

Reduction to practice is a question of law we review de novo. *DSL Dynamic Scis. Ltd. v. Union Switch & Signal, Inc.*, 928 F.2d 1122, 1125 (Fed. Cir. 1991). To establish a reduction to practice, we have held that a patent challenger must show that the inventor (1) constructed an embodiment or performed a process that met all the claim limitations and (2) determined that the invention would work for its intended purpose. *In re Omeprazole*, 536 F.3d at 1373. It is undisputed that each of the three pre-critical-date surgeries met all the claim limitations. The only question is when Dr. Barry determined that his methods worked for their intended purpose.

The claims state the inventions' intended purpose: "the amelioration of aberrant spinal column deviation conditions." '358 patent col. 6 ll. 7–8. Dr. Barry testified that such amelioration happened during surgery:

> Q. And there is a term that is used in the patent that is not a term that is familiar to me as a layperson, but it's "amelioration." Does that mean correction?
>
> A. Yes.
>
> Q. Okay. So, it happens right there in the operating room, on the spot, true?
>
> A. The surgical correction of the rotated vertebrae back to the midline, yeah, happens with that maneuver. Yes.

J.A. 1369–70. Dr. Barry's expert testified similarly. J.A. 1960 ("Q. And at least for the vertebrae, that derotation problem, you'll know if there was at least some amelioration when the surgery is over. A. Fair enough.")

Once this amelioration happened, Dr. Barry secured the derotated vertebrae in place with rods and screws, as the claims require:

> Q. And can you explain for the jury, please, what happens once you get the vertebrae derotated into the proper alignment? How do you hold it there?
>
> A. Well, as mentioned, you have screws up and down throughout that area of that curve. Once

> those vertebrae are rotated back into the midline and *you have the correction that you are happy with, you are comfortable with*, you lock down the screws to the two rods. . . . So, that's at the end of the procedure where all of the implants—screws, rods, and the setscrews—are all tightened down, locked down.

J.A. 1158–59 (emphasis added); *see* '358 patent col. 6 ll. 52–56.

Thus, by no later than the second surgery's completion, Dr. Barry appreciated that his invention worked for its intended purpose—to ameliorate aberrant spinal column deviation conditions.[3] His inventions were reduced to practice by then as a matter of law.

C

Though sufficient, reduction to practice is not necessary for § 102(b)'s on-sale bar to apply. *Pfaff*, 525 U.S. at 66 (concluding that it is unnecessary "to engraft a reduction to practice element into the meaning of the term 'invention' as used in § 102(b)"). Rather, the standard is whether the invention was "ready for patenting"—that is, whether the inventor "could have obtained a patent." *Id.* at 67–68; *see id.* at 62–63.

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[3] Because the claims' preamble refers to the amelioration of "aberrant spinal column deviation conditions" (plural), and because Dr. Barry testified that his patients had different types of conditions, I place the time of reduction to practice at the completion of the second surgery—not the first. Given that both of the first two surgeries (and their respective follow-ups) occurred before the critical date, the difference is immaterial here.

The record demonstrates that, regardless of when his inventions were reduced to practice, Dr. Barry could have obtained a patent before the critical date. By August 5, 2003, he had already performed the claimed methods on what he contends were two different types of aberrant spinal column deviation conditions. There was at least some amelioration of those conditions by the end of the surgeries. At this point, Dr. Barry could have satisfied the enablement and written-description requirements of § 112 and credibly claimed utility under § 101. *See Alcon Research Ltd. v. Barr Labs., Inc.*, 745 F.3d 1180, 1189–90 (Fed. Cir. 2014) (noting that "a patent does not need to guarantee that the invention works for a claim to be enabled" and that "[t]here is no requirement that the disclosure contain either examples or an actual reduction to practice" (internal quotation marks omitted)); *CFMT, Inc. v. Yieldup Int'l Corp.*, 349 F.3d 1333, 1339 (Fed. Cir. 2003) (describing the relationship between enablement and utility and concluding that, "[b]ecause the preamble term 'cleaning' means only 'removal of contaminants,' not removal of all contaminants or removal of contaminants according to [a] commercial standard, the inventor shows utility and enables the invention by disclosing 'removal of contaminants'").

By focusing only on reduction to practice, the majority misses *Pfaff*'s point—readiness for patenting is broader than reduction to practice and is meant to answer whether the inventor could have obtained a patent on his or her invention. This court captured a similar insight even before *Pfaff*. We noted that "the thrust of the on-sale inquiry is whether the inventor thought he had a product which could be and was offered to customers, not whether he could prevail under the technicalities of reduction to practice appropriate to determining priority of invention under interference law." *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1187 n.5 (Fed. Cir. 1993); *cf. Pfaff*, 525 U.S. at 60–61 (observing that neither § 100 nor § 101 mentions "reduction to practice" and that the statute's only specific reference to that term is in § 102(g), which concerns resolving priority disputes between two competing claimants to a patent).

The same insights apply here. Regardless of whether Dr. Barry satisfied our reduction-to-practice test as of the second surgery's completion, his inventions were ready for patenting by then.

III

The majority disagrees that Dr. Barry's inventions were ready for patenting before the critical date. The concept of an "intended purpose" is central to the majority's analysis and conclusion.

First, the majority reasons that Dr. Barry's claimed methods were not ready for patenting until they were reduced to practice, and that they were not reduced to practice until Dr. Barry knew that they would work for their intended purpose. The majority accepts that Dr. Barry needed the third follow-up to determine that the inventions worked for their intended purpose. Majority Op. 13; *see id.* at 14–19. This is error, because the majority asks more of the "intended purpose" than what the claims and specification define it to be.

Second, the majority finds support in cases where we have discussed "intended purpose" in the context of the experimental-use doctrine. But that doctrine contemplates a broader conception of "intended purpose" than what is required to show reduction to practice. Statements in our case law that loosely refer to an "intended purpose" are, regrettably, confusing. But the majority perpetuates the confusion in reaching its result. And its approach threatens to render superfluous a substantial body of law starting with the Supreme Court's seminal *City of Elizabeth* case.

I discuss these two problems in turn.

A

To know whether and when the inventor determined that the invention would work for its intended purpose for reduction to practice, we must first know what the "intended purpose" is. Although the testing necessary to determine whether an invention would work for its intended purpose is a factual question, *z4 Techs.*, 507 F.3d at 1352, defining the intended purpose is a legal question based on the claims and specification, *see Manning v. Paradis*, 296 F.3d 1098, 1102–04 (Fed. Cir. 2002).

Here, the claims define the intended purpose as "the amelioration of aberrant spinal column deviation conditions." '358 patent col. 6 ll. 7–8. As both Dr. Barry and his expert testified, that amelioration is apparent and appreciated during a surgery when the surgeon rotates and straightens the vertebrae and then locks them into place. *See supra* Part II.B. That testimony, along with the undisputed fact that the pre-critical-date surgeries met all the claim limitations, should end the reduction-to-practice inquiry.

To conclude otherwise, the majority must conceive of a more exacting intended purpose—one that, based on Dr. Barry's testimony, includes clearing a follow-up at a certain time and working across three different types of conditions (not just two). In doing so, the majority legally errs by looking beyond the claims and the specification to effectively define the "intended purpose" for reduction to practice.[4] *Conner v. Joris*, 241 F.2d 944, 947 (CCPA 1957)

[4] The majority also references Dr. Barry's expert's testimony as supporting Dr. Barry. Majority Op. 16–17. But much of that testimony concerns what the expert thought Dr. Barry was thinking, J.A. 2899, which adds very little to an objective, patent-based assessment of

("In going beyond both the [claim] and the specification to glean [an inventor's] intended purpose the [B]oard has gone far beyond any position supported by the cases cited or any that we have been able to find."); *see Land v. Regan*, 342 F.2d 92, 98–99 (CCPA 1965) (criticizing going beyond the claims and specification to glean an invention's intended purpose); *cf. z4 Techs.*, 507 F.3d at 1352 (finding error in the district court's definition of intended purpose as "stop[ping] piracy" because the claim language indicated a purpose only of *reducing* piracy).

To be sure, the majority suggests that the '358 patent describes follow-up time and the three-surgery requirement as part of the inventions' intended purpose. *See* Majority Op. 18–19 (referencing a "common-sense approach to identifying the intended purpose [that] is rooted in the preamble claim language as well as the specification"). I am unpersuaded.

The claims say nothing about follow-up time. They say, "the amelioration of aberrant spinal column deviation conditions." '358 patent col. 6 ll. 7–8. The district court concluded that "amelioration" would be accorded its customary meaning, which a person of ordinary skill in the art would understand as "to improve." J.A. 33–34. Both Dr. Barry and his expert testified that the aberrant spinal column deviation conditions were ameliorated, or

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what the inventions' intended purpose is. And, insofar as the majority relies on standards for peer-reviewed publications as they relate to follow-up time, Majority Op. 17, I am not convinced that those standards are, or should be, relevant to reduction to practice or readiness for patenting under the U.S. patent laws. For instance, Dr. Barry's expert testified that such publications require two years' follow-up time, J.A. 2900, but Dr. Barry successfully filed for a patent well before that.

improved, as of a surgery's completion. And Dr. Barry testified that he appreciated as much at the time. *Supra* Part II.B.

The specification also says nothing relating follow-up time to the inventions' intended purpose. The majority references two portions of the specification in its discussion, but neither supports its position. First, it cites the background section. Majority Op. 18–19 (citing '358 patent cols. 1–2). This section discusses prior-art treatment regimens and problems from untreated scoliosis; it says nothing about follow-up criteria as it relates to the intended purpose of Dr. Barry's inventions. Second, the majority refers to the four "objects of the invention" articulated in the summary of the invention. Majority Op. 18 (citing '358 patent col. 3 ll. 10–34). Again, these objectives say nothing about follow-up time. Quite the contrary; they describe what happens in the operating room—for example, (1) "facilitat[ing] *the application of significant derotational forces to individual vertebra*, with substantially reduced risk for fracture thereof *upon application of such forces*," '358 patent col. 3 ll. 23–25 (emphasis added); and (2) "facilitat[ing] *the application of forces to vertebrae of affected spinal column segments en bloc*, thereby distributing otherwise potentially injurious forces in a manner for safely achieving over-all spinal column correction or derotation," *id.* at col. 3 ll. 30–33 (emphasis added).

Nor does the intended purpose contemplate working across three different types of curvatures, as opposed to just two. The claims' body requires amelioration of "*an* aberrant spinal column deviation condition," '358 patent col. 6 ll. 35–36 (emphasis added), and the preamble mentions only "amelioration of aberrant spinal column deviation conditions," *id.* at col. 6 ll. 7–8. The majority identifies nothing in the patent itself—whether in the claims or specification—that explains how working across three, not just two, curvatures is part of the inventions' intended purpose. Therefore, even if I were to accept that the '358 patent's language made follow-up time relevant to the inventions' intended purpose, I would still fail to understand the legal relevance of Dr. Barry's alleged need for the *third* surgery's follow-up, as opposed to just the first two, to determine whether his invention worked for its intended purpose (so as to establish reduction to practice).

The majority suggests that Medtronic "has not meaningfully presented, let alone supported" the argument that follow-ups on two surgeries (covering two conditions) were enough to establish reduction to practice. Majority Op. 19 n.7. I disagree. The majority acknowledges that Medtronic's opening brief argued that the two follow-ups from the August surgeries were enough. *Id.* Dr. Barry responded that he needed to test his invention on "different anatomies" and that it was only after the third follow-up that he knew whether he had successfully treated the "three most common[] curve types." Dr. Barry's Resp. Br. 25–26 (alteration in original). Medtronic replied:

> [A]n invention works for its intended purpose as long as there is *some* demonstration of the workability or utility of the claimed invention. A demonstration of its use in two patients certainly qualifies. After all, the claims are not confined to methods that ameliorate *every* patient's spinal deviation condition.

Medtronic's Reply Br. 8 (citation and internal quotation marks omitted); *see id.* at 8–9 (citing Dr. Barry's testimony regarding the surgeries, their follow-ups, and the patients' curve types). This straightforward argument is before us. Not even Dr. Barry has urged otherwise.

If Dr. Barry wanted to claim or describe his inventions' intended purpose differently—for example, with reference to satisfying a standard of care that contemplates a certain amount of follow-up time, or versatility across more than two curvature types—he could have done so. But his claims and specification say nothing of the sort. Given his testimony that before the critical date he practiced his invention (as he later claimed it) and achieved its purpose (as he later described it), his invention was reduced to practice before then as a matter of law.

B

To find Dr. Barry's inventions not ready for patenting, the majority analogizes to several cases it says support its view of the inventions' intended purpose. Majority Op. 20–22. Its analysis of *Pfaff*'s ready-for-patenting prong reflects some confusion in our case law regarding the relationship among reduction to practice, an invention's intended purpose, and the experimental-use doctrine.

Again, reduction to practice requires proof that the inventor determined that the invention would work for its intended purpose. *In re Omeprazole*, 536 F.3d at 1373. Therefore, showing readiness for patenting (at least, via reduction to practice) requires proof that the inventor determined that the invention would work for its intended purpose. Yet we have also said that a use may be experimental if it is to "determine whether an invention will work for its intended purpose." *Polara Eng'g Inc. v. Campbell Co.*, 894 F.3d 1339, 1348 (Fed. Cir. 2018) (quoting *Clock Spring, L.P. v. Wrapmaster, Inc.*, 560 F.3d 1317, 1327 (Fed. Cir. 2009)). But if that determination has not already been made, then the invention would not be ready for patenting in the first place. Therefore, any consideration of whether a use was experimental would be superfluous, as there would be no *prima facie* case of a § 102(b) bar to begin with. This is how the majority resolves the case. *See* Majority Op. 23.

I am skeptical, however, of an approach that would render the experimental-use doctrine superfluous based upon the same considerations of an "intended purpose" being considered elsewhere.[5] Instead of rendering this doctrine superfluous, the better and more accurate view is that the considerations of an "intended purpose" are not really the same as between reduction to practice and experimental use.

The experimental-use doctrine exists to afford an inventor the ability to experiment with his or her invention via what would *otherwise* constitute a barring sale or public use. The focus is on the inventor's intent in making the sale or using the invention publicly; if it is for primarily experimental purposes, we do not consider the sale or use barring. *See Electromotive Div.*, 417 F.3d at 1211. Several factors have emerged to evaluate that intent—e.g., the amount of control the inventor maintained, whether there was a secrecy obligation, the degree of commercial exploitation, and whether customers were aware the inventor was experimenting. *Id.* at 1212–14. Such factors are unrelated to how far along the invention is in terms of reduction to practice. Rather, they bear on the inventor's intent.

Given these differences, a subjective, expansive understanding of an invention's "intended purpose"—one that accommodates the good-faith, perfectionist inventor—is considered as part of the experimental-use inquiry. This is the way the Supreme Court addressed the issue in the *City of Elizabeth* pavement case:

> Durability was one of the qualities to be attained. [The inventor] wanted to know whether his pavement would stand, and whether it would resist decay. Its character for durability could not

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[5] I am all the more skeptical given that *Pfaff* explicitly reaffirmed the continued vitality of the experimental-use doctrine. 525 U.S. at 64–65, 67.

> be ascertained without its being subjected to use for a considerable time. He subjected it to such use, in good faith, for the simple purpose of ascertaining whether it was what he claimed it to be.

City of Elizabeth v. Am. Nicholson Pavement Co., 97 U.S. 126, 136 (1877); *id.* at 137 (justifying, on policy grounds, delaying filing for a patent when the delay is "occasioned by a *bona fide* effort to bring [the] invention to perfection, or to ascertain whether it will answer the purpose intended").

In fact, most of the cases the majority analogizes to in its not-ready-for-patenting discussion actually analyze this subjective, outside-the-patent-language "intended purpose" as part of experimental use. Majority Op. 20–22; *see Polara*, 894 F.3d at 1349 ("The jury could have properly based its finding of experimental use on the need for testing to ensure the durability and safety of the claimed [invention]."); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 550 (Fed. Cir. 1990) ("Because [the inventor] . . . did not offer to sell the [invention] to anyone else until after it was tested in the cold, rain, snow, and wind—an environment in which it was designed to operate—we must agree with the district court that experimentation, and not profit, was the primary motive behind [the use]."); *TP Labs.*, 724 F.2d at 972.

Thus, if an inventor's pre-critical-date sale or public use is to test an unclaimed or undescribed, yet inherent, feature of an invention (e.g., durability, safety), such testing may support the inventor's overall claim of experimental use and thereby avoid invalidity. *See Electromotive Div.*, 417 F.3d at 1211–12. But neither this testing nor the inventor's assertions regarding his or her subjective desire for such testing should control the ready-for-patenting inquiry. *Pfaff*'s "ready for patenting" does not mean whenever the inventor was ready to file for a patent.

IV

Given my conclusion that Medtronic made a *prima facie* showing of both *Pfaff* prongs, I must address whether Dr. Barry presented enough evidence that he conducted the three surgeries with experimental purpose sufficient to negate an on-sale bar. Although the majority does not address the parties' respective burdens in this context, I address them briefly. I then address the evidence.

A

The Supreme Court addressed the burdens issue in *Smith & Griggs Manufacturing Co. v. Sprague*:

> In considering the evidence as to the alleged prior use for more than two years of an invention, which, if established, will have the effect of invalidating the patent, and where the defense is met only by the allegation that the use was not a public use in the sense of the statute, because it was for the purpose of perfecting an incomplete invention by tests and experiments, *the proof, on the part of the patentee*, the period covered by the use having been clearly established, *should be full, unequivocal, and convincing*.

123 U.S. 249, 264 (1887) (emphasis added). The Court reiterated the rule in *Root v. Third Avenue Railroad Co.*, 146 U.S. 210, 226 (1892).

Over forty years later, the Second Circuit interpreted and applied this language. With Judge Learned Hand writing, the court concluded that, on the issue of experimental purpose, "the patentee has the burden, once the [prior] use is proved, and he must establish it by stronger proof than in ordinary civil suits." *Aerovox Corp. v. Polymet Mfg. Corp.*, 67 F.2d 860, 861 (2d Cir. 1933) (Hand, J.). The court noted that the First, Third, and Seventh Circuits all read *Smith & Griggs* the same way. *Id.* (collecting cases). Indeed, the court "should have supposed this settled" but for contrary language in a Sixth Circuit case, *Austin Machinery Co. v. Buckeye Traction Ditcher Co.*, which said that "the legal and heavy burden of proof as to all the elements involved continues until the end upon one who attacks the patent grant." 13 F.2d 697, 700 (6th Cir. 1926). Although Judge Hand saw merit in both positions, he concluded that the majority view was authoritative "until the Supreme Court decides otherwise." *Aerovox*, 67 F.2d at 861. The Supreme Court has not decided otherwise.

This court has, though. In *TP Laboratories, Inc. v. Professional Positioners, Inc.*, the court addressed the burdens applicable to a patent challenger's § 102(b) defense and a patentee's corresponding assertion of experimental use. It followed *Austin* and held that "the burden of proof [is] upon the party attacking the validity of the patent, and that burden of persuasion does not shift at any time to the patent owner." 724 F.2d at 971; *id.* at 971 n.3 (citing *Austin*, 13 F.2d at 700). Although the court acknowledged *Smith & Griggs* in a footnote, it saw no conflict there. 724 F.2d at 971 & n.3.

The *TP Laboratories* court further opined that, even if *Smith & Griggs* expressed a contrary view—i.e., one that "impose[d] the ultimate burden of persuasion on the patent holder rather than merely the burden of going forward with countering evidence"—the Supreme Court's view would not be "tenable" in light of the subsequently enacted statutory presumption of validity in 35 U.S.C. § 282. 724 F.2d at 971 n.3. This reasoning was questionable even at the time. As several commentators noted, the presumption of validity long predated the 1952 Patent Act.[6] The court's reasoning has not improved with age.

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[6] *E.g.*, William C. Rooklidge & Stephen C. Jensen, *Common Sense, Simplicity and Experimental Use Nega-*

See Microsoft Corp. v. i4i Ltd. P'ship, 564 U.S. 91, 102 (2011) ("[B]y the time Congress enacted § 282 and declared that a patent is 'presumed valid,' the presumption of patent validity had long been a fixture of the common law." (citing *Radio Corp. of Am. v. Radio Eng'g Labs., Inc.*, 293 U.S. 1 (1934))).

Thus, in *TP Laboratories*, the patentee's burden of persuasion on experimental use became a burden of production: "[I]f a *prima facie* case is made of public use, the patent owner must be able to point to or *must come forward with convincing evidence* to counter that showing." 724 F.2d at 971 (emphasis added). And while *TP Laboratories* at least required a patentee to come forward with "convincing" evidence of experimental use, we later held that this does not imply a heightened standard, such as one akin to "clear and convincing." *Lisle Corp. v. A.J. Mfg. Co.*, 398 F.3d 1306, 1316 (Fed. Cir. 2005). *But cf. In re Dybel*, 524 F.2d 1393, 1401 (CCPA 1975) (holding that, in light of a *prima facie* case of an on-sale bar, the applicant "had the burden of establishing by clear and convincing evidence that such sales were for experimental purposes").

B

Even under the burden-of-production approach set forth in *TP Laboratories*, I conclude that Dr. Barry's

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tion of the Public Use and On Sale Bars to Patentability, 29 J. Marshall L. Rev. 1, 44–45 (1995) (cited favorably in *Pfaff*, albeit for a different proposition); *see also* 2A Chisum on Patents § 6.02[8], p. 6-292 n.41 (2017) (noting that "[t]he court's basis for this holding is questionable" given that "[t]he enactment of [§] 282 on the presumption of validity in 1952 was generally thought to have codified prior law").

evidence of experimental purpose was insufficient as a matter of law to negate a bar.

Most of Dr. Barry's evidence of experimental purpose as to the three pre-critical-date surgeries is just his own after-the-fact testimony. *See* Majority Op. 26–27 (referencing Dr. Barry's testimony).[7] "[C]ertain things are settled. Significantly, an inventor's subjective intent to experiment cannot establish that his activities are, in fact, experimental." *Electromotive Div.*, 417 F.3d at 1212. Indeed, we have repeatedly noted the minimal evidentiary value of an inventor's after-the-fact, litigation-inspired testimony as to experimental intent. *E.g.*, *LaBounty Mfg., Inc. v. ITC*, 958 F.2d 1066, 1071 (Fed. Cir. 1992) ("An inventor's protestation of an intent to experiment, expressed for the first time during litigation, is of little evidentiary value, at best."); *see also Sinskey v. Pharmacia Ophthalmics, Inc.*, 982 F.2d 494, 499 (Fed. Cir. 1992) ("[A]fter-the-fact testimony of an inventor's subjective 'experimental intent' is entitled to minimal

[7] The majority suggests that other people were aware that Dr. Barry was experimenting, Majority Op. 27–28, but its record citations do not withstand scrutiny. Dr. Barry's doctor colleague testified that she understood him to be working on a technique sometime "in the 2002–2004 time frame." J.A. 1733. This testimony is vague and says nothing about these particular surgeries, much less their experimental purpose. Dr. Barry's nurse colleague said that it was "exciting when [the] team uses [the] levers to correct the curve," but said nothing about whether she understood the procedure to be experimental. J.A. 1370. And testimony concerning the DePuy medical-device representative relates only to the development of surgical tools, not these particular surgeries or whether they were experimental. J.A. 1178–79.

weight.”), *abrogated on other grounds by Pfaff*, 525 U.S. 55 (1998); *TP Labs.*, 724 F.2d at 972 (similar).

Rather, we generally look to objective evidence to determine whether a sale was for experimentation. *Electromotive Div.*, 417 F.3d at 1212–13 (listing various objective indicia); *see Lough v. Brunswick Corp.*, 86 F.3d 1113, 1121 (Fed. Cir. 1996); *In re Smith*, 714 F.2d 1127, 1135 (Fed. Cir. 1983). The record is thin on objective evidence indicating such a purpose.

To begin, Dr. Barry kept no records reflecting any experimental intent as to these surgeries. We have observed that the absence of such records weighs against a finding of experimental use. *See Lough*, 86 F.3d at 1121 (finding the lack of recordkeeping important even with an inventor less sophisticated than Dr. Barry); *see also Clock Spring*, 560 F.3d at 1328; *Netscape*, 295 F.3d at 1322.

Dr. Barry also charged his normal fee for the surgeries. The majority concludes that this fact points toward a conclusion of experimental use. Majority Op. 27–28. Yet I cannot see how charging one’s normal fee makes the sale look like anything other than a normal sale. *See Electromotive Div.*, 417 F.3d at 1217; *Sinskey*, 982 F.2d at 499. Had Dr. Barry charged a premium, a claim of experimental purpose would be difficult to maintain. Had he charged less, it might suggest experimental purpose—or it might not. *Compare EZ Dock, Inc. v. Schafer Sys., Inc.*, 276 F.3d 1347, 1352 (Fed. Cir. 2002) (citing, in support of a conclusion of experimental use, fact that customer did not pay full market price for the product and received free equipment and free installation), *with Petrolite Corp. v. Baker Hughes Inc.*, 96 F.3d 1423, 1428 (Fed. Cir. 1996) (finding evidence of a discount not determinative because a patentee “may have created an on-sale bar despite *losing* money on a sale” (citation omitted)). Either way, I disagree with the majority’s conclusion that charging the normal fee permits an inference of experimental use.

Majority Op. 27–28. At best, this fact is neutral for Dr. Barry. But the more natural inference is one of a sale for commercial purposes.

The majority places weight on the fact that Dr. Barry maintained control over his method, but I find it hard to do the same. Control can be a useful objective indicator of experimental intent when it serves to distinguish between a commercial sale and one that is experimental. For example, if an inventor sells his or her inventive product but retains some control over its use, that scenario looks different from a normal sale—thus, more likely experimental. Similarly, if an inventor sells his or her product but forgoes an opportunity to retain some control, that scenario looks more like a normal sale. In this case, however, the nature of the inventor (a practicing surgeon) and his invention (a surgical method) means the inventor was likely going to retain sole control over the method for as long as he was practicing it. Although Dr. Barry's control over his method is consistent with experimental intent, given these circumstances, I cannot place much weight on this consideration.

Dr. Barry also did not inform his patients that he was performing his surgical method for experimental purposes. The majority dedicates considerable discussion to minimizing the importance of this fact. It carefully parses a statement in one of our prior cases, *LaBounty*, and finds that informing a customer of experimental intent is only relevant or necessary if at least two premises exist: (1) the absence of other objective evidence of experimentation; and (2) the placement of the invention outside of the inventor's control. Majority Op. 29–30. Respectfully, I believe the majority's two-necessary-premises requirement over-reads *LaBounty* and overcomplicates what should be a simple observation: if an inventor tells his or her customer that the invention is for experimental purposes, it is more likely that the inventor's intent was experimental; if he or she does not, it is less likely. Regardless, even if I were to accept that informing customers of experimental intent is *more* important when control is lost, that would not mean it is irrelevant when control is maintained. It remains useful as an objective indicator of the inventor's contemporaneous intent.

In Dr. Barry's case, all of the foregoing considerations—the lack of records indicating experimentation, the normal fee charged, the control exercised, and the failure to inform customers of experimental purpose—would look the same if the surgeries were for commercial purposes. The only thing that affirmatively suggests these surgeries were experimental is that Dr. Barry said they were—after the fact, during litigation. As a matter of law, that is insufficient to show experimental purpose.

* * *

The record in this case shows that Dr. Barry waited too long to file for the '358 patent and that the on-sale bar applies. I respectfully dissent from the majority's contrary conclusion.

United States Court of Appeals for the Federal Circuit

GENERAL ELECTRIC COMPANY,
Appellant

v.

UNITED TECHNOLOGIES CORPORATION,
Appellee

2017-2497

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2016-00531.

Decided: July 10, 2019

BRIAN E. FERGUSON, Weil, Gotshal & Manges LLP, Washington, DC, argued for appellant. Also represented by STEPHEN BOSCO, CHRISTOPHER PEPE; ANISH R. DESAI, New York, NY.

MICHAEL VALAIK, Bartlit Beck Herman Palenchar & Scott LLP, Chicago, IL, argued for appellee. Also represented by PATRICK JOSEPH COYNE, MICHAEL ANDREW HOLTMAN, SYDNEY KESTLE, JEFFREY CURTISS TOTTEN, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, Washington, DC; BENJAMIN AARON SAIDMAN, Atlanta, GA.

Before REYNA, TARANTO, and HUGHES, *Circuit Judges*.

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

Concurring opinion filed by *Circuit Judge* HUGHES.

REYNA, *Circuit Judge*.

General Electric Company petitioned the United States Patent Trial and Appeal Board for *inter partes* review of U.S. Patent No. 8,511,605. United Technologies Corporation is the assignee of the patent. The Board found the claims not obvious in view of the prior art. General Electric appeals. For the reasons discussed below, we hold that General Electric lacks Article III standing and accordingly, we dismiss the appeal.

BACKGROUND

Appellee United Technologies Corporation ("UTC") is the assignee of U.S. Patent No. 8,511,605 ("the '605 patent"). The '605 patent is generally directed to a gas turbine engine having a gear train driven by a spool with a low stage count low pressure turbine. '605 patent, Abstract. This particular gas turbine engine is designed for use in airplanes and has an axially movable variable area fan nozzle.

On January 29, 2016, General Electric Company ("GE") filed a petition for *inter partes* review ("IPR") challenging claims 1 and 2 of the '605 patent on grounds of anticipation and claims 7–11 of the '605 patent on grounds of obviousness. After institution, UTC disclaimed claims 1 and 2, leaving only claims 7–11 at issue. On June 26, 2017, the United States Patent Trial and Appeal Board ("Board") issued a Final Written Decision concluding that the preponderance of the evidence did not show claims 7–11 of the '605 patent to be unpatentable for obviousness. GE timely appealed to this court.

On December 29, 2017, UTC moved to dismiss GE's appeal for lack of standing. UTC asserted that GE lacked standing because it failed to demonstrate a sufficient injury in fact. In support, UTC pointed to this court's decisions holding that an appellant does not automatically possess standing to appeal an adverse Board decision by virtue of serving its petitions in the challenged IPR. GE submitted a response on January 16, 2018, including the Declaration of Alexander E. Long, GE's Chief IP Counsel and General Counsel of Engineering for GE Aviation ("First Long Declaration"). Mr. Long explained that the commercial aircraft engine business operates on a long lifecycle and that airplane engines are designed to meet certain specifications for certain aircraft. Because the design of aircraft engines can take eight years or more, GE develops new engines based on old designs. Mr. Long stated that, in the 1970s, GE developed a geared turbofan engine with a variable area fan nozzle for NASA. GE asserted that the '605 patent impedes its ability to use its 1970s gearedfan engine design as a basis for developing and marketing future geared turbofan engine designs with a variable area fan nozzle, thereby limiting the scope of GE's engine designs and its ability to compete in a highly regulated industry. Mr. Long also declared that designing around the '605 patent restricts GE's design choices and forced GE to incur additional research and development expenses.

We denied UTC's motion without addressing the merits and ordered UTC to brief the issue in its responsive appellate brief. The parties subsequently briefed the standing issue. GE argued that the injuries it suffered include statutory estoppel, economic loss, future threat of litigation, and competitive harm. GE relied on the First Long Declaration as evidence to show its injuries. UTC argued that GE suffered no injury in fact because: (1) UTC has not sued or threatened to sue GE for infringement of the '605 patent; (2) GE does not offer evidence of a concrete and particularized economic injury because it has not developed an engine that implicates claims 7–11 of the ’605 patent; and (3) statutory estoppel and the competitive standing doctrine do not apply to GE.

We heard oral argument on November 7, 2018. Much of oral argument focused on whether GE had constitutional standing to appeal and whether general statements made in the First Long Declaration were sufficient to establish standing. We subsequently ordered GE to supplement the First Long Declaration and submit any additional declarations that would provide greater specificity regarding the asserted injury GE contends provides sufficient standing to appeal in this matter. We provided UTC with an opportunity to respond.

Each party filed its supplemental submission. GE filed an additional declaration from Mr. Long on November 28, 2018 (“Second Long Declaration”). In his second declaration, Mr. Long stated that Boeing requested information from GE and several of its competitors for engine designs for future Boeing aircrafts. Mr. Long also noted that Boeing requested information regarding designs for both geared-fan engines and direct-drive engines.

In response to Boeing’s request, GE researched a geared-fan engine design that “would potentially implicate [UTC’s] 605 Patent.” Second Long Decl. ¶ 5. GE asserts it “expended time and money researching and further developing” this technology for the potential business opportunity with Boeing. *Id.* ¶ 7. Ultimately, GE chose not to submit to Boeing a geared-fan engine design and instead submitted a design for a direct-drive engine of the type used in GE’s current engine designs. The record does not indicate why GE submitted a direct-drive engine design instead of a geared-fan engine design. Nor does Mr. Long state whether GE lost this particular bid. He contends only that to maintain GE’s competitive position, it needs to be able to meet customer needs with a geared-fan engine design that may implicate the ’605 patent.

Discussion

Not every party to an IPR will have Article III standing to appeal a final written decision of the Board. *See Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168, 1172 (Fed. Cir. 2017) (citing *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2143–44 (2016)). To establish standing, an appellant must have suffered an injury in fact that has a nexus to the challenged conduct and that can be ameliorated by the court. *Id.* at 1171 (citing *Spokeo, Inc. v. Robins*, 136 S. Ct. 1540, 1545 (2016)). The injury in fact must be "concrete and particularized," not merely "conjectural or hypothetical." *JTEKT Corp. v. GKN Auto. Ltd.*, 898 F.3d 1217, 1220 (Fed. Cir. 2018) (emphasis omitted) (first quoting *Spokeo*, 136 S. Ct. at 1545, and then quoting *Lujan v. Defs. of Wildlife*, 504 U.S. 555, 560 (1992)).

GE has the burden of showing that it suffered an injury in fact sufficient to confer Article III standing to appeal. *See DaimlerChrysler Corp. v. Cuno*, 547 U.S. 332, 342 (2006). It is undisputed that GE did not establish before the Board that it had standing to appeal the Board's Final Written Decision. *See JTEKT*, 898 F.3d at 1220. Therefore, GE must create a record in this court with the "requisite proof of an injury in fact" sufficient to show that it has standing to appeal. *Id.* (quoting *Phigenix*, 845 F.3d at 1171–72). As a result, GE has submitted two declarations from Mr. Long and has proffered three theories of harm to support standing: (1) competitive harm; (2) economic losses; and (3) estoppel under 35 U.S.C. § 315(e). For the reasons stated below, we reject GE's arguments.

GE's purported competitive injuries are too speculative to support constitutional standing. *See Phigenix*, 845 F.3d at 1171 (stating that the injury must be real or imminent). Mr. Long's declarations are the only evidence of standing before the court, and neither shows a concrete and imminent injury to GE related to the '605 patent. Mr. Long does not assert that GE lost bids to customers because it could offer only a direct-drive engine design. Nor does Mr. Long attest that GE submitted a direct-drive engine design to Boeing *because* of the ’605 patent. Mr. Long contends only that GE expended some unspecified amount of time and money to consider engine designs that could *potentially* implicate the ’605 patent. Boeing may have asked for information regarding a possible geared-fan engine design, but there is no evidence that Boeing demanded or required an engine covered by claims 7–11 of the ’605 patent, and there is no indication that GE lost the Boeing bid. The evidence shows that GE submitted to Boeing a direct-drive engine design, but there is no indication as to why it opted not to submit a geared-fan engine design. There is also no evidence that GE lost business or lost opportunities because it could not deliver a geared-fan engine covered by the upheld claims or any evidence that prospective bids require geared-fan engine designs. GE asserts only speculative harm untethered to the ’605 patent. Without a real, particularized injury, GE lacks standing to appeal the IPR decision.

We recently addressed the “competitor standing” doctrine in *AVX Corp. v. Presidio Components, Inc.*, 923 F.3d 1357 (Fed. Cir. 2019). There, we concluded that the appellant lacked Article III standing because it had “no present or nonspeculative interest in engaging in conduct even arguably covered by the patent claims at issue.” *Id.* at 1363. We explained that competitor standing has been found when government action alters competitive conditions. *Id.* at 1364 (citing *Clinton v. City of New York*, 524 U.S. 417, 433 (1998)). In those circumstances, the government “provides benefits to an existing competitor or expands the number of entrants in the petitioner’s market, not an agency action that is, at most, the first step in the direction of future competition.” *Id.* at 1364 (quoting *New World Radio, Inc. v. FCC*, 294 F.3d 164, 172 (D.C. Cir. 2002)).

For the competitor standing doctrine to apply, the government action must change the competitive landscape by, for example, creating new benefits to competitors. Put another way, the government action must alter the status quo of the field of competition. Here, the Board's upholding of claims 7–11 of the '605 patent did not change the competitive landscape for commercial airplane engines. *See id.* ("The government action is the upholding of specific patent claims, which do not address prices or introduce new competitors, but rather give exclusivity rights over precisely defined product features."). Therefore, we see no competitive harm to GE sufficient to establish standing to appeal.

We similarly reject GE's economic losses argument. GE contends that it has been injured by increased research and development costs sustained by attempts to design engines that could implicate the '605 patent and engines that do not implicate the '605 patent. Yet, GE provides no further details. It fails to provide an accounting for the additional research and development costs expended to design around the '605 patent. It provides no evidence that GE actually designed a geared-fan engine or that these research and development costs are tied to a demand by Boeing for a geared-fan engine. The only evidence that GE actually designed a geared-fan engine is the engine that it designed in the 1970s. Any economic loss deriving from the 1970s engine is not an imminent injury. *See Lujan*, 504 U.S. at 560 (stating that injury in fact must be actual or imminent). Aside from a broad claim of research and development expenditures, GE has provided no evidence that these expenses were caused by the '605 patent. *See id.* (requiring "a causal connection between the injury and the conduct complained of"). Therefore, GE's broad claim of economic loss is insufficient to confer standing.

There is also no evidence that GE is in the process of designing an engine covered by claims 7–11 of the '605 patent. Nor has GE demonstrated that it has definite plans to use the claimed features of the '605 patent in the airplane engine market. *See JTEKT*, 898 F.3d at 1221 (holding appellant lacked standing because it had not established that it had "concrete plans for future activity that creates a substantial risk of future infringement"). UTC has not sued or threatened to sue GE for infringing the '605 patent. Appellee Br. 36. Therefore, GE's future harm argument fails.

GE also contends that estoppel under 35 U.S.C. § 315(e) creates injury in fact for standing purposes. We have previously rejected the estoppel argument as a basis for Article III standing. Where, as here, the appellant does not currently practice the patent claims and the injury is speculative, we have held that the estoppel provision does not amount to an injury in fact. *See, e.g.*, *AVX Corp.*, 923 F.3d at 1362–63; *Phigenix*, 845 F.3d at 1175–76; *Consumer Watchdog v. Wis. Alumni Research Found.*, 753 F.3d 1258, 1262 (Fed. Cir. 2014). We see no need to reach a different conclusion on this record.

CONCLUSION

We have considered GE's remaining arguments and find them unpersuasive. We hold that GE lacks Article III standing to appeal the Board's Final Written Decision and therefore dismiss the appeal.

DISMISSED

COSTS

No costs.

United States Court of Appeals for the Federal Circuit

GENERAL ELECTRIC COMPANY,
Appellant

v.

UNITED TECHNOLOGIES CORPORATION,
Appellee

2017-2497

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2016-00531.

HUGHES, *Circuit Judge*, concurring.

Because our recent precedent compels holding that General Electric Company lacks Article III standing here, I concur in the judgment. I write separately because I believe that precedent has developed an overly rigid and narrow standard for Article III standing in the context of appeals from *inter partes* review proceedings.

Our recent decision in *AVX Corp. v. Presidio Components, Inc.*, 923 F.3d 1357 (Fed. Cir. 2019), which I believe was incorrectly decided, takes a patent-specific approach to the doctrine of competitor standing that is out of step with Supreme Court precedent. The Court has repeatedly held that government actions altering the competitive landscape of a market cause competitors probable economic injury sufficient for Article III standing. And I do not believe that a Board decision erroneously upholding a competitor's patent in an IPR is meaningfully different from the type of government actions held to invoke competitor standing in those cases. Thus, absent our holding in *AVX Corp.*, I would conclude that GE possesses Article III standing in this appeal.

I

The parties here are direct competitors in the commercial aircraft turbofan engine market. GE, both itself and through joint ventures, "designs, tests, certifies, manufactures, and supplies aircraft engines" for major airplane manufacturers, or "airframers," such as Boeing and Airbus. Decl. of Alexander E. Long 2 ¶ 3, ECF No. 36. During the design process, "airframers explain to GE their needs and requirements for turbofan engines, to enable GE to provide competitive offerings that will satisfy the airframers' requirements." Suppl. Decl. of Alexander E. Long 2 ¶ 3, ECF No. 64.

Due to the safety and regulatory requirements of the turbofan engine market, "designing, developing, testing, and certifying a new aircraft engine can take eight to ten years or longer." Long Decl. 3 ¶ 6. And "[t]here is enormous up-front investment required." Long Decl. 4 ¶ 7. Accordingly, "new aircraft engine design work necessarily begins years before there is any commercial sale or offer for sale of the final engine." Long Decl. 4 ¶ 8.

According to GE, competition in the aircraft engine market is fierce, and the market is dominated by three major players: GE, Universal Technologies Corporation, and Rolls-Royce. GE petitioned for IPR of a patent owned by UTC. That patent is directed to a turbofan engine design – the very type of technology over which GE and UTC fiercely compete. The Board decided that GE failed to show that the challenged claims were unpatentable, and GE appealed that decision to this Court.

UTC filed a motion to dismiss the appeal, arguing that GE lacks Article III standing because GE does not produce or plan to produce an engine that would infringe its patent. Relying on precedent of both this Court and the Supreme Court, GE argued that the Board's decision to uphold UT's patent caused GE a concrete competitive injury sufficient to satisfy Article III standing.

II

The sole issue with respect to standing in this case is whether GE has shown that it has suffered an injury-in-fact. An injury-in-fact requires a party to establish "an invasion of a legally protected interest which is (a) concrete and particularized, and (b) actual or imminent, not conjectural or hypothetical." *Lujan v. Defs. of Wildlife*, 504 U.S. 555, 560 (1992) (internal quotation marks and citations omitted). This requirement "ensure[s] that the plaintiffs have a stake in the fight and will therefore diligently prosecute the case . . . while, at the same time, ensuring that the claim is not abstract or conjectural so that resolution by the judiciary is both manageable and proper." *Canadian Lumber Trade All. v. United States*, 517 F.3d 1319, 1333 (Fed. Cir. 2008) (internal quotation marks omitted); *see also Massachusetts v. E.P.A.*, 549 U.S. 497, 517 (2007) ("At bottom, 'the gist of the question of standing' is whether petitioners have 'such a personal stake in the outcome of the controversy as to assure that concrete adverseness which sharpens the presentation of issues upon which the court so largely depends for illumination.'" (quoting *Baker v. Carr*, 369 U.S. 186, 204 (1962))). But "[i]njury-in-fact is not Mount Everest." *Canadian Lumber*, 517 F.3d at 1333 (quoting *Danvers Motor Co. v. Ford Motor Co.*, 432 F.3d 286, 294 (3d Cir. 2005)); *accord Bowman v. Wilson*, 672 F.2d 1145, 1151 (3d Cir. 1982) ("The contours of the injury-in-fact requirement, while not precisely defined, are very generous.").

Many of our recent cases dealing with injury-in-fact in IPR appeals have focused on the appellant/petitioner's likelihood of facing a future infringement suit. *See JTEKT Corp. v. GKN Auto. LTD.*, 898 F.3d 1217, 1220 (Fed. Cir. 2018) (noting that "typically in order to demonstrate the requisite injury in an IPR appeal, the appellant/petitioner must show that it is engaged or will likely engage 'in an[ ] activity that would give rise to a possible infringement suit,' . . . or has contractual rights that are affected by a determination of patent validity" (quoting *Consumer Watchdog v. Wis. Alumni Research Found.*, 753 F.3d 1258, 1262 (Fed. Cir. 2014))); *see also Momenta Pharm., Inc. v. Bristol-Myers Squibb Co.*, 915 F.3d 764, 769–70 (Fed. Cir. 2019) (holding that an IPR petitioner lacked standing because it had abandoned its plans for developing a potentially infringing product, so it no longer faced a potential infringement suit); *E.I. Dupont de Nemours & Co. v. Synvina C.V.*, 904 F.3d 996, 1004 (Fed. Cir. 2018) (holding that an IPR petitioner had suffered an injury in fact because it "currently operates a plant capable of infringing" the challenged patent); *Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168, 1173–74 (Fed. Cir. 2017) (noting that appellant "does not contend that it faces risk of infringing the [challenged] patent, that it is an actual or prospective licensee of the patent, or that it otherwise plans to take any action that would implicate the patent"); *Consumer Watchdog*, 753 F.3d at 1262 (noting that the appellant/petitioner "is not engaged in any activity that would give rise to a possible infringement suit"). But these cases do not suggest that the *only* means for an IPR petitioner to establish injury-in-fact is to show a reasonable likelihood of an imminent infringement suit. Such a reading would conflate the injury-in-fact analysis with the "reasonable apprehension of imminent suit" test for declaratory judgment jurisdiction, which the Supreme Court overruled. *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n. 11 (2007) (noting that the "reasonable apprehension of suit" test conflicts with Supreme Court precedent); *see also ABB Inc. v.*

Cooper Indus., LLC, 635 F.3d 1345, 1348 (Fed. Cir. 2011) (recognizing that *MedImmune* rejected the requirement of a "reasonable apprehension of imminent suit" to establish declaratory judgment jurisdiction).

The risk of a future infringement suit is not the only way an IPR petitioner can show injury-in-fact. "The [Supreme Court] routinely recognizes probable economic injury resulting from [government actions] that alter competitive conditions as sufficient to satisfy the [Article III injury-in-fact requirement]." 3 K. Davis & R. Pierce, Administrative Law Treatise 13–14 (3d ed. 1994); *see also Clinton v. City of New York*, 524 U.S. 417, 433 (1998) (citing David & Pierce, *supra*, at 13–14). This Court's recent decision in *AVX Corp.* addressed the competitor standing doctrine in IPR appeals. We held that a patent could cause an IPR petitioner competitive harm if the petitioner "was currently using the claimed features [of the challenged patent] or nonspeculatively planning to do so in competition." *AVX Corp.*, 923 F.3d at 1365. But if the petitioner is not currently engaged in infringing activity and has no concrete plans to do so in the imminent future, we held that the Board's decision to uphold a challenged patent does not invoke the competitor standing doctrine. *Id.*

Thus, even when the parties are direct competitors, our cases require an unsuccessful IPR appellant/petitioner to show concrete current or future plans to infringe the challenged patent. I do not believe that Article III requires such a showing, particularly where Congress has provided IPR petitioners a procedural right of appeal. *See* 35 U.S.C. § 141; *see also Consumer Watchdog*, 753 F.3d at 1261 (recognizing that "where Congress has accorded a procedural right to a litigant, such as the right to appeal an administrative decision, certain requirements of standing—namely immediacy and redressability, as well as prudential aspects that are not part of Article III—may be relaxed").

AVX Corp. found that the "government action at issue [in IPR] is quite different" from the government action in other cases applying competitor standing. *AVX Corp.*, 923 F.3d at 1365. According to *AVX Corp.*, the "feature-specific exclusivity right [of a patent] does not, by the operation of ordinary economic forces, naturally harm a firm just because it is a competitor in the same market as the beneficiary of the government action (the patentee)." *Id.* This analysis sets patents apart from other applications of competitor standing on the basis that a patent's exclusivity right is different than other interests. The Supreme Court, however, has made clear that "[p]atent law is governed by the same common-law principles, methods of statutory interpretation, and procedural rules as other areas of civil litigation." *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954, 964 (2017) (internal quotation marks omitted).

Our patent-specific treatment of competitor standing is out of step with its application in other areas. The Supreme Court has repeatedly found standing where government action subjects the plaintiff to increased competition because of the probable economic injury that accompanies it. *See Clinton*, 524 U.S. at 433; *Ass'n of Data Processing Serv. Orgs., Inc.*, 397 U.S 150, 152 (1970); *Inv. Co. Inst. v. Camp*, 401 U.S. 617, 620 (1971); *accord Canadian Lumber*, 517 F.3d at 1334; *La. Energy & Power Auth. v. FERC*, 141 F.3d 364, 367 (D.C. Cir. 1998). In *Data Processing*, for example, the petitioners – organizations who sold data processing services to businesses – challenged a ruling by the Comptroller of Currency that allowed national banks to provide data processing services to other banks and bank customers. 397 U.S. at 151. The Supreme Court held that the Comptroller's ruling caused petitioners an injury-in-fact because the resulting increase in competition would likely cause petitioners future economic harm. *Id.* at 152. Similarly, in *Clinton* the Supreme Court held that a farmers' cooperative suffered a concrete injury when the president cancelled a tax benefit enacted to facilitate the purchase of processing plants by such cooperatives. 524 U.S. at 432. The Court found that "[b]y depriving [the cooperative] of their statutory bargaining chip, the cancellation inflicted a sufficient likelihood of economic injury to establish standing under our precedents." *Id.*

In both *Data Processing* and *Clinton*, the government action subjected the challenger to increased competition. The exclusionary right of a patent, however, allows the patent owner to exclude others from competing in its market. But like an action that increases competition, government action that *excludes* an appellant from effectively competing in a market, such as erroneously upholding its competitor's patent, provides a benefit to the competitor and causes competitive harm to the appellant that presumptively leads to economic injury. *See Canadian Lumber*, 517 F.3d 1332 (noting that competitor standing "relies on economic logic to conclude that a plaintiff will likely suffer an injury-in-fact when the government acts in a way that increases competition *or aids the plaintiff's competitors*" (emphasis added)). Thus, I do not believe there is any sound basis for *AVX Corp.*'s patent-specific treatment of the competitor standing doctrine.

The facts of this case further demonstrate why *AVX Corp.*'s patent-specific approach is incorrect. GE and UTC are direct competitors in a fiercely competitive market that requires significant up-front investment years before any profits can be realized. During the engine design process, "airframers explain to GE their needs and requirements for turbofan engines, to enable GE to provide competitive offerings that will satisfy the airframers' requirements." Long Suppl. Decl. at 2 ¶ 3. According to GE, one such airframer specifically requested that GE research an engine design that would implicate UTC's patent. But at least until that patent expires, GE cannot design and produce such an engine without risking infringement. Thus, UTC's patent effectively precludes GE from meeting its customer's design needs without spending additional resources to design around the patent.[1] I fail to see how this costly competitive burden does not constitute a "concrete and particularized" harm to GE. *See Lujan*, 504 U.S. at 560. And GE certainly has a "personal stake in the outcome of th[is] controversy," which concerns the validity of a patent owned by its direct competitor covering technology over which the parties compete. *E.P.A.*, 549 U.S. at 517 (internal quotation marks omitted).

Finally, as the majority correctly notes, we have repeatedly held that the estoppel provisions of 35 U.S.C. § 315(e), standing alone, do not create an injury. Maj. Op. 8. But the effects of that estoppel have especially significant impact where the parties are direct competitors. Unlike the appellant/petitioners in *Consumer Watchdog* or *Phigenix*, who did not manufacture or sell products in the market involving the patented technology, *see Consumer Watchdog*, 753 F.3d at 1260; *Phigenix*, 845 F.3d at 1171, GE is one of three major actors in the turbofan engine market. Although we have not decided whether § 315(e) would estop an IPR petitioner who lacked standing to appeal an unfavorable Board decision, *see AVX Corp.*, 923 F.3d at 1363, until we do, UTC's patent is an even greater competitive deterrent for GE. GE faces uncertainty as to whether it is estopped from raising an invalidity defense on any

[1] In *Biotechnology Industry Organization v. District of Columbia*, we found that "[w]hether the Act is enforced or not," pharmaceutical manufacturers challenging a statute that penalized selling prescription drugs at "excessive price[s]" could demonstrate injury-in-fact due to the "actual administrative costs" they would necessarily incur in complying with the statute. 496 F.3d 1362, 1370–71 (Fed. Cir. 2007). Those "actual administrative costs" are analogous to the increased research and design costs that GE has allegedly suffered due to UTC's patent.

ground "that [it] raised or reasonably could have raised during" its IPR. *See* § 315(e)(2). This uncertainty makes facing potential infringement litigation significantly more impactful on GE's future design choices. Thus, while I agree that 35 U.S.C. § 315(e) estoppel alone does not create an injury-in-fact, its potential effects in this case underscore the problems with our increasingly narrow approach to Article III standing.

Absent *AVX Corp.*, which I believe was incorrectly decided, I would conclude that GE has established Article III standing to appeal the Board's adverse decision. Because I am bound by that precedent, however, I respectfully concur only in the judgment.

Syllabus

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.

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 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 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 receiving 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

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 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.

Syllabus

SUPREME COURT OF THE UNITED STATES

Syllabus

PETER, DEPUTY DIRECTOR, PATENT AND TRADEMARK OFFICE *v.* NANTKWEST, INC.

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

No. 18–801. Argued October 7, 2019—Decided December 11, 2019

The Patent Act provides two mutually exclusive methods for challenging an adverse decision by the Patent and Trademark Office (PTO). A dissatisfied applicant may appeal directly to the Federal Circuit, 35 U. S. C. §141, or, as relevant here, may file a new civil action against the PTO Director in the United States District Court for the Eastern District of Virginia, §145. Under this second proceeding, the applicant must pay "[a]ll the expenses of the proceedings." *Ibid.*

Respondent NantKwest, Inc., filed a §145 civil action after its patent application was denied. The District Court granted summary judgment to the PTO, and the Federal Circuit affirmed. The PTO moved for reimbursement of expenses, including the pro rata salaries of PTO attorneys and a paralegal who worked on the case. The District Court denied the motion, concluding that the statutory language referencing expenses was not sufficient to rebut the "American Rule" presumption that parties are responsible for their own attorney's fees. The en banc Federal Circuit affirmed.

Held: The PTO cannot recover the salaries of its legal personnel under §145. Pp. 3–10.

(a) The "American Rule"—the bedrock principle that "[e]ach litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise," *Hardt* v. *Reliance Standard Life Ins. Co.*, 560 U. S. 242, 253—provides the starting point for assessing whether §145 authorizes payment of the PTO's legal fees. Contrary to the Government's view, this Court has never suggested that any statute is exempt from the presumption against fee shifting or limited its American Rule inquiries to prevailing party statutes. Rather, it has developed a line of precedents addressing statutory deviations from the American Rule that do not limit attorney's fees awards to prevailing parties. See, *e.g., id.,* at 254. The presumption against fee shifting is particularly important here because reading §145 to permit an unsuccessful government agency to recover attorney's fees from a prevailing party "would be a radical departure from longstanding fee-shifting principles adhered to in a wide range of contexts." *Ruckelshaus* v. *Sierra Club*, 463 U. S. 680, 683. Pp. 3–6.

(b) Section 145's plain text does not overcome the American Rule's presumption against fee shifting. Definitions of "expenses," while capacious enough to include attorney's fees, provide scant guidance. The mere failure to foreclose a fee award "neither specifically nor explicitly authorizes courts to shift [fees]." *Baker Botts L. L. P.* v. *ASARCO LLC*, 576 U. S. 121, ___. The complete phrase "expenses of the proceeding" would not have been commonly understood to include attorney's fees at the time §145 was enacted. Finally, the modifier "all" does not transform "expenses" to reach an outlay it would not otherwise include.

In common statutory usage, the term "expenses" alone has never been considered to authorize an award of attorney's fees with sufficient clarity to overcome the American Rule presumption. The appearance of "expenses" and "attorney's fees" together across various statutes indicates that Congress understands the terms to be distinct and not inclusive of each other. See, *e.g.,* 11 U. S. C. §363(n). Other statutes that refer to attorney's fees as a subset of expenses show only that "expenses" can include attorney's fees when so defined. See, *e.g.,* 28 U. S. C. §361. Nor do this Court's cases further the Government's position that the Court has used "expenses" to mean "attorney's fees." See, *e.g., Taniguchi* v. *Kan Pacific Saipan, Ltd.*, 566 U. S. 560, 573.

The Patent Act's history reinforces that Congress did not intend to shift attorney's fees in §145 actions. There is no evidence that the original Patent Office ever paid its personnel from sums collected from adverse parties. Neither has the PTO, until this litigation, sought its attorney's fees under §145. When Congress intended to provide for attorney's fees in the Patent Act, it has stated so explicitly. See, *e.g.,* 35 U. S. C. §285. Pp. 6–10.

898 F. 3d 1177, affirmed.

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

SUPREME COURT OF THE UNITED STATES

No. 18–801

LAURA PETER, DEPUTY DIRECTOR, PATENT AND TRADEMARK OFFICE, PETITIONER *v.* NANTKWEST, INC.

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

[December 11, 2019]

JUSTICE SOTOMAYOR delivered the opinion of the Court.

Section 145 of the Patent Act affords applicants "dissatisfied with the decision of the Patent Trial and Appeal Board" an opportunity to file a civil action in the United States District Court for the Eastern District of Virginia. 35 U. S. C. §145. The statute specifies that "[a]ll the expenses of the proceedings shall be paid by the applicant." *Ibid.* The question presented in this case is whether such "expenses" include the salaries of attorney and paralegal employees of the United States Patent and Trademark Office (PTO). We hold that they do not.

I

A

The Patent Act creates two mutually exclusive pathways to challenge an adverse decision by the PTO. The first permits judicial review by direct appeal to the United States Court of Appeals for the Federal Circuit. §141. There is "no opportunity for the applicant to offer new evidence" in a §141 proceeding, and the Federal Circuit "must review the PTO's decision on the same administrative record that was before the [agency]." *Kappos* v. *Hyatt*, 566 U. S. 431, 434 (2012); 35 U. S. C. §144.

The second pathway allows applicants to file a new civil action against the Director of the PTO in federal district court. §145. Unlike §141, §145 "permits the applicant to present new evidence . . . not presented to the PTO." *Kappos*, 566 U. S., at 435. The district court "acts as a factfinder when new evidence is introduced in a §145 proceeding" and must make *de novo* determinations that take into account "both the new evidence and the administrative record before the PTO." *Id.*, at 444, 446. The parties may appeal the district court's final decision to the Federal Circuit. 28 U. S. C. §1295(a)(4)(C).

Because §145 does not limit an applicant's ability to introduce new evidence to challenge the denial of a patent, *Kappos*, 566 U. S., at 439, it can result in protracted litigation. As a condition for permitting such extensive review, the Patent Act requires applicants who avail themselves of §145 to pay "[a]ll the expenses of the proceedings." 35 U. S. C. §145.

B

After the PTO denied respondent NantKwest, Inc.'s patent application directed to a method for treating cancer, NantKwest filed a complaint against the PTO Director in the Eastern District of Virginia under §145. The District Court granted summary judgment to the PTO, and the Federal Circuit affirmed. *NantKwest, Inc.* v. *Lee*, 686 Fed. Appx. 864 (2017). The PTO moved for reimbursement of expenses that included—for the first time in the 170-year history of §145—the pro rata salaries of PTO attorneys and a paralegal who worked on the case.

The District Court denied the PTO's motion to recover its pro rata legal fees as "expenses" of the §145 proceeding. The court concluded that the statutory language referencing expenses was not clear enough to rebut the "American

Rule"—the background principle that parties are responsible for their own attorney's fees. *NantKwest, Inc.* v. *Lee*, 162 F. Supp. 3d 540, 542 (ED Va. 2016). A divided Federal Circuit panel reversed, with Judge Stoll dissenting. *NantKwest, Inc.* v. *Matal*, 860 F. 3d 1352 (2017). The majority expressed "substantial doub[t]" that §145 even implicated the American Rule's presumption against fee shifting in a case in which the payment was not made to a prevailing party. *Id.,* at 1355. The majority concluded that, even assuming the American Rule presumption applied, the term "expenses" in §145 "specific[ally]" and "explicit[ly]" authorized an award of fees. *Id.*, at 1356.

The en banc Federal Circuit voted *sua sponte* to rehear the case and reversed the panel over a dissent. *NantKwest, Inc.* v. *Iancu*, 898 F. 3d 1177, 1184 (2018). The majority opinion—now authored by Judge Stoll—held that the American Rule presumption applied to §145 because it is "the starting point whenever a party seeks to shift fees from one side to the other in adversarial litigation." *Id.*, at 1184 (citing *Baker Botts L. L. P.* v. *ASARCO LLC*, 576 U. S. 121, ___ (2015)). After examining the plain text and statutory history of §145, the judicial and congressional understanding of similar language, and overarching policy considerations, the majority concluded that "[a]warding '[a]ll the expenses' simply cannot supply the 'specific and explicit' directive from Congress to shift attorneys' fees, and nothing else in the statute evinces congressional intent to make them available." 898 F. 3d, at 1196 (quoting *Alyeska Pipeline Service Co.* v. *Wilderness Society*, 421 U. S. 240, 260 (1975)). We granted certiorari, 586 U. S. ___ (2019), and now affirm.

II

This Court's "'basic point of reference' when considering the award of attorney's fees is the bedrock principle known as the '"American Rule"': Each litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Hardt* v. *Reliance Standard Life Ins. Co.*, 560 U. S. 242, 252–253 (2010) (quoting *Ruckelshaus* v. *Sierra Club*, 463 U. S. 680, 683 (1983)). The American Rule has "roots in our common law reaching back to at least the 18th century." *Baker Botts*, 576 U. S., at ___ (slip op., at 3) (citing *Arcambel* v. *Wiseman*, 3 Dall. 306 (1796)); see also *Summit Valley Industries, Inc.* v. *Carpenters*, 456 U. S. 717, 721 (1982) (observing that the American Rule "has been consistently followed for almost 200 years"); *Alyeska Pipeline*, 421 U. S., at 257 (referring to the presumption against shifting attorney's fees as a "general" rule).

The Government does not dispute this principle or its pedigree, but argues instead that it does not apply at all. Because the American Rule presumption is most often overcome when a statute awards fees to a "prevailing party," the Government maintains, the presumption applies only to prevailing-party statutes. And because §145 requires one party to pay all expenses regardless of outcome, the argument goes, it is not a statute subject to the presumption.

That view is incorrect. This Court has never suggested that any statute is exempt from the presumption against fee shifting. Nor has it limited its American Rule inquiries to prevailing-party statutes. Indeed, the Court has developed a "line of precedents" "addressing statutory deviations from the American Rule that do not limit attorney's fees awards to the 'prevailing party.'" *Hardt*, 560 U. S., at 254; see also *Baker Botts*, 576 U. S., at ___–___ (slip op., at 5–7) (analyzing a bankruptcy provision that did not mention prevailing parties under the American Rule's presumption against fee shifting).

Sebelius v. *Cloer*, 569 U. S. 369 (2013), confirms that the presumption against fee shifting applies to all statutes—even those like §145 that do not explicitly award attorney's fees to "prevailing parties." In *Cloer*, the Court interpreted a provision of the National Childhood Vaccine Injury Act that permitted courts to "award attorney's fees . . . 'incurred [by a claimant] in any proceeding on' an unsuccessful vaccine-injury 'petition . . . brought in good faith [with] a reasonable basis for the claim.'" 569 U. S., at 371 (quoting 42 U. S. C. §300aa–15(e)(1)). The Court held that the provision's clear language authorized attorney's fees, even though the statute exclusively applied to unsuccessful litigants. 569 U. S., at 372.

Cloer establishes two points: First, contrary to the Government's suggestion, Congress has indeed enacted fee-shifting statutes that apply to nonprevailing parties. Second, and again contrary to the Government's view, the American Rule applies to such statutes. The Government itself argued in *Cloer* that the presumption against fee shifting applied by default, but maintained that the statute "depart[ed] so far from background principles about who pays a litigant's attorney's fees that it [could not] be justified without a clearer statement than the Act can supply.'" Brief for Petitioner in *Sebelius* v. *Cloer*, O. T. 2012, No. 12–236, p. 32. The Court acknowledged the Government's position but concluded that the "rul[e] of thumb" against fee shifting gave way because the "words of [the] statute [were] unambiguous." *Cloer*, 569 U. S., at 380–381 (citing the Government's brief).

The dissenting en banc Federal Circuit Judges also doubted that the American Rule could apply to a §145 action. They characterized the proceeding as an intermediate step in obtaining a patent and the payment of legal fees as a portion of the application costs. 898 F. 3d, at 1200 (opinion of Prost, J.). Yet §145 has all the marks of the kind of adversarial litigation in which fee shifting, and the presumption against it, is common; the statute authorizes filing a separate civil action where new evidence can be introduced for *de novo* review by a district judge. Thus, the presumption against fee shifting not only applies, but is particularly important because §145 permits an unsuccessful government agency to recover its expenses from a prevailing party. Reading §145 to award attorney's fees in that circumstance "would be a radical departure from longstanding fee-shifting principles adhered to in a wide range of contexts." *Ruckelshaus*, 463 U. S., at 683.

The American Rule thus provides the starting point for assessing whether §145 authorizes payment of the PTO's legal fees.

III

To determine whether Congress intended to depart from the American Rule presumption, the Court first "look[s] to the language of the section" at issue. *Hardt*, 560 U. S., at 254 (internal quotation marks omitted). While "[t]he absence of [a] specific reference to attorney's fees is not dispositive," *Key Tronic Corp.* v. *United States*, 511 U. S. 809, 815 (1994), Congress must provide a sufficiently "specific and explicit" indication of its intent to overcome the American Rule's presumption against fee shifting. *Alyeska Pipeline*, 421 U. S., at 260.

A

The reference to "expenses" in §145 does not invoke attorney's fees with the kind of "clarity we have required to deviate from the American Rule." *Baker Botts*, 576 U. S., at ___ (slip op., at 4).

Definitions of "expenses" provide scant guidance. The term, standing alone, encompasses wide-ranging "expenditure[s] of money, time, labor, or resources to accomplish a result," Black's Law Dictionary 698 (10th ed. 2014), "charges or costs met with in . . . doing one's work," Webster's New World College Dictionary 511 (5th ed. 2014), and "outlay[s]" for labor, Merriam-Webster's Dictionary of Law 180 (1996); see also N. Webster, An American Dictionary of the English Language 319 (3d ed. 1830) (defining the term broadly to include "the employment and consumption, as of time or labor," or the "disbursing of money"). Though these definitions are capacious enough to include attorney's fees, the mere failure to foreclose a fee award "neither specifically nor explicitly authorizes courts to shift [fees]." *Baker Botts*, 576 U. S., at ___ (slip op., at 6).

Reading the term "expenses" alongside neighboring words in the statute, however, supports a conclusion excluding legal fees from the scope of §145. The complete phrase "expenses of the proceeding" is similar to the Latin *expensæ litis*, or "expenses of the litigation." This term has long referred to a class of expenses commonly recovered in litigation to which attorney's fees did not traditionally belong. See Black's Law Dictionary 461 (1891) (defining "*expensæ litis*" to mean "generally allowed" costs); 1 J. Bouvier, Law Dictionary 392 (1839) (defining the term to mean the "costs which are generally allowed to the successful party"); *id.*, at 244 (excluding from the definition of "costs" the "extraordinary fees [a party] may have paid counsel"). These definitions suggest that the use of "expenses" in §145 would not have been commonly understood to include attorney's fees at its enactment.

Finally, the modifier "all" does not expand §145's reach to include attorney's fees. Although the word conveys breadth, it cannot transform "expenses" to reach an outlay it would not otherwise include. Cf. *Rimini Street, Inc.* v. *Oracle USA, Inc.*, 586 U. S. ___, ___–___ (2019) (slip op., at 6–7) ("The adjective 'full' in §505 therefore does not alter the meaning of the word 'costs.' Rather, 'full costs' are all the 'costs' otherwise available under law").

Section 145's plain text thus does not overcome the American Rule's presumption against fee shifting to permit the PTO to recoup its legal personnel salaries as "expenses of the proceedings."

B

"The record of statutory usage" also illustrates how the term "expenses" alone does not authorize recovery of attorney's fees. See *West Virginia Univ. Hospitals, Inc.* v. *Casey*, 499 U. S. 83, 88 (1991) (looking to statutory usage to determine whether attorney's fees and expert fees were distinct expenses in the fee-shifting context).

That "expenses" and "attorney's fees" appear in tandem across various statutes shifting litigation costs indicates that Congress understands the two terms to be distinct and not inclusive of each other. See, *e.g.,* 898 F. 3d, at 1188 (quoting 11 U. S. C. §363(n) (allowing trustee to recover "any costs, attorneys' fees, or expenses incurred"); 12 U. S. C. §1786(p) (permitting courts to "allow to any such party such reasonable expenses and attorneys' fees as it deems just and proper"); 25 U. S. C. §1401(a) (allowing distribution of funds after payment of "attorney fees and litigation expenses"); 26 U. S. C. §6673(a)(2)(A) (authorizing recovery of "costs, expenses, and attorneys' fees" against an attorney who "unreasonably and vexatiously" multiplies proceedings); 31 U. S. C. §3730(d)(1) (permitting recovery of "reasonable expenses . . . plus reasonable attorneys' fees and costs"); 38 U. S. C. §4323(h)(2) (allowing courts to award "reasonable attorney fees, expert witness fees, and other litigation expenses") (all internal quotation marks omitted)).

While some other statutes refer to attorney's fees as a subset of expenses, they show only that "expenses" can include attorney's fees when so defined. See, *e.g.,* 28 U. S. C. §361 (authorizing "reasonable expenses, including attorneys' fees"); §1447(c) ("An order remanding the case may require payment of just costs and any actual expenses, including attorney fees, incurred as a result of the removal"); 29 U. S. C. §1370(e)(1) ("[T]he court in its discretion may award all or a portion of the costs and expenses incurred in connection with such action including reasonable attorney's fees”); 42 U. S. C. §247d–6d(e)(9) (allowing a party to recover “reasonable expenses incurred . . . , including a reasonable attorney’s fee”).

The Government cites several decisions to argue how, on occasion, this Court has used the term “expenses” to mean “attorney’s fees.” None of the cases furthers its position. See, *e.g.*, *Rimini Street*, 586 U. S., at ___, ___ (slip op., at 4, 11) (reasoning that the term “costs” in the general federal costs statutes does not include attorney’s fees); *Taniguchi* v. *Kan Pacific Saipan, Ltd.*, 566 U. S. 560, 573 (2012) (mentioning that a party may bear “expenses” related to attorneys, without specifying whether these “expenses” include attorney’s fees); *Arlington Central School Dist. Bd. of Ed.* v. *Murphy*, 548 U. S. 291, 297–303 (2006) (distinguishing “attorney’s fees” from “costs” and “costs” from “expenses,” without indicating whether “expenses” encompasses attorney’s fees); *Casey*, 499 U. S., at 99 (suggesting that an explicit reference to “expert witness fees” or “litigation expenses” could shift expert fees in addition to attorney’s fees—not that the term “litigation expenses” alone could shift attorney’s fees).

Simply put, in common statutory usage, the term “expenses” alone has never been considered to authorize an award of attorney’s fees with sufficient clarity to overcome the American Rule presumption.

C

In fact, the Patent Act’s history reinforces that Congress did not intend to shift fees in §145 actions.

There is no evidence that the Patent Office, the PTO’s predecessor, originally paid its personnel from sums collected from adverse parties in litigation, or that the Office initially even employed attorneys. See Act of July 4, 1836, §9, 5 Stat. 121 (“[T]he moneys received into the Treasury under this act shall constitute a fund for the payment of the salaries of the officers and clerks herein provided for, and all other expenses of the Patent Office, and to be called the patent fund"). That salaries of PTO employees might have qualified as an "expense" of the agency, however, does not mean that they are an "expense" of a §145 proceeding. Neither has the PTO, until this litigation, sought its attorney's fees under §145. That the agency has managed to pay its attorneys consistently suggests that financial necessity does not require reading §145 to shift fees, either.

In later years, when Congress intended to provide for attorney's fees in the Patent Act, it stated so explicitly. See, *e.g.*, 35 U. S. C. §285 ("The court in exceptional cases may award reasonable attorney fees to the prevailing party"); §271(e)(4) ("[A] court may award attorney fees under section 285"); §273(f) (same); §296(b) (same); §297(b)(1) ("Any customer . . . who is found by a court to have been injured by any material false or fraudulent statement . . . may recover . . . reasonable costs and attorneys' fees"). Because Congress failed to make its intention similarly clear in §145, the Court will not read the statute to "contravene fundamental precepts of the common law." *United States* v. *Rodgers*, 461 U. S. 677, 716 (1983).

The history of the Patent Act thus reaffirms the Court's view that the statute does not specifically or explicitly authorize the PTO to recoup its lawyers' or paralegals' pro rata salaries in §145 civil actions.

* * *

For the foregoing reasons, we conclude that the PTO cannot recover the pro rata salaries of its legal personnel under §145 and therefore affirm the judgment of the Court of Appeals for the Federal Circuit.

It is so ordered.

United States Court of Appeals for the Federal Circuit

REGENTS OF THE UNIVERSITY OF MINNESOTA,
Appellant

v.

LSI CORPORATION, AVAGO TECHNOLOGIES U.S. INC.,
Appellees

GILEAD SCIENCES, INC.
Intervenor

2018-1559

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2017-01068.

- -

REGENTS OF THE UNIVERSITY OF MINNESOTA,
Appellant

v.

ERICSSON INC., TELEFONAKTIEBOLAGET LM ERICSSON,
Appellees

GILEAD SCIENCES, INC.
Intervenor

2018-1560, 2018-1561, 2018-1562, 2018-1563, 2018-1564, 2018-1565

Appeals from the United States Patent and Trademark Office, Patent Trial and Appeal Board in Nos. IPR2017-01186, IPR2017-01197, IPR2017-01200, IPR2017-01213, IPR2017-01214, IPR2017-01219.

Decided: June 14, 2019

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Before DYK, WALLACH, and HUGHES, *Circuit Judges.*

Opinion for the court by *Circuit Judge* DYK, in which WALLACH and HUGHES, *Circuit Judges*, join.

Additional views by *Circuit Judges* DYK, WALLACH, and HUGHES.

DYK, *Circuit Judge.*

The Regents of the University of Minnesota ("UMN") appeals from decisions by the United States Patent and Trademark Office ("USPTO") Patent Trial and Appeal Board ("Board") declining to dismiss petitions for inter partes review ("IPR"). The petitions were alleged to be improper because states supposedly enjoy sovereign immunity in IPR proceedings. We conclude that state sovereign immunity does not apply to these proceedings, and therefore we affirm.

BACKGROUND

The University of Minnesota is an arm of the state of Minnesota and is one of the largest public research institutions in the country. It pursues patent protection for inventions resulting from its research and is the owner of U.S.

Patent Nos. 5,859,601 ('601 patent), 7,251,768 ('768 patent), 7,292,647 (RE45,230 patent), 8,588,317 ('317 patent), 8,718,185 ('185 patent), and 8,774,309 ('309 patent). The patents were assigned to UMN at the outset of prosecution, and they were issued between January 12, 1999, and July 8, 2014. These patents cover two distinct technologies.

Appellee LSI Corp. designs and supplies semiconductors; it is alleged to infringe UMN's '601 patent, which claims particular types of "read channel" chips. Appellee Ericsson Inc. is a telecommunications company. Its customers' use of Ericsson's products was alleged to infringe UMN's '768, RE45,230, '317, '185, and '309 patents. These patents claim technology used for 4G LTE networks.

UMN, alleging infringement of these patents, sued LSI and separately sued Ericsson's customers in district court. Ericsson intervened in the customer suits.

After the commencement of the suits for patent infringement, LSI and Ericsson separately petitioned for IPR seeking a determination of unpatentability of the challenged claims on grounds of anticipation and obviousness. *See LSI Corp. v. Regents of the Univ. of Minn.*, No. IPR2017-01068, Paper 1 (P.T.A.B. Mar. 10, 2017); *Ericsson Inc. v. Regents of the Univ. of Minn.*, Nos. IPR2017-01186, Paper 1 (P.T.A.B. Mar. 28, 2017); IPR2017-01197, Paper 1 (P.T.A.B. Mar. 29, 2017); IPR2017-01200, Paper 1 (P.T.A.B. Mar. 30, 2017); IPR2017-01213, Paper 1 (P.T.A.B. Mar. 30, 2017); IPR2017-01214, Paper 1 (P.T.A.B. Mar. 30, 2017); IPR2017-01219, Paper 1 (P.T.A.B. Mar. 30, 2017).

After the petitions for IPR were filed, and before the USPTO decided whether to institute IPR, UMN filed a motion to dismiss in each proceeding based on state sovereign immunity. The USPTO convened an expanded panel, consisting of three administrative patent judges as well as the Chief Judge, Deputy Chief Judge, and two Vice Chief Judges. In each proceeding, the Board concluded that state sovereign immunity applied to IPR proceedings but that UMN waived its immunity by filing suit against petitioners in district court.[1] A concurrence to each of the Board decisions concluded that sovereign immunity was not implicated in part because "[a]t its core, *inter partes* review is a circumscribed *in rem* proceeding, in which the Patent Office exercises jurisdiction over the patent challenged, rather than the parties named." J.A. 13; J.A. 33.

UMN appealed the Board's decisions, and the cases have been consolidated on appeal. Gilead Sciences, Inc., facing the same issue for its own IPR petitions, sought leave to intervene, which was granted. *Regents of the Univ. of Minn. v. LSI Corp.*, Appeal No. 2018-1559 (Fed. Cir. Apr. 19, 2018), ECF No. 35. We have jurisdiction under 28 U.S.C. § 1295(a)(4)(A).[2]

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[1] The Board's order denying UMN's motion to dismiss is at *LSI Corp. v. Regents of the University of Minnesota,* No. IPR2017-01068, Paper 19 (P.T.A.B. Dec. 19, 2017), which is identical in relevant part to the Board's order in *Ericsson Inc. v. Regents of the University of Minnesota*, Nos. IPR2017-01186, Paper 14; IPR2017-01197, Paper 14; IPR2017-01200, Paper 16; IPR2017-01213, Paper 14; IPR2017-01214, Paper 14; IPR2017-01219, Paper 15 (P.T.A.B. Dec. 19, 2017).

[2] Appellee LSI argues that UMN's appeal is not ripe because any harm to UMN would not occur unless and until the Board instituted IPR, which may or may not occur. (The USPTO and the other parties to this appeal do not challenge our jurisdiction). It is well-established that decisions denying sovereign immunity are appealable as collateral orders, and the "ultimate justification is the importance of ensuring that the States' dignitary interests can be fully vindicated." *P.R. Aqueduct & Sewer Auth. v. Metcalf & Eddy, Inc.*, 506 U.S. 139, 146–47 (1993) (citing *Mitchell v. Forsyth*, 472 U.S. 511, 527–29 & n.10 (1985));

While this appeal was pending, this court decided *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*, 896 F.3d 1322 (Fed. Cir. 2018), holding that IPR proceedings were not barred by tribal sovereign immunity. A petition for certiorari was filed in that case, and the petition was denied, 139 S. Ct. 1547.

DISCUSSION

I. Post-Issuance Administrative Proceedings[3]

Addressing the issue of state sovereign immunity requires a detailed understanding of the history of IPR proceedings and the reasons that Congress created such proceedings.

The USPTO is an agency within the Department of Commerce and is "responsible for the granting and issuing of patents." 35 U.S.C. §§ 1, 2. Almost every year the number of submitted patent applications has increased, from approximately 100,000 in 1980 to nearly 650,000 in 2018. U.S. Patent & Trademark Office, *U.S. Patent Statistics, Calendar Years 1963-2015*, https://www.uspto.gov/web/

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see Chehazeh v. Attorney Gen. of U.S., 666 F.3d 118, 135–36 (3d Cir. 2012) (collecting cases); *see also Mohawk Indus., Inc. v. Carpenter*, 558 U.S. 100, 110 (2009). We see no material difference between a decision made after institution of IPR, as in *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*, 896 F.3d 1322, 1325 (Fed. Cir. 2018), and a decision made before institution, as in this case. Given UMN's alleged dignitary interests in avoiding IPR, the "purely legal" issue of whether sovereign immunity bars IPR for state-owned patents is ripe for review. *See Abbott Labs. v. Gardner*, 387 U.S. 136, 149 (1967), *abrogated on other ground by Califano v. Sanders*, 430 U.S. 99, 105 (1977).

[3] This history is discussed in the majority and concurrence in *Saint Regis*.

offices/ac/ido/oeip/taf/us_stat.pdf; U.S. Patent & Trademark Office, *FY 2018 Performance & Accountability Report* 179 tbl.2 (2018) [hereinafter *FY2 2018 P&A Rpt.*], https://www.uspto.gov/sites/default/files/documents/ USPTOFY18PAR.pdf. This has led to a steady backlog of applications, and the USPTO now issues approximately 300,000 patents each year. *FY 2018 P&A Rpt.*, at 180 tbl.3; *id.* at 181 tbl.6. To perform its duty to examine and issue patents, the USPTO relies on a corps of approximately 8,000 patent examiners who are charged with determining whether an applicant is entitled to a patent for a claimed invention. *Id.* at 205 tbl.28. Although essential to the examination process, the agency struggles to attract and retain examiners able to perform sufficiently thorough prior art searches and make a patentability determination.[4]

Given the large number of patent applications, patent examiners only receive roughly 22 hours to review each application, which 70% of examiners have reported as insufficient time. U.S. Gov't Accountability Office, *GAO-16-490, Patent Office Should Define Quality, Reassess Incentives, and Improve Clarity* 10, 25–26 (2016) [hereinafter *Quality, Incentives, & Clarity*]. In those 22 hours, examiners must ensure not only that technical formalities are met, but also that the statutory requirements for patentability, such as novelty and non-obviousness, are met. For this determination, the USPTO relies on the examiner's prior art searching, aided by prior art the applicant identifies.

For many years, until 2000, there was virtually no public input in the initial examination process since patent applications were not published. Beginning in 2000, patent

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[4] *See* U.S. Gov't Accountability Office, *GAO-16-479, Patent Office Should Strengthen Search Capabilities and Better Monitor Examiners' Work* 28–29 & 28 n.50 (2016); *FY 2018 P&A Rpt.*, at 205 tbl.28 (2018) (showing net attrition of more than 450 examiners from 2014 to 2018).

applications have been typically published 18 months after the earliest claimed filing date, *see* 35 U.S.C. § 122; 37 C.F.R. § 1.211, and Congress has provided for some limited public participation during the initial examination,[5] *see* 35 U.S.C. §§ 122(c), (e); H.R. Rep. No. 112–98, pt. I, at 48–49 (2011); 37 C.F.R. §§ 1.290–91. Nonetheless, in light of the USPTO's constrained resources and the absence of material outside input during the initial examination, it is inevitable that there are patents granted in error.[6]

This is not a new phenomenon. In 1980, Congress was concerned that this was "a situation where a limited staff is trying to cope with a constantly increasing workload and is under pressure to make speedy determinations on whether or not to grant patents." S. Rep. No. 96–617, at 8 (1980); *see also Patent Reexamination: Hearing on S. 1679 Before the Comm. on the Judiciary*, 96th Cong. 3 (1980)

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[5] After a patent application is published, a third party may file a pre-issuance submission, which includes either a patent application, published patent application, or other printed publication and, after 2011, a concise statement as to the relevance of the submitted prior art to the patentability of the claimed invention. 35 U.S.C. § 122(e); 37 C.F.R. § 1.290.

[6] *See Quality, Incentives, & Clarity*, at 25 ("[E]xaminers' time pressures are one of the central challenges for patent quality."); *see also* Michael D. Frakes & Melissa F. Wasserman, *Does the U.S. Patent and Trademark Office Grant Too Many Bad Patents?: Evidence from a Quasi-Experiment*, 67 Stan. L. Rev. 613, 652–53 (2015) (finding increased patent grant rates correlated with increased resource strain on the USPTO); Shawn P. Miller, *Where's the Innovation: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J.L. & Tech. 1, 45 (2013) (estimating that 28% of issued patents would be invalidated as anticipated or obvious).

(statement of Sen. Bayh) (characterizing the USPTO as "an understaffed and overworked office trying to handle an ever increasing workload"); *Industrial Innovation and Patent and Copyright Law Amendments: Hearing on H.R. 6033, H.R. 6934, H.R. 3806, H.R. 2414 Before the Subcomm. on Courts, Civil Liberties & the Admin. of Justice of the H. Comm. on the Judiciary*, 96th Cong. 580–81 (1981) (statement of Sidney A. Diamond, Commissioner of Patents and Trademarks). Congress' solution was to provide for reexamination of the original patent grant.

In general, until 1980 the only way the original patent grant could be challenged was in patent litigation in district court by a declaratory judgment action or as a defense in a patent infringement action, both of which could be extremely expensive and both of which generally were not available until a claim of infringement was asserted by the patent owner. *See Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 601–02 (Fed. Cir. 1985); S. Rep. 96–617, at 9–10 (testimony of Sidney A. Diamond, Commissioner of Patents and Trademarks).[7] In this respect, the United States' patent system diverged from its English origins, which had for centuries recognized the executive's ability to reconsider a prior patent grant.[8] In 18th-century England,

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[7] There were earlier post-grant administrative proceedings to determine who was the proper owner of a patented invention (i.e., an interference proceeding), *see, e.g., Morgan v. Drake*, 36 F.2d 511 (C.C.P.A. 1929), and to reevaluate the patentability of a patented invention based on an application by the patent owner (i.e., a reissue proceeding), *see Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1336–40 (Fed. Cir. 2013) (discussing history).

[8] *See In re Bilski*, 545 F.3d 943, 966–76 (Fed. Cir. 2008) (en banc) (Dyk, J., concurring) (discussing the relationship between the U.S. patent law and the English common law); Mark A. Lemley, *Why Do Juries Decide If*

parties could challenge the validity of a patent by petitioning the government via the Privy Council to revoke the public franchise. *Oil States Energy Servs., LLC v. Green's Energy Grp., LLC*, 138 S. Ct. 1365, 1376–78 (2018). "The Privy Council was a prominent feature of the English system," and "[b]ased 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." *Id.* at 1377.

In 1980, Congress for the first time enacted post-grant review provisions allowing a challenge to the validity of an issued patent in an ex parte reexamination process.[9] Act of Dec. 12, 1980, Pub. L. No. 96–517, 94 Stat. 3015 (1980). In these proceedings, Congress sought to enlist the assistance

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Patents Are Valid?, 99 Va. L. Rev. 1673, 1691–704 (2013) [hereinafter *Why Do Juries Decide?*] (discussing the divergence of early American and English patent practice).

[9] Prior to 1836, Congress had authorized suit for *scire facias* to invalidate a patent where the suit, though brought by a private party, was under the control of the United States. In the Patent Act of 1836, Congress repealed that provision, but the Supreme Court concluded that the statutory change did not remove the United States' ability to sue in equity to invalidate a patent, at least where there had been fraud on the patent office. *See United States v. Am. Bell. Tel. Co.*, 128 U.S. 315, 371–73 (1888) ("[Such a suit by the United States] is so widely different, so much more beneficial, and is pursued under circumstances so much more likely to secure complete justice, than any defense which can be made by an individual infringer, that it is impossible to suppose that congress, in granting this right to the individual, intended to supersede or take away the more enlarged remedy of the government."); *Why Do Juries Decide*, *supra* n.8, at 1695–97.

of third parties to identify relevant prior art so as to address the lack of public trust and confidence in the patent system's ability to weed out bad patents in initial ex parte examination.[10] As the USPTO Commissioner explained during consideration of the 1980 legislation,

> The main reason [the new procedure of] reexamination is needed is because members of the public interested in the validity of a patent are sometimes able to find pertinent prior patents and printed publications not known or available to the PTO . . . .
>
> The patent owner's competitors will devote great effort and expense to invalidating a patent that affects their businesses. They can afford to look for documentary evidence of unpatentability in library collections, technical journals and other sources not within the PTO's search file. Because of budgetary and time constraints, the examiner's search seldom extends beyond the PTO's 22 million document collection.

Industrial Innovation and Patent and Copyright Law Amendments: Hearing on H.R. 6033, H.R. 6934, H.R. 3806, H.R. 2414 Before the Subcomm. on Courts, Civil Liberties & the Admin. of Justice of the H. Comm. on the Judiciary, 96th Cong. 576 (1981) (statement of Sidney A. Diamond, Commissioner of Patents and Trademarks). Not only would the USPTO benefit from greater public participation in post-grant proceedings, but the proceedings also had new

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[10] Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 Harv. J.L. & Tech. 1, 9–10 (1997); *see* S. Rep. No. 96–617, at 2–3, 14 (1980); H.R. Rep. No. 96–1307, pt. 1, at 3 (1980) (expressing concern as to the lack of confidence in the patent system).

procedures that would allow the agency to focus its resources on reevaluating those patents of particular concern to the public.[11]

Thus, "[t]he reexamination statute enabled the PTO to recover administrative jurisdiction over an issued patent in order to remedy any defects in the examination which that agency had initially conducted and which led to the grant of the patent." *Patlex*, 758 F.2d at 601. Under the reexamination procedures, if the USPTO learned of prior art that raised "a substantial new question of patentability" it could institute an ex parte reexamination. 35 U.S.C. § 303.

However, ex parte reexaminations did not solve the agency's problems. Once instituted, ex parte reexamination largely followed the same process as the initial examination, without further third-party input. S. Rep. No. 110–259, at 18–19 (2008). It "follow[ed] essentially the same inquisitorial process between patent owner and examiner as the initial Patent Office examination." *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1353 (2018) (citing 35 U.S.C. § 305). In this respect, it was "meaningfully different" from the inter partes reexamination and IPR proceedings that Congress adopted thereafter. *Return Mail, Inc. v U.S. Postal Serv.*, No. 17-1594, slip op. at 14 (June 10, 2019).

In 1999, seeking to enhance the process, Congress enacted provisions for the inter partes reexamination

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[11] *See* Kimberly A. Moore, *Worthless Patents*, 20 Berkeley Tech. L.J. 1521, 1521–22, 1530–31 (2005) (noting that only a small fraction of issued patents are ever asserted and that, in the sample of patents studied, more than half of all the issued patents expired for failure to pay maintenance fees); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495, 1497, 1501–08 (2001) (same).

proceedings, in order to increase third party participation. Act of Nov. 29, 1999, Pub. L. No. 106–113, 113 Stat. 1501 (1999); *see* H.R. Rep. 106–464, at 133 (1999).

Similar to ex parte reexamination, the inter partes reexamination process began with a third-party request for reexamination based on prior art, and if the prior art raised a substantial new question of patentability, the USPTO would grant the request and proceed with reexamination. 35 U.S.C. § 312 (2002). However, significantly, unlike ex parte reexamination, inter partes reexamination allowed the third-party requestor to participate throughout the proceeding. "Each time that the patent owner file[d] a response to an action on the merits from the [USPTO], the third-party requester shall have one opportunity to file written comments addressing issues raised by the action of the Office or the patent owner's response thereto." *Id.* § 314. The third party could also appeal to the Board of Patent Appeals and Interferences if the examiner found the claims to be not unpatentable. "The participation by third parties [was] considered vital" to the goal of "improving patent quality and validity" because "in many circumstances they [would] have the most relevant prior art available and incentive to seek to invalidate an allegedly defective patent." H.R. Rep. 107–120, at 4 (2001). After 1999, Congress continued to tweak ex parte and inter partes proceedings, but they were less widely used than Congress had hoped and had features that made them "troublesomely inefficient and ineffective as a truly viable alternative for resolving questions of patent validity." S. Rep. No. 110–259, at 19 (2008).[12]

[12] For example, until 2002, a person requesting reexamination of a patent could not solely rely on prior art that the USPTO had already considered. *See* Pub. L. 107–273, § 13105, 116 Stat. 1758, 1900 (2002). Another example of the deficiency of these proceedings was that inter partes

In 2011, Congress enacted the Leahy-Smith America Invents Act ("AIA"), Pub. L. No. 112–29, 125 Stat. 284 (2011), to "improve patent quality and limit unnecessary and counterproductive litigation costs." H.R. Rep. 112–98, pt. I, at 40 (2011). Congress replaced inter partes reexamination with new post-grant review procedures, including IPR, covered business method review, and post-grant review, while retaining ex parte reexamination. IPR in particular was designed to improve on the inter partes reexamination process, and "[a]lthough Congress changed the name from 'reexamination' to 'review,' nothing convinces us that, in doing so, Congress wanted to change its basic purposes, namely to reexamine an earlier agency decision." *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2137, 2144 (2016). Just as with the prior reexamination procedures, IPR "allows a third party to ask the U.S. Patent and Trademark Office to reexamine the claims," *id*. at 2136, albeit with "broader participation rights," *id*. at 2137.

Before IPR can be instituted, a person must file a petition challenging the validity of one or more patent claims under § 102 or § 103 on the basis of prior art patents or printed publications. 35 U.S.C. §§ 311, 312. The petition may be supported by declarations. 35 U.S.C. § 312(a)(3)(B). The petitioner need not have constitutional standing to file the petition or participate in IPR. *Cuozzo*, 136 S. Ct. at 2143–44. After filing, the petitioner has a limited ability to amend its petition as "the Board has determined that in IPR a petitioner may only make clerical or typographical corrections to its petition." *Saint Regis*, 896 F.3d at 1328. The petitioner must also serve the petition on the patent

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reexamination took an average of three and a half years from initiation to a certificate issue date. *See* U.S. Patent & Trademark Office, Inter Partes Reexamination Filing Data (2017), https://www.uspto.gov/sites/default/files/documents/inter_parte_historical_stats_roll_up.pdf.

owner, 37 C.F.R. § 42.105, and the patent owner may, but need not, file a preliminary response, 35 U.S.C. § 313; 37 C.F.R. § 42.107(a).

If the Director of the USPTO, a politically accountable executive officer,[13] determines that the appropriately filed petition "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," the Director may institute IPR. 35 U.S.C. § 314(a); *see* 35 U.S.C. § 325(d). "The decision whether to institute inter partes review is committed to the Director's discretion." *Oil States*, 138 S. Ct. at 1371. This decision is "final and nonappealable." 35 U.S.C. § 314(d); *see Oil States*, 138 S. Ct. at 1378 n.5 (citing *Cuozzo*, 136 S. Ct. at 2140).

Once instituted, the Board, typically a three-member panel of administrative patent judges, examines the validity of the asserted patent claims. A patent owner may respond to the petition after IPR is instituted, 35 U.S.C. § 316(a)(8), but the petitioner bears the burden of proving "unpatentability by a preponderance of the evidence," *id.* § 316(e). The procedure for reexamining the earlier decision to issue the patent by design is abbreviated compared to district court proceedings. *See id.* § 316(a)(11). During IPR, the patent owner and petitioner can seek discovery, but such discovery is generally limited to "(A) the deposition of witnesses submitting affidavits or declarations; and (B) what is otherwise necessary in the interest of justice." *Id.* § 316(a)(5); 37 C.F.R. § 42.51(b); *see* 154 Cong. Rec. S9988–89 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl) (noting that "[g]iven the time deadlines imposed on these proceedings, it is anticipated that, regardless of the

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[13] The Director is "appointed by the President, by and with the advice and consent of the Senate," and "may be removed from office by the President." 35 U.S.C. § 3(a)(1), (4).

standards imposed . . . PTO will be conservative in its grants of discovery").[14] Additionally, although the parties are entitled to an oral hearing, 35 U.S.C. § 316(a)(10); 37 C.F.R. § 42.70, "[t]he hearings are short, and live testimony is rarely allowed." *Saint Regis*, 896 F.3d at 1328 (citing *Ultratec, Inc. v. CaptionCall, LLC*, 872 F.3d 1267, 1270 n.2 (Fed. Cir. 2017)).

Once instituted, the proceedings may continue without either the petitioner or the patent owner. The statutory provision states that if the petitioner stops participating, the Board may continue on to a final written decision. 35 U.S.C. § 317(a). If the patent owner stops participating, "[t]he Board has construed its rules to allow it to continue review." *Saint Regis*, 896 F.3d at 1328. During the proceeding the patent owner may also seek leave to amend the original patent claims to resolve the problem of patent eligibility, as the applicant can do in initial examination though the proposed amendments may also be challenged by the petitioner. 35 U.S.C. § 316(d).

An IPR proceeding in general must be completed within one year of institution. 35 U.S.C. § 316(a)(11). When IPR is completed, the Board issues a final written decision with respect to patent claims challenged by the petitioner

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[14] "[D]iscovery is limited as compared to that available in district court litigation. Limited discovery lowers the cost, minimizes the complexity, and shortens the period required for dispute resolution. There is a one-year statutory deadline for completion of *inter partes* review, subject to limited exceptions. What constitutes permissible discovery must be considered with that constraint in mind." *Garmin Int'l, Inc. v. Cuozzo Speed Techs. LLC*, No. IPR2012–00001, 2013 WL 11311697, at *3 (Paper 26) (P.T.A.B. Mar. 5, 2013) (citations omitted) (contextualizing the Board's interpretation of the "necessary in the interest of justice" prong for IPR discovery).

and any claims sought to be amended. 35 U.S.C. § 318(a). A party dissatisfied with the decision may then appeal to this court, *id.* § 319,[15] and the Director may intervene in the appeal, *id.* § 143. After the time for appeal has expired, or appellate review has been exhausted, the process ultimately terminates with the USPTO issuing a certificate canceling, confirming, or incorporating patent claims. *Id.* § 318(b). The proceeding cannot award monetary or other relief against the patent owner. Following an IPR proceeding that "results in a final written decision," statutory estoppel applies to the petitioner with respect to "any ground that the petitioner raised or reasonably could have raised during" the IPR proceeding. *Id.* § 315(e). The patent owner is estopped from obtaining "[a] claim that is not patentably distinct from a finally refused" claim. 37 C.F.R. § 42.73(d)(3)(i).

II. State Sovereign Immunity

While admitting that both ex parte and inter partes reexamination did not implicate sovereign immunity,[16] UMN and its supporting amici contend that states enjoy immunity from IPR proceedings.

States typically enjoy immunity from lawsuits brought by private parties as a "fundamental aspect of the sovereignty which the States enjoyed before the ratification of the Constitution, and which they retain today." *Alden v.*

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[15] We have held, however, that a petitioner can only appeal an adverse decision by the Board if it satisfies Article III standing requirements. *Consumer Watchdog v. Wis. Alumni Research Found.*, 753 F.3d 1258, 1260–61 (Fed. Cir. 2014).

[16] "Q. Do States enjoy sovereign immunity in reexam proceedings? A. In an ex parte reexamination, no . . . ." "Q. So no sovereign immunity in inter partes reexam? A. . . . I would say no . . . ." Oral Arg. at 6:20–7:01.

Maine, 527 U.S. 706, 713 (1999). This is sometimes referred to as Eleventh Amendment immunity,[17] but "the sovereign immunity of the States neither derives from nor is limited by, the terms of the Eleventh Amendment." *Id.*; *see Seminole Tribe of Fla. v. Florida*, 517 U.S. 44, 54 (1996). "The preeminent purpose of state sovereign immunity is to accord States the dignity that is consistent with their status as sovereign entities," while collaterally "serv[ing] the important function of shielding state treasuries." *Fed. Mar. Comm'n v. S.C. State Ports Auth.*, 535 U.S. 743, 760, 765 (2002) ("*FMC*").

This immunity applies not only to proceedings brought by a private party in an Article III forum but also to agency adjudications brought by private parties that are similar to court adjudications. *Id.* at 760. However, sovereign immunity does not apply to suits brought by the United States, including agency proceedings commenced by the United States. *Id.* at 752; *Alden*, 527 U.S. at 755 (citing *Principality of Monaco v. Mississippi*, 292 U.S. 313, 328–29 (1934) (collecting cases)); *United States v. Mississippi*, 380 U.S. 128, 140–41 (1965); *United States v Texas*, 143 U.S. 621, 646 (1892). The Supreme Court recognized in *FMC* that sovereign immunity does not bar an agency from bringing an enforcement action against the state "upon its own initiative or upon information supplied by a private party." 535 U.S. at 767–68.

UMN argues that sovereign immunity applies to IPR proceedings where the state is the patent owner because they are not like suits brought by the United States but are entirely a dispute between a private party and the state,

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[17] "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. Const. amend. XI.

and they share similarities with Article III proceedings where sovereign immunity applies. We have recently addressed the related question of whether tribal sovereign immunity applies to IPR proceedings in *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*, 896 F.3d 1322 (Fed. Cir. 2018), *cert. denied*, 139 S. Ct. 1547 (2019), and held that it does not.

III. *Saint Regis Mohawk Tribe*

In *Saint Regis*, the Saint Regis Mohawk Tribe entered into an ownership agreement regarding various patents, which were the subject of ongoing IPR proceedings, and it then invoked tribal sovereign immunity as a bar to those proceedings. *Id.* at 1325. We concluded that tribal sovereign immunity did not apply to IPR because the "USPTO [was] acting as the United States in its role as a superior sovereign to reconsider a prior administrative grant and protect the public interest in keeping patent monopolies 'within their legitimate scope.'" *Id.* at 1329 (quoting *Cuozzo*, 136 S. Ct. at 2144).

The Supreme Court has concluded that IPR proceedings are essentially agency reconsideration of a prior patent grant. *Cuozzo*, 136 S. Ct. at 2144 ("[T]he purpose of the proceeding is not quite the same as the purpose of district court litigation . . . . [Instead,] the proceeding offers a second look at an earlier administrative grant of a patent."); *Oil States*, 138 S. Ct. at 1374 ("[IPR] involves the same interests as the determination to grant a patent in the first instance."). The fact that Congress has enlisted the assistance of private parties does not change their essential character. As discussed above, since 1980, Congress, concerned with agency resource constraints, has relied on third party participation to assist the agency's evaluation of patentability. *See also Saint Regis*, 896 F.3d at 1330–31 (Dyk, J., concurring). In IPR, Congress imported limited discovery and live hearings. As explained in *Saint Regis*, although these modifications to inter partes reexamination make IPR "look[] a good deal more like civil litigation," *SAS*, 138 S. Ct. at 1353, fundamentally these proceedings continue to be a "second look at an earlier administrative grant of a patent," *Cuozzo*, 136 S. Ct. at 2144. *See Saint Regis*, 896 F.3d at 1327–29. The USPTO's enlistment of third parties in IPR has made the process less of an "agency-led, inquisitorial process for reconsidering patents," and more of a "party-directed, adversarial process," *SAS*, 138 S. Ct. at 1355, i.e., "[an] adversarial, adjudicatory proceeding[] between the 'person' who petitioned for review and the patent owner," *Return Mail*, slip op. at 14, but that does not disturb the basic purpose of the proceeding, "namely, to reexamine an earlier agency decision," *Cuozzo*, 136 S. Ct. at 2144. "Ultimately several factors convince[d] us that IPR is more like an agency enforcement action than a civil suit brought by a private party, and we conclude[d] that tribal immunity is not implicated." *Saint Regis*, 896 F.3d at 1327.[18] These factors are equally applicable to state sovereign immunity.

First, "[i]t is the Director, the politically appointed executive branch official, not the private party, who ultimately decides whether to proceed against the sovereign." *Saint Regis,* 896 F.3d at 1328. Although there must be a petition for IPR to be initiated (i.e., "[35 U.S.C. § 311(a)] doesn't authorize the Director to start proceedings on his own initiative," *SAS*, 138 S. Ct. at 1355), any "person who is not the owner of [the] patent" may file a petition, 35 U.S.C. § 311(a), even those who do "not have a concrete

[18] We did not hold that interference proceedings were barred by state sovereign immunity in *Vas-Cath, Inc. v. Curators of Univ. of Mo.*, 473 F.3d 1376, 1382 (Fed. Cir. 2007), nor do we decide that issue here. We note that interference proceedings may more closely resemble agency adjudication between private parties as compared to IPR proceedings.

stake in the outcome; indeed, they may lack constitutional standing," *Cuozzo*, 136 S. Ct. at 2143–44. The Director's decision to institute is within his discretion, and Congress went so far as to bar judicial review of that decision. 35 U.S.C. § 314(d). In this respect, IPR "is not initiated by private parties in the way that a common-law cause of action is." *Oil States*, 138 S. Ct. at 1378 n.5.

Second, even if the petitioner or patent owner elects not to participate during IPR, the Board can continue to a final written decision, "reinforc[ing] the view that IPR is an act by the agency in reconsidering its own grant of a public franchise." *Saint Regis*, 896 F.3d at 1328. In contrast, civil litigation in an Article III forum terminates when there is no longer a "case or controversy."

Third, the IPR procedure is in other respects distinct from ordinary civil litigation. The Federal Rules of Civil Procedure do not apply. Unlike civil litigation, during IPR a patent owner may amend its claims. (In district court litigation, a patent owner may only amend patent claims to correct typographical errors). *Id.* at 1328–29. Even though discovery and a live hearing may be part of an IPR proceeding, both are more limited than their civil counterparts. *Id.*

It is clear from the history and operation of IPR that these proceedings are designed to allow the USPTO to harness third parties for the agency to evaluate whether a prior grant of a public franchise was wrong, a feature carried over from inter partes reexamination. In this way, IPR is akin to *FMC* proceedings brought by the agency that would not be barred by sovereign immunity. 535 U.S. at 767–68. Indeed, *Saint Regis* relied heavily on the Supreme Court's analysis in *FMC*, which dealt with state sovereign immunity. 896 F.3d at 1326 ("Although the precise contours of tribal sovereign immunity differ from those of state sovereign immunity, the *FMC* analysis is instructive."). Applying *FMC*'s analysis as we did in *Saint Regis*, we hold that IPR, like inter partes reexamination, is similar to an agency enforcement action instituted by the USPTO "upon information supplied by a private party" rather than civil litigation, so state sovereign immunity is not implicated. *FMC*, 535 U.S. at 768.

We also read the Supreme Court's holding in *Oil States*, that IPR evaluation of patent validity concerns "public rights," as supporting the conclusion that IPR is in key respects a proceeding between the government and the patent owner. In *Oil States*, the Court concluded that IPR proceedings could be conducted before the agency rather than an Article III court because they concern matters "which arise *between* the Government and persons subject to its authority," that is "arising *between* the government and others, which from their nature do not require judicial determination." 138 S. Ct. at 1373 (emphases added) (quoting *Crowell v. Benson*, 285 U.S. 22, 50 (1932)).[19] The Court concluded that despite the increased participation of third parties, IPR "remains a matter involving public rights, one '*between* the government and others.'" *Id.* at 1378 (emphasis added) (quoting *Ex parte Bakelite Corp.*, 279 U.S. 438, 451 (1929)). We interpret the Court's language in *Oil States* as concluding that IPR is an adjudication of public rights, and therefore able to be resolved in a non-Article III forum, because it is in key respects a proceeding between the United States and the patent owner. In this way, these proceedings are not barred by state sovereign immunity since

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[19] This is not to say that the public rights doctrine may not cover instances of disputes between private parties regarding a public right. *See MCM Portfolio LLC v. Hewlett–Packard Co.*, 812 F.3d 1284, 1288–92 (Fed. Cir. 2015). But we read the Supreme Court as having resolved the public rights issue in *Oil States* on the narrower ground that IPR is a proceeding between the United States and the patent owner, rather than adjudication between two private parties regarding a public right.

sovereign immunity does not bar proceedings brought by the United States. *FMC*, 535 U.S. at 752; *Alden*, 527 U.S. at 755 (citing *Principality of Monaco*, 292 U.S. at 328–29).

UMN argues that the reasoning in *Saint Regis* is inapposite to the current appeal because there are salient differences between tribal and state sovereign immunity. In *Saint Regis* we recognized "many parallels" between tribal and state sovereign immunity but left "for another day the question of whether there is any reason to treat state sovereign immunity differently." 896 F.3d at 1329. We now conclude that the differences between tribal and state sovereign immunity do not warrant a departure from the reasoning in *Saint Regis*.

To be sure, "immunity possessed by Indian tribes is not coextensive with that of the States," *Kiowa Tribe of Okla. v. Mfg. Techs., Inc.*, 523 U.S. 751, 756 (1998), as the two are derived from different origins, *compare id.* at 756–57, *with Alden*, 527 U.S. at 713–28. Tribal sovereign immunity "is subject to the superior and plenary control of Congress," *Santa Clara Pueblo v. Martinez*, 436 U.S. 49, 58 (1978), whereas state sovereign immunity can only be abrogated under "a valid grant of constitutional authority," *Kimel v. Fla. Bd. of Regents*, 528 U.S. 62, 73 (2000). But, as noted above, suits brought by the United States have long been recognized as not being impeded by either tribal or state sovereign immunity, and when Congress intends to abrogate either tribal or state sovereign immunity for suits brought by private parties, it must do so with clear language. *See, e.g., Michigan v. Bay Mills Indian Cmty.*, 572 U.S. 782, 790 (2014) (tribal sovereign immunity); *Blatchford v. Native Village of Noatak & Circle Village*, 501 U.S. 775, 786 (1991) (state sovereign immunity).

The patentee's suggestion that *Saint Regis* rests on the authority of Congress to abrogate tribal sovereign immunity finds no support in the decision or the statutory scheme. There is no indication in the AIA or its legislative history that Congress designed IPR to abrogate tribal immunity. And, contrary to UMN's arguments, *Saint Regis* did not base its reasoning on implied abrogation of tribal sovereign immunity. Instead, *Saint Regis* concluded that IPR was an agency reconsideration proceeding to which sovereign immunity does not apply in the first instance. 896 F.3d at 1329. This reasoning applies equally to states as it does to tribes.

UMN further contends that, unlike tribal immunity, there is a presumption (the *Hans* presumption) that state sovereign immunity applies to proceedings, such as IPR, that were "anomalous and unheard of when the Constitution was adopted." *FMC*, 535 U.S. at 755–56 (quoting *Hans v. Louisiana*, 134 U.S. 1, 18 (1890)). We disagree. First, "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" (i.e., that the executive could provide a forum for resolving questions of patent validity). *Oil States*, 138 S. Ct. at 1376–78. Second, the Supreme Court recognized in *FMC* that even though the *Hans* presumption applied to bar resolution of private disputes in an agency forum, it did not bar resolution of an agency enforcement action against a state that was initiated based on information supplied by a third party. *FMC*, 535 U.S. at 767–68. As we held in *Saint Regis*, IPR is properly viewed as an agency's reconsideration of a previous patent grant that is aided by information supplied by a third party, and state sovereign immunity does not bar these proceedings.

We conclude that state and tribal sovereign immunity do not differ in a way that is material to the question of whether IPR proceedings are subject to state sovereign immunity. Thus, under the reasoning of the majority and concurrence in *Saint Regis*, we conclude that state sovereign immunity does not apply to IPR proceedings. [20]

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[20] UMN argues that the Supreme Court's decision in *Franchise Tax Board of California v. Hyatt*, 139 S. Ct. 1485, 1495 (2019), recognizes that "the only forums in which the States have consented to suits by one another and by the Federal Government are Article III courts." UMN contends that this decision supports its position that IPR proceedings cannot be maintained even if they are proceedings brought by the United States. Fed. R. App. P. 28(j) Letter, ECF No. 155. Unlike the current appeal, *Hyatt* involved only the question whether state sovereign immunity barred private suits brought against a state in a sister state's courts. The Court answered in the affirmative, overruling *Nevada v. Hall*, 440 U.S. 410 (1979). We do not read *Hyatt* as holding that state sovereign immunity applies in agency proceedings initiated by the United States.

First, the sentence in *Hyatt* relied on by UMN cites *FMC* as sole authority for the proposition. The Supreme Court specifically recognized in *FMC* that an agency "remains free to investigate alleged violations . . . either upon its own initiative, or upon information supplied by a private party, and to institute its own administrative proceeding against a [state entity]." 535 U.S. at 768 (citation omitted). There is no indication in *Hyatt* that the Court intended to undermine *FMC*. Just as the agency could bring an enforcement action in *FMC*, so too can the USPTO institute an IPR proceeding based on information supplied by a private party where the final decision is reviewable by an Article III court.

Second, even if state sovereign immunity might in some circumstances bar administrative proceedings involving states, this would not bar the USPTO's reconsideration of a prior patent grant because a state impliedly consents to such proceedings when it applies for, or otherwise

We finally note, although not implicated in the facts of this case, the concerns raised by the parties and amici that if sovereign immunity barred IPR proceedings against patents obtained by a sovereign, nothing would prevent a state from lending its sovereign immunity to private parties, as the tribe attempted to do in *Saint Regis*.[21] Such manipulation would undo Congress' central quality control mechanism in creating post-grant administrative proceedings.

CONCLUSION

IPR represents the sovereign's reconsideration of the initial patent grant, and the differences between state and tribal sovereign immunity do not warrant a different result than in *Saint Regis*. We therefore conclude that state sovereign immunity does not apply to IPR proceedings. In

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obtains ownership of, a patent that is "a creature of statute law" and granted "subject to potential cancellation in [an] executive proceeding." *Oil States,* 138 S. Ct. at 1374, 1377 ("We conclude that inter partes review is one of th[e] conditions [for patentability]."). When one sovereign acquires property under the domain of another, sovereign immunity does not bar reconsideration of the property grant by the originating sovereign. *See Georgia v. City of Chattanooga*, 264 U.S. 472, 479–80 (1924) ("The terms on which Tennessee gave Georgia permission to acquire and use the land and Georgia's acceptance amount to consent that Georgia may be made a party to condemnation proceedings."); *Upper Skagit Indian Tribe v. Lundgren*, 138 S. Ct. 1649, 1657–61 (2018) (Thomas, J., dissenting) (discussing the immovable-property exception to sovereign immunity).

[21] *See* Adam Davidson, *Why is Allergan Partnering With The St. Regis Mohawk Tribe?*, The New Yorker, Nov. 13, 2017 (reporting on interest by state universities in commoditizing sovereign immunity for privately owned patents).

light of the above disposition, we do not address the issue of whether, if sovereign immunity were to apply to IPR proceedings, the state here waived such immunity by asserting patent claims in district court that were later challenged in a petition for IPR.

AFFIRMED

COSTS

No costs.

United States Court of Appeals for the Federal Circuit

REGENTS OF THE UNIVERSITY OF MINNESOTA,
Appellant

v.

LSI CORPORATION, AVAGO TECHNOLOGIES U.S. INC.,
Appellees

GILEAD SCIENCES, INC.
Intervenor

2018-1559

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2017-01068.

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REGENTS OF THE UNIVERSITY OF MINNESOTA,
Appellant

v.

ERICSSON INC., TELEFONAKTIEBOLAGET LM ERICSSON,
Appellees

GILEAD SCIENCES, INC.
Intervenor

2018-1560, 2018-1561, 2018-1562, 2018-1563, 2018-1564, 2018-1565

Appeals from the United States Patent and Trademark Office, Patent Trial and Appeal Board in Nos. IPR2017-01186, IPR2017-01197, IPR2017-01200, IPR2017-01213, IPR2017-01214, IPR2017-01219.

Additional views of DYK, WALLACH, and HUGHES, *Circuit Judges*.

While the opinion for the court does not reach the issue, in our view state sovereign immunity also does not apply to IPR proceedings because they are in substance the type of in rem proceedings to which state sovereign immunity does not apply.

I. In Rem Proceedings

On appeal the parties dispute whether IPR is an in rem proceeding to which sovereign immunity does not apply, even if the proceedings are deemed adversarial as between private parties.

For sovereign immunity purposes, at least in some contexts the Supreme Court's "precedent has drawn a distinction between in rem and in personam jurisdiction, even when the underlying proceedings are, for the most part, identical." *Tenn. Student Assistance Corp. v. Hood*, 541 U.S. 440, 453 (2004). In personam proceedings involve "subjecting a State to the coercive process of judicial tribunals at the instance of private parties," which constitutes an affront to a state's dignity. *Id.* (quoting *Seminole Tribe* *of Fla. v. Florida*, 517 U.S. 44, 58 (1996)); *see, e.g.*, *id.* ("The issuance of process . . . is normally an indignity to the sovereignty of a State because its purpose is to establish personal jurisdiction over the State."). In rem proceedings, where personal jurisdiction need not be established over a state or its officers, at least in some contexts, "do[] not, in the usual case, interfere with state sovereignty even when States' interests are affected." *Cent. Va. Cmty. Coll. v. Katz*, 546 U.S. 356, 370 (2006) (holding that states have waived sovereign immunity for certain proceedings brought pursuant to the Bankruptcy Clause). And, as we describe below, IPR is an in rem proceeding.

Despite language in some Supreme Court cases broadly describing the United States' immunity to in rem proceedings,[1] recognition of state sovereign immunity in such proceedings has been more limited. For example,

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[1] *See, e.g.*, *The Siren*, 74 U.S. 152, 154 (1868) ("[D]irect suits cannot be maintained against the United States, or against their property . . . ."); *but see The Davis*, 77 U.S. 15, 19–20 (1869): "There are some expressions in the opinion of this court in the case of *The Siren*, which seem to imply that no suit *in rem* can be instituted against property of the United States under any circumstances. But a critical examination of the case and the reasoning of the court, will show that that question was not involved in the suit, and that it was not intended to assert such a proposition without qualification." *Davis* held that personal property of the United States in the hands of a common carrier is not immune to an in rem "proceeding which does not need a process against the United States, and which does not require that the property shall be taken out of the possession of the United States." 77 U.S. at 21–22; *see also California v. Deep Sea Research, Inc.*, 523 U.S. 491, 507 (1998) (relying on *Davis* in the context of state sovereign immunity).

sovereign immunity generally bars quiet title actions against state-owned real property, particularly where the dispute is "over a vast reach of lands and waters long deemed by the State to be an integral part of its territory." *Idaho v. Coeur d'Alene Tribe of Idaho*, 521 U.S. 261, 281–82 (1997) (citing *Tindal v. Wesley*, 167 U.S. 204, 223 (1897)).[2] With state-owned personal property, the Court has considered whether the disputed property was "owned by a state and used and employed solely for its governmental uses and purposes," because for an ostensibly in rem proceeding against the state's property, "[t]o permit a creditor to seize and sell [the property] to collect his debt would be to permit him in some degree to destroy the government itself." *In re New York*, 256 U.S. 503, 510 (1921) (second portion quoting *Klein v. City of New Orleans*, 99 U.S. 149, 150 (1878)). In other contexts, the Court has looked to whether the state is in actual possession of the disputed property: "an actual possession, and not that mere constructive possession which is very often implied by reason of ownership under circumstances favorable to such implication." *California v. Deep Sea Research, Inc.*, 523 U.S. 491, 507 (1998) (quoting *The Davis*, 77 U.S. 15, 21 (1869)). This is "consistent with the principle which exempts the [State] from suit and its possession from disturbance by virtue of judicial process." *Id.* (alteration in original) (quoting *Davis*, 77 U.S. at 21).

IPR is distinguishable from these in rem proceedings where the Court has held that sovereign immunity applies. Unlike *Coeur d'Alene*, IPR does not implicate ownership of real property or the state's ability to regulate within its

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[2] Suits concerning ownership of immovable property owned by one sovereign, but located in another, may not implicate sovereign immunity. *See Upper Skagit Indian Tribe v. Lundgren*, 138 S. Ct. 1649, 1654–55 (2018); *id.* at 1657–61 (Thomas, J., dissenting).

own domain. *Cf. Oil States Energy Servs., LLC v. Green's Energy Grp., LLC*, 138 S. Ct. 1365, 1376 n.3 (2018) ("Modern invention patents . . . are meaningfully different from land patents."). Patents are creations of federal statutory law and are regulated by that law, *id.* at 1374 (quoting *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 40 (1923)), which includes the ability of the executive to consider whether a previous grant was erroneous, *id.* at 1376–78 (noting that "[IPR] is one of th[e] conditions" of patentability). Patents are also not property that is used by a state "solely for its governmental uses and purposes." *New York*, 256 U.S. at 510.[3] Although a state does not waive its sovereign immunity merely by participating in commercial activity,[4] as UMN has done here, such private

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[3] In recent years states have sought to supplement revenue by increasing market participation in licensing and enforcing patents. *See* Andrew Chung, *Schools that Sue: Why More Universities File Patent Lawsuits*, Reuters (Sept. 15, 2015); Malathi Nayak, *Patent-Heavy Schools Look to Courts for IP Paydays*, BNA Intellectual Property Blog (June 14, 2017); Jacob H. Rooksby, *Innovation and Litigation: Tensions Between Universities and Patents and How to Fix Them*, 15 Yale J.L. & Tech. 312, 330–40 (2013); Tejas N. Narechania, Note, *An Offensive Weapon?: An Empirical Analysis of the "Sword" of State Sovereign Immunity in State-Owned Patents*, 110 Colum. L. Rev. 1574, 1601 (2010). The federal government's policy of encouraging commercialization of research performed with federal funds under the Bayh-Dole Act, Pub. L. No. 96–517, 94 Stat. 3015 (1980), hardly suggests state sovereign immunity bars administrative reconsideration of an erroneously granted patent.

[4] *Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 685 (1999) ("[A] suit by an individual against an unconsenting State is the very evil at which the Eleventh Amendment is directed—and it

market participation does not make patents "public property of a state used and employed for public and governmental purposes" that would implicate sovereign immunity in in rem proceedings under the Supreme Court's decision in *In re New York*. *Id.* at 510.

Also, because patents are intangible property—a right to exclude—the concern of protecting the state's "possession from disturbance" is not applicable for IPR where ownership is not disputed. *Deep Sea*, 523 U.S. at 507. A state cannot "actual[ly] possess[]" a patent even if the state otherwise claims ownership, *see id.* (quoting *Davis*, 77 U.S. at 21), and the Board does not physically intrude into the state's domain to obtain jurisdiction over a patent or to resolve the issue of its validity. We do not distinguish between tangible and intangible property, but instead between property that is physically possessed by a state and property that is not. Thus, IPR does not disturb a state's actual possession even if a state-owned patent is found to have been erroneously granted.

Not only is an IPR proceeding unlike in rem proceedings held to implicate sovereign immunity, IPR is closely akin to proceedings where the Supreme Court has concluded sovereign immunity is not a bar; for example, in rem bankruptcy proceedings involving discharge of a debt owed to the state. In *Tennessee Student Assistance Corp. v. Hood*, an individual received student loans from the state of Tennessee and then later sought discharge of the state debt in bankruptcy proceedings. 541 U.S. at 444–45. She served the state with her complaint and a summons. *Id.* The state moved to dismiss the complaint based on state sovereign immunity. *Id.* at 445. The Court held that the state enjoyed

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exists whether or not the State is acting for profit, in a traditionally 'private' enterprise, and as a 'market participant.'").

no sovereign immunity because of the in rem character of the bankruptcy proceedings.

"The discharge of a debt by a bankruptcy court is . . . an *in rem* proceeding," *id.* at 447, as "the court's jurisdiction is premised on the res, not on the persona," *id.* at 450. Although "States, whether or not they choose to participate in the proceeding, are bound by a bankruptcy court's discharge order no less than other creditors," *id.* at 448, the "debtor does not seek monetary damages or any affirmative relief from a State by seeking to discharge a debt; nor does he subject an unwilling State to coercive judicial process," *id.* at 450. In this way, "the court's exercise of its *in rem* jurisdiction to discharge a student loan debt is not an affront to the sovereignty of the State." *Id.* at 451 n.5.

IPR is similarly an in rem proceeding—a proceeding to reevaluate the validity of an issued patent. *See Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2144 (2016) (noting "that the proceeding offers a second look at an earlier administrative grant of a patent"). Just as with a bankruptcy proceeding to discharge a debt, IPR is an in rem proceeding that is not premised on obtaining jurisdiction over a state or its officers. The Board's jurisdiction is premised on the res (i.e., the patent). A person files a "petition to institute an inter partes review *of the patent*." 35 U.S.C. § 311(a) (emphasis added). As in bankruptcy, a petitioner for IPR "does not seek monetary damages or any affirmative relief from a State by seeking to [have a patent reviewed in IPR]; nor does he subject an unwilling State to a coercive judicial process." *Hood*, 541 U.S. at 450. "[IPR] does not make any binding determination regarding 'the liability of [one party to another] under the law as defined.'" *Oil States*, 138 S. Ct. at 1378 (quoting *Crowell v. Benson*, 285 U.S. 22, 51 (1932)). The petitioner only seeks to have the agency reconsider a previous grant of a patent, and the only relief the Board can offer is the revocation of erroneously granted patent claims. IPR ultimately terminates only with a certificate that either cancels erroneously granted patent claims, confirms claims determined to be patentable, or incorporates newly amended claims determined to be patentable. 35 U.S.C. § 318(b). No monetary or other relief against the patent owner is authorized or provided.[5]

Additionally, similar to the state's situation in *Hood*, there is no statutory requirement compelling a state to participate in IPR as a patent owner, even if it is otherwise motivated to do so.[6] The parallels between IPR and the

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[5] To the extent the estoppel provisions in 37 C.F.R. § 42.73(d)(3), prevent a patent owner from obtaining a patent on claims that are patentably indistinct from cancelled claims in an IPR proceeding, that result is no different than what is mandated under traditional principles of res judicata and collateral estoppel. *See B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293 (2015); *MaxLinear, Inc. v. CF CRESPE LLC*, 880 F.3d 1373 (Fed. Cir. 2018); *Ohio Willow Wood Co. v. Alps South, LLC*, 735 F.3d 1333 (Fed. Cir. 2013). In the absence of such a provision, the result would still be the same (i.e., the later claim is unpatentable for the same reasons as the earlier patentably indistinct claim).

[6] It is questionable whether a patentee risks default by failing to participate in the IPR proceedings. While the Board has on occasion interpreted non-participation as abandonment under 37 C.F.R. § 42.73(b)(4), *see, e.g.*, *VDF Futurceuticals, Inc. v. Kazerooni*, No. IPR2017–00547, 2018 WL 842176 (P.T.A.B. Feb. 9, 2018), it is questionable whether a default judgment could be entered cancelling a patent if the state owner does not participate. *See* 35 U.S.C. § 313 ("[T]he patent owner shall <u>have the right</u> to file a preliminary response . . . ." (emphasis added)); 37 C.F.R. § 42.107(a) ("The patent owner <u>may file</u> a preliminary response to the petition." (emphasis added)); 35 U.S.C. § 316(a)(8) (requiring regulation "providing for the filing by the patent owner of a response to the petition"); 37

bankruptcy proceedings in *Hood* reinforce the conclusion that IPR do not raise the concerns that have animated application of sovereign immunity for certain in rem proceedings.

The USPTO's "second look at an earlier administrative grant of a" public franchise does not constitute an affront to a state's sovereignty, *Cuozzo*, 136 S. Ct. at 2144, particularly where the only possible adverse outcome is the cancellation of erroneously granted claims. Although patent law, like bankruptcy, is a specialized area of law, we see no reason why the exercise of the executive's historically well-recognized ability to reconsider a grant of a public franchise in an in rem proceeding "is more threatening to state sovereignty than the exercise of" an Article III court's bankruptcy in rem jurisdiction. *Hood*, 541 U.S. at 451.

Therefore, it seems to us that IPR proceedings are the type of in rem proceedings to which state sovereign immunity does not apply.

C.F.R. § 42.120 ("A patent owner <u>may file</u> a response to the petition . . . ." (emphasis added)). It is the petitioner that "shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence." 35 U.S.C. § 316(e).

Syllabus

SUPREME COURT OF THE UNITED STATES

Syllabus

RETURN MAIL, INC. *v.* UNITED STATES POSTAL SERVICE ET AL.

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

No. 17–1594. Argued February 19, 2019—Decided June 10, 2019

The Leahy-Smith America Invents Act (AIA) of 2011 created the Patent Trial and Appeal Board, 35 U. S. C. §6(c), and established three types of administrative review proceedings before the Board that enable a "person" other than the patent owner to challenge the validity of a patent post-issuance: (1) "inter partes review," §311; (2) "post-grant review," §321; and (3) "covered-business-method review" (CBM review), note following §321. After an adjudicatory proceeding, the Board either confirms the patent claims or cancels some or all of them, §§318(b), 328(b). Any "dissatisfied" party may then seek judicial review in the Federal Circuit, §§319, 329. In addition to AIA review proceedings, a patent can be reexamined either in federal court during a defense to an infringement suit, §282(b), or in an ex parte reexamination by the Patent Office, §§301(a), 302(a).

Return Mail, Inc., owns a patent that claims a method for processing undeliverable mail. The Postal Service subsequently introduced an enhanced address-change service to process undeliverable mail, which Return Mail asserted infringed its patent. The Postal Service petitioned for ex parte reexamination of the patent, but the Patent Office confirmed the patent's validity. Return Mail then sued the Postal Service in the Court of Federal Claims, seeking compensation for the unauthorized use of its invention. While that suit was pending, the Postal Service petitioned for CBM review. The Patent Board concluded that the subject matter of Return Mail's claims was ineligible to be patented and thus canceled the claims underlying its patent. The Federal Circuit affirmed, concluding, as relevant here, that the Government is a "person" eligible to petition for CBM review.

Held: The Government is not a "person" capable of instituting the three AIA review proceedings. Pp. 6–18.

(a) In the absence of an express definition of the term "person" in the patent statutes, the Court applies a "longstanding interpretive presumption that 'person' does not include the sovereign," and thus excludes a federal agency like the Postal Service. *Vermont Agency of Natural Resources* v. *United States ex rel. Stevens*, 529 U. S. 765, 780–781. This presumption reflects "common usage," *United States* v. *Mine Workers*, 330 U. S. 258, 275, as well as an express directive from Congress in the Dictionary Act, 1 U. S. C. §1. The Dictionary Act does not include the Federal Government among the persons listed in the definition of "person" that courts use "[i]n determining the meaning of any Act of Congress, unless the context indicates otherwise," §1. Contrary to the Postal Service's contention otherwise, this Court has, in several instances, applied the presumption against treating the Government as a statutory person even when, as here, doing so would exclude the Government or one of its agencies from accessing a benefit or favorable procedural device. See, *e.g., United States* v. *Cooper Corp.*, 312 U. S. 600, 604–605, 614. Thus, the Court here proceeds from the presumption that the Government is not a "person" authorized to initiate these proceedings absent an affirmative showing to the contrary. Pp. 7–9.

(b) The Postal Service must point to some indication in the AIA's text or context affirmatively showing that Congress intended to include the Government as a "person," but its arguments are unpersuasive. Pp. 9–17.

(1) The Postal Service first argues that the AIA's reference to a "person" in the context of post-issuance review proceedings must include the Government because other references to persons in the patent statutes appear to do so. The consistent-usage principle—*i.e.,* when Congress uses a word to mean one thing in one part of the statute, it will mean the same thing elsewhere in the statute—however, "'readily yields to context,'" especially when a statutory term is used throughout a statute and takes on "distinct characters" in distinct statutory provisions. *Utility Air Regulatory Group* v. *EPA*, 573 U. S. 302, 320. Here, where there are at least 18 references to "person[s]" in the Patent Act and the AIA, no clear trend is shown: Sometimes "person" plainly includes or excludes the Government, but sometimes, as here, it might be read either way. The mere existence of some Government-inclusive references cannot make the "affirmative showing," *Stevens*, 529 U. S., at 781, required to overcome the presumption that the Government is not a "person" eligible to petition for AIA review proceedings. Pp. 9–12.

(2) The Postal Service next points to the Federal Government's

longstanding history with the patent system, arguing that because federal officers have been able to apply for patents in the name of the United States since 1883, Congress must have intended to allow the Government access to AIA review proceedings. But the Government's ability to obtain a patent does not speak to whether Congress meant for the Government to participate as a third-party challenger in AIA proceedings established only eight years ago. Moreover, even assuming that the Government may petition for ex parte reexamination of an issued patent, as a 1981 Patent Office Manual of Patent Examining Procedure (MPEP) indicates, an ex parte reexamination process is fundamentally different from an AIA review proceeding. The former process is internal, and the party challenging the patent may not participate. By contrast, adversarial, adjudicatory AIA review proceedings are between the "person" who petitioned for review and the patent owner; they include briefing, a hearing, discovery, and the presentation of evidence; and the losing party has appeal rights. Congress may have had good reason to authorize the Government to initiate a hands-off ex parte reexamination but not to become a party to the AIA's full-blown adversarial proceeding. Nothing suggests that Congress had the 1981 MPEP statement about ex parte reexamination in mind when it created the AIA review proceedings. And because there is no "settled" meaning of the term "person" with respect to the newly established AIA review proceedings, see *Bragdon* v. *Abbott*, 524 U. S. 624, 645, the MPEP does not justify putting aside the presumptive meaning of "person." Pp. 13–15.

(3) Finally, the Postal Service argues that it must be a "person" who may petition for AIA review proceedings because, like other potential infringers, it is subject to civil liability and can assert a defense of patent invalidity. It would thus be anomalous, the Postal Service posits, to deny it a benefit afforded to other infringers—namely, the ability to challenge a patent *de novo* before the Patent Office, rather than only with clear and convincing evidence in defense to an infringement suit. Federal agencies, however, face lower and more calculable risks than nongovernmental actors, so it is reasonable for Congress to have treated them differently. Excluding federal agencies from AIA review proceedings also avoids the awkward situation of having a civilian patent owner defend the patentability of her invention in an adversarial, adjudicatory proceeding initiated by one federal agency and overseen by a different federal agency. Pp. 15–17.

868 F. 3d 1350, reversed and remanded.

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

SUPREME COURT OF THE UNITED STATES

No. 17–1594

RETURN MAIL, INC., PETITIONER *v.* UNITED STATES POSTAL SERVICE, ET AL.

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

[June 10, 2019]

JUSTICE SOTOMAYOR delivered the opinion of the Court.

In the Leahy-Smith America Invents Act of 2011, 35 U. S. C. §100 *et seq.*, Congress created the Patent Trial and Appeal Board and established three new types of administrative proceedings before the Board that allow a "person" other than the patent owner to challenge the validity of a patent post-issuance. The question presented in this case is whether a federal agency is a "person" able to seek such review under the statute. We conclude that it is not.

I

A

The Constitution empowers 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 . . . Discoveries." Art. I, §8, cl. 8. Pursuant to that authority, Congress established the United States Patent and Trademark Office (Patent Office) and tasked it with "the granting and issuing of patents." 35 U. S. C. §§1, 2(a)(1).

To obtain a patent, an inventor submits an application describing the proposed patent claims to the Patent Office. See §§111(a)(1), 112. A patent examiner then reviews the application and prior art (the information available to the public at the time of the application) to determine whether the claims satisfy the statutory requirements for patentability, including that the claimed invention is useful, novel, nonobvious, and contains eligible subject matter. See §§101, 102, 103. If the Patent Office accepts the claim and issues a patent, the patent owner generally obtains exclusive rights to the patented invention throughout the United States for 20 years. §§154(a)(1), (2).

After a patent issues, there are several avenues by which its validity can be revisited. The first is through a defense in an infringement action. Generally, one who intrudes upon a patent without authorization "infringes the patent" and becomes subject to civil suit in the federal district courts, where the patent owner may demand a jury trial and seek monetary damages and injunctive relief. §§271(a), 281–284. If, however, the Federal Government is the alleged patent infringer, the patent owner must sue the Government in the United States Court of Federal Claims and may recover only "reasonable and entire compensation" for the unauthorized use. 28 U. S. C. §1498(a).

Once sued, an accused infringer can attempt to prove by clear and convincing evidence "that the patent never should have issued in the first place." *Microsoft Corp.* v. *i4i L. P.*, 564 U. S. 91, 96–97 (2011); see 35 U. S. C. §282(b). If a defendant succeeds in showing that the claimed invention falls short of one or more patentability requirements, the court may deem the patent invalid and absolve the defendant of liability.

The Patent Office may also reconsider the validity of issued patents. Since 1980, the Patent Act has empowered the Patent Office "to reexamine—and perhaps cancel—a patent claim that it had previously allowed."

Cuozzo Speed Technologies, *LLC* v. *Lee*, 579 U. S. ___, ___ (2016) (slip op., at 3). This procedure is known as ex parte reexamination. "Any person at any time" may cite to the Patent Office certain prior art that may "bea[r] on the patentability of any claim of a particular patent"; and the person may additionally request that the Patent Office reexamine the claim on that basis. 35 U. S. C. §§301(a), 302(a). If the Patent Office concludes that the prior art raises "a substantial new question of patentability," the agency may reexamine the patent and, if warranted, cancel the patent or some of its claims. §§303(a), 304–307. The Director of the Patent Office may also, on her "own initiative," initiate such a proceeding. §303(a).

In 1999 and 2002, Congress added an "inter partes reexamination" procedure, which similarly invited "[a]ny person at any time" to seek reexamination of a patent on the basis of prior art and allowed the challenger to participate in the administrative proceedings and any subsequent appeal. See §311(a) (2000 ed.); §§314(a), (b) (2006 ed.); *Cuozzo Speed Technologies*, 579 U. S., at ___ (slip op., at 3).

B

In 2011, Congress overhauled the patent system by enacting the America Invents Act (AIA), which created the Patent Trial and Appeal Board and phased out inter partes reexamination. See 35 U. S. C. §6; H. R. Rep. No. 112–98, pt. 1, pp. 46–47. In its stead, the AIA tasked the Board with overseeing three new types of post-issuance review proceedings.

First, the "inter partes review" provision permits "a person" other than the patent owner to petition for the review and cancellation of a patent on the grounds that the invention lacks novelty or nonobviousness in light of "patents or printed publications" existing at the time of the patent application. §311.

Second, the "post-grant review" provision permits "a person who is not the owner of a patent" to petition for review and cancellation of a patent on any ground of patentability. §321; see §§282(b)(2), (b)(3). Such proceedings must be brought within nine months of the patent's issuance. §321.

Third, the "covered-business-method review" (CBM review) provision provides for changes to a patent that claims a method for performing data processing or other operations used in the practice or management of a financial product or service. AIA §§18(a)(1), (d)(1), 125 Stat. 329, note following 35 U. S. C. §321, p. 1442. CBM review tracks the "standards and procedures of" post-grant review with two notable exceptions: CBM review is not limited to the nine months following issuance of a patent, and "[a] person" may file for CBM review only as a defense against a charge or suit for infringement. §18(a)(1)(B), 125 Stat. 330.[1]

The AIA's three post-issuance review proceedings are adjudicatory in nature. Review is conducted by a three-member panel of the Patent Trial and Appeal Board, 35 U. S. C. §6(c), and the patent owner and challenger may seek discovery, file affidavits and other written memoranda, and request an oral hearing, see §§316, 326; AIA §18(a)(1), 125 Stat. 329; *Oil States Energy Services*, *LLC* v. *Greene's Energy Group*, *LLC*, 584 U. S. ___, ___–___ (2018) (slip op., at 3–4). The petitioner has the burden of proving unpatentability by a preponderance of the evidence. §§282, 316(e), 326(e). The Board then either confirms the patent claims or cancels some or all of the claims. §§318(b), 328(b). Any party "dissatisfied" with the Board's final decision may seek judicial review in the Court of

[1] The CBM review program will stop accepting new claims in 2020. See AIA §18(a)(3)(A), 125 Stat. 330; 77 Fed. Reg. 48687 (2012).

Appeals for the Federal Circuit, §§319, 329; see §141(c), and the Director of the Patent Office may intervene, §143.

In sum, in the post-AIA world, a patent can be reexamined either in federal court during a defense to an infringement action, in an ex parte reexamination by the Patent Office, or in the suite of three post-issuance review proceedings before the Patent Trial and Appeal Board. The central question in this case is whether the Federal Government can avail itself of the three post-issuance review proceedings, including CBM review.

C

Return Mail, Inc., owns U. S. Patent No. 6,826,548 ('548 patent), which claims a method for processing mail that is undeliverable. Beginning in 2003, the United States Postal Service allegedly began exploring the possibility of licensing Return Mail's invention for use in handling the country's undelivered mail. But the parties never reached an agreement.

In 2006, the Postal Service introduced an enhanced address-change service to process undeliverable mail. Return Mail's representatives asserted that the new service infringed the '548 patent, and the company renewed its offer to license the claimed invention to the Postal Service. In response, the Postal Service petitioned for ex parte reexamination of the '548 patent. The Patent Office canceled the original claims but issued several new ones, confirming the validity of the '548 patent. Return Mail then sued the Postal Service in the Court of Federal Claims, seeking compensation for the Postal Service's unauthorized use of its invention, as reissued by the Patent Office.

While the lawsuit was pending, the Postal Service again petitioned the Patent Office to review the '548 patent, this time seeking CBM review. The Patent Board instituted review. The Board agreed with the Postal Service that

Return Mail's patent claims subject matter that was ineligible to be patented, and it canceled the claims underlying the '548 patent. A divided panel of the Court of Appeals for the Federal Circuit affirmed. See 868 F. 3d 1350 (2017). As relevant here, the Federal Circuit held, over a dissent, that the Government is a "person" eligible to petition for CBM review. *Id.*, at 1366; see AIA §18(a)(1)(B), 125 Stat. 330 (only a qualifying "person" may petition for CBM review). The court then affirmed the Patent Board's decision on the merits, invalidating Return Mail's patent claims.

We granted certiorari to determine whether a federal agency is a "person" capable of petitioning for post-issuance review under the AIA.[2] 586 U. S. ___ (2018).

II

The AIA provides that only "a person" other than the patent owner may file with the Office a petition to institute a post-grant review or inter partes review of an issued patent. 35 U. S. C. §§311(a), 321(a). The statute likewise provides that a "person" eligible to seek CBM review may not do so "unless the person or the person's real party in interest or privy has been sued for infringement." AIA §18(a)(1)(B), 125 Stat. 330. The question in this case is whether the Government is a "person" capable of instituting the three AIA review proceedings.

A

The patent statutes do not define the term "person." In

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[2] The Federal Circuit rejected Return Mail's argument that the Postal Service cannot petition for CBM review for the independent reason that a suit against the Government under 28 U. S. C. §1498 is not a suit for infringement. 868 F. 3d 1350, 1366 (2017). We denied Return Mail's petition for certiorari on this question and therefore have no occasion to resolve it in this case. Accordingly, we assume that a §1498 suit is one for infringement and refer to it as the same.

the absence of an express statutory definition, the Court applies a "longstanding interpretive presumption that 'person' does not include the sovereign," and thus excludes a federal agency like the Postal Service. *Vermont Agency of Natural Resources* v. *United States ex rel. Stevens*, 529 U. S. 765, 780–781 (2000); see *United States* v. *Mine Workers*, 330 U. S. 258, 275 (1947); *United States* v. *Cooper Corp.*, 312 U. S. 600, 603–605 (1941); *United States* v. *Fox*, 94 U. S. 315, 321 (1877).

This presumption reflects "common usage." *Mine Workers*, 330 U. S., at 275. It is also an express directive from Congress: The Dictionary Act has since 1947 provided the definition of "'person'" that courts use "[i]n determining the meaning of any Act of Congress, unless the context indicates otherwise." 1 U. S. C. §1; see *Rowland* v. *California Men's Colony, Unit II Men's Advisory Council*, 506 U. S. 194, 199–200 (1993). The Act provides that the word "'person' . . . include[s] corporations, companies, associations, firms, partnerships, societies, and joint stock companies, as well as individuals." §1. Notably absent from the list of "person[s]" is the Federal Government. See *Mine Workers*, 330 U. S., at 275 (reasoning that Congress' express inclusion of partnerships and corporations in §1 implies that Congress did not intend to include the Government). Thus, although the presumption is not a "hard and fast rule of exclusion," *Cooper*, 312 U. S., at 604–605, "it may be disregarded only upon some affirmative showing of statutory intent to the contrary," *Stevens*, 529 U. S., at 781.

The Postal Service contends that the presumption is strongest where interpreting the word "person" to include the Government imposes liability on the Government, and is weakest where (as here) interpreting "person" in that way benefits the Government. In support of this argument, the Postal Service points to a different interpretive canon: that Congress must unequivocally express any waiver of sovereign immunity for that waiver to be effective. See *FAA* v. *Cooper*, 566 U. S. 284, 290 (2012). That clear-statement rule inherently applies only when a party seeks to hold the Government liable for its actions; otherwise immunity is generally irrelevant. In the Postal Service's view, the presumption against treating the Government as a statutory person works in tandem with the clear-statement rule regarding immunity, such that both apply only when a statute would subject the Government to liability.

Our precedents teach otherwise. In several instances, this Court has applied the presumption against treating the Government as a statutory person when there was no question of immunity, and doing so would instead exclude the Federal Government or one of its agencies from accessing a benefit or favorable procedural device. In *Cooper*, 312 U. S., at 604–605, 614, for example, the Court held that the Federal Government was not "'[a]ny person'" who could sue for treble damages under §7 of the Sherman Anti-Trust Act. Accord, *International Primate Protection League* v. *Administrators of Tulane Ed. Fund*, 500 U. S. 72, 82–84 (1991) (concluding that the National Institutes of Health was not authorized to remove an action as a "'person acting under [a federal]' officer" pursuant to 28 U. S. C. §1442(a)(1)); *Davis* v. *Pringle*, 268 U. S. 315, 317–318 (1925) (reasoning that "normal usages of speech" indicated that the Government was not a "person" entitled to priority under the Bankruptcy Act); *Fox*, 94 U. S., at 321 (holding that the Federal Government was not a "'person capable by law of holding real estate,'" absent "an express definition to that effect").

Thus, although the presumption against treating the Government as a statutory person is "'particularly applicable where it is claimed that Congress has subjected the [sovereign] to liability to which they had not been subject before,'" *Stevens*, 529 U. S., at 781, it is hardly confined to such cases. Here, too, we proceed from the presumption that the Government is not a "person" authorized to initiate these proceedings absent an affirmative showing to the contrary.

B

Given the presumption that a statutory reference to a "person" does not include the Government, the Postal Service must show that the AIA's context indicates otherwise. Although the Postal Service need not cite to "an express contrary definition," *Rowland*, 506 U. S., at 200, it must point to some indication in the text or context of the statute that affirmatively shows Congress intended to include the Government. See *Cooper*, 312 U. S., at 605.

The Postal Service makes three arguments for displacing the presumption. First, the Postal Service argues that the statutory text and context offer sufficient evidence that the Government is a "person" with the power to petition for AIA review proceedings. Second, the Postal Service contends that federal agencies' long history of participation in the patent system suggests that Congress intended for the Government to participate in AIA review proceedings as well. Third, the Postal Service maintains that the statute must permit it to petition for AIA review because §1498 subjects the Government to liability for infringement. None delivers.

1

The Postal Service first argues that the AIA's reference to a "person" in the context of post-issuance review proceedings must include the Government because other references to persons in the patent statutes appear to do so. Indeed, it is often true that when Congress uses a word to mean one thing in one part of the statute, it will mean the same thing elsewhere in the statute. See *Merrill Lynch*, *Pierce*, *Fenner & Smith Inc.* v. *Dabit*, 547 U. S. 71, 86 (2006). This principle, however, "readily yields to context," especially when a statutory term is used throughout a statute and takes on "distinct characters" in distinct statutory provisions. See *Utility Air Regulatory Group* v. *EPA*, 573 U. S. 302, 320 (2014) (internal quotation marks omitted). That is the case here. The Patent Act and the AIA refer to "person[s]" in at least 18 different places, and there is no clear trend: Sometimes "person" plainly includes the Government,[3] sometimes it plainly excludes the Government,[4] and sometimes—as here—it might be read either way.

Looking on the bright side, the Postal Service and the dissent, see *post*, at 2, focus on §207(a)(1), which authorizes "[e]ach [f]ederal agency" to "apply for, obtain, and maintain patents or other forms of protection . . . on inventions in which the Federal Government owns a right, title, or interest." It follows from §207(a)(1)'s express inclusion of

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[3] For example, the statute expressly includes the Government as a "person" in §296(a), which, as enacted, provided that States "shall not be immune . . . from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271." 35 U. S. C. §296(a) (1988 ed., Supp. IV) (ruled unconstitutional by *Florida Prepaid Postsecondary Ed. Expense Bd.* v. *College Savings Bank*, 527 U. S. 627, 630 (1999)).

[4] For example, in §6(a), the Patent Act provides that the administrative patent judges comprising the Board must be "persons of competent legal knowledge and scientific ability." Likewise, §257(e) requires the Patent Office Director to treat as confidential any referral to the Attorney General of suspected fraud in the patent process unless the United States charges "a person" with a criminal offense in connection with the fraud. See also §2(b)(11) (authorizing the Patent Office to cover the expenses of "persons" other than federal employees attending programs on intellectual-property protection); §100(h) (defining a "'joint research agreement'" as a written agreement between "2 or more persons or entities"). Some of these provisions (§§2(b)(11), 6(a), and 100(h)) were enacted as part of the AIA, alongside the AIA review proceedings. See 125 Stat. 285, 313, 335.

federal agencies among those eligible to apply for patents that the statute's references to "person[s]" in the subsections governing the patent-application process and questions of patentability (§§102(a), 118, and 119) must also include federal agencies.[5] In other words, the right described in §207(a)(1) provides a sufficient contextual clue that the word "person"—when used in the other provisions governing the application process §207(a)(1) makes available to federal agencies—includes the Government.

But §207(a)(1) provides no such clue as to the interpretation of the AIA review provisions because it implies nothing about what a federal agency may or may not do following the issuance of someone else's patent. Conversely, reading the review provisions to exclude the Government has no bearing on a federal agency's right to obtain a patent under §207(a)(1). An agency may still apply for and obtain patents whether or not it may petition for a review proceeding under the AIA seeking cancellation of a patent it does not own. There is thus no reason to think that "person" must mean the same thing in these two different parts of the statute. See *Utility Air*, 573 U. S., at 320.[6]

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[5] Section 102(a) provides that "[a] person shall be entitled to a patent" as long as the patent is novel. Section 118 states that "[a] person to whom the inventor has assigned" an invention may file a patent application. Section 119 discusses the effect of a patent application filed in a foreign country "by any person" on the patent-application process in the United States.

[6] Likewise, we are not persuaded by the dissent's suggestion that §207(a)(3)—which authorizes federal agencies "to protect and administer rights" to federally owned inventions—provides a statutory basis for the Postal Service's initiation of AIA review proceedings. See *post*, at 5–6. The statute explains how a federal agency is to "protect" those rights: "either directly or through contract," such as by "acquiring rights for and administering royalties" or "licensing." §207(a)(3). The

The Postal Service cites other provisions that may refer to the Government—namely, the "intervening rights" provisions that offer certain protections for "any person" who is lawfully making or using an invention when the Patent Office modifies an existing patent claim in a way that deems the person's (previously lawful) use to be infringement. See §§252, 307(b), 318(c), 328(c). The Postal Service argues that the Government must be among those protected by these provisions and from there deduces that it must also be permitted to petition for AIA review proceedings because the review provisions and the intervening-rights provisions were all added to the Patent Act by the AIA at the same time. See *Powerex Corp.* v. *Reliant Energy Services*, *Inc.*, 551 U. S. 224, 232 (2007) (invoking the consistent-usage canon where the same term was used in related provisions enacted at the same time).

But regardless of whether the intervening-rights provisions apply to the Government (a separate interpretive question that we have no occasion to answer here), the Postal Service's chain of inferences overlooks a confounding link: The consistent-usage canon breaks down where Congress uses the same word in a statute in multiple conflicting ways. As noted, that is the case here. In the face of such inconsistency, the mere existence of some Government-inclusive references cannot make the "affirmative showing," *Stevens*, 529 U. S., at 781, required to overcome the presumption that Congress did not intend to include the Government among those "person[s]" eligible to petition for AIA review proceedings.[7]

AIA review proceedings, which a "person" may initiate regardless of ownership, do not fall clearly within the ambit of §207(a)(3).

[7] The dissent responds that we should set aside the statutory references to "person[s]" that naturally exclude the Government and instead count only those references that expressly or impliedly include the Government. See *post*, at 3–4. But the point of the canon the Postal

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The Postal Service next points to the Federal Government's longstanding history with the patent system. It reminds us that federal officers have been able to apply for patents in the name of the United States since 1883, see Act of Mar. 3, 1883, 22 Stat. 625—which, in the Postal Service's view, suggests that Congress intended to allow the Government access to AIA review proceedings as well. But, as already explained, the Government's ability to obtain a patent under §207(a)(1) does not speak to whether Congress meant for the Government to participate as a third-party challenger in AIA review proceedings. As to those proceedings, there is no longstanding practice: The AIA was enacted just eight years ago.[8]

More pertinently, the Postal Service and the dissent both note that the Patent Office since 1981 has treated federal agencies as "persons" who may cite prior art to the agency or request an ex parte reexamination of an issued patent. See *post*, at 5. Recall that §301(a) provides that "[a]ny person at any time may cite to the Office in writing . . . prior art . . . which that person believes to have a bearing on the patentability of any claim of a particular patent." As memorialized in the Patent Office's Manual of Patent Examining Procedure (MPEP), the agency has understood §301's reference to "any person" to include "governmental entit[ies]." Dept. of Commerce, Patent and Trademark Office, MPEP §§2203, 2212 (4th rev. ed., July 1981).

We might take account of this "executive interpretation"

Service invokes is to ascertain the meaning of a statutory term from its consistent usage in other parts of the statute, not to pick sides among differing uses.

[8] Moreover, for those of us who consider legislative history, there is none that suggests Congress considered whether the Federal Government or its agencies would have access to the AIA review proceedings.

if we were determining whether Congress meant to include the Government as a "person" for purposes of the ex parte reexamination procedures themselves. See, *e.g.*, *United States* v. *Hermanos y Compañia*, 209 U. S. 337, 339 (1908). Here, however, the Patent Office's statement in the 1981 MPEP has no direct relevance. Even assuming that the Government may petition for ex parte reexamination, ex parte reexamination is a fundamentally different process than an AIA post-issuance review proceeding.[9] Both share the common purpose of allowing non-patent owners to bring questions of patent validity to the Patent Office's attention, but they do so in meaningfully different ways.

In an ex parte reexamination, the third party sends information to the Patent Office that the party believes bears on the patent's validity, and the Patent Office decides whether to reexamine the patent. If it decides to do so, the reexamination process is internal; the challenger is not permitted to participate in the Patent Office's process. See 35 U. S. C. §§302, 303. By contrast, the AIA post-issuance review proceedings are adversarial, adjudicatory proceedings between the "person" who petitioned for review and the patent owner: There is briefing, a hearing, discovery, and the presentation of evidence, and the losing party has appeal rights. See *supra*, at 4–5. Thus, there are good reasons Congress might have authorized the Government to initiate a hands-off ex parte reexamination but not to become a party to a full-blown adversarial proceeding before the Patent Office and any subsequent

[9] As discussed above, see *supra*, at 2–4, ex parte reexamination is not one of the three new proceedings added by the AIA, and therefore the question whether its reference to a "person" includes the Government is beyond the scope of the question presented. Moreover, neither party contests that a federal agency may cite prior art to the Patent Office and ask for ex parte reexamination.

appeal. After all, the Government is already in a unique position among alleged infringers given that 28 U. S. C. §1498 limits patent owners to bench trials before the Court of Federal Claims and monetary damages, whereas 35 U. S. C. §271 permits patent owners to demand jury trials in the federal district courts and seek other types of relief.

Thus, there is nothing to suggest that Congress had the 1981 MPEP statement in mind when it enacted the AIA. It is true that this Court has often said, "[w]hen administrative and judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its administrative and judicial interpretations as well." *Bragdon* v. *Abbott*, 524 U. S. 624, 645 (1998). But there is no "settled" meaning of the term "person" with respect to the newly established AIA review proceedings. Accordingly, the MPEP does not justify putting aside the presumptive meaning of "person" here.

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Finally, the Postal Service argues that it must be a "person" who may petition for AIA review proceedings because, like other potential infringers, it is subject to civil liability and can assert a defense of patent invalidity. See §§282(b)(2)–(3). In the Postal Service's view, it is anomalous to deny it a benefit afforded to other infringers—the ability to challenge a patent *de novo* before the Patent Office, rather than only as an infringement defense that must be proved by clear and convincing evidence. See *ibid.*; *Microsoft Corp.*, 564 U. S., at 95 (holding that §282's presumption of validity in litigation imposes a clear and convincing evidence standard on defendants seeking to prove invalidity).

The Postal Service overstates the asymmetry. Agencies retain the ability under §282 to assert defenses to infringement. Once sued, an agency may, like any other accused infringer, argue that the patent is invalid, and the agency faces the same burden of proof as a defendant in any other infringement suit. The Postal Service lacks only the additional tool of petitioning for the initiation of an administrative proceeding before the Patent Office under the AIA, a process separate from defending an infringement suit.

We see no oddity, however, in Congress' affording nongovernmental actors an expedient route that the Government does not also enjoy for heading off potential infringement suits. Those other actors face greater and more uncertain risks if they misjudge their right to use technology that is subject to potentially invalid patents. Most notably, §1498 restricts a patent owner who sues the Government to her "reasonable and entire compensation" for the Government's infringing use; she cannot seek an injunction, demand a jury trial, or ask for punitive damages, all of which are available in infringement suits against nongovernmental actors under §271(e)(4). Thus, although federal agencies remain subject to damages for impermissible uses, they do not face the threat of preliminary injunctive relief that could suddenly halt their use of a patented invention, and they enjoy a degree of certainty about the extent of their potential liability that ordinary accused infringers do not. Because federal agencies face lower risks, it is reasonable for Congress to have treated them differently.[10]

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[10] If the Government were a "person" under the AIA, yet another anomaly might arise under the statute's estoppel provisions. Those provisions generally preclude a party from relitigating issues in any subsequent proceedings in federal district court, before the International Trade Commission, and (for inter partes review and post-grant review) before the Patent Office. See 35 U. S. C. §§315(e), 325(e); AIA

Finally, excluding federal agencies from the AIA review proceedings avoids the awkward situation that might result from forcing a civilian patent owner (such as Return Mail) to defend the patentability of her invention in an adversarial, adjudicatory proceeding initiated by one federal agency (such as the Postal Service) and overseen by a different federal agency (the Patent Office). We are therefore unpersuaded that the Government's exclusion from the AIA review proceedings is sufficiently anomalous to overcome the presumption that the Government is not a "person" under the Act.[11]

III

For the foregoing reasons, we hold that a federal agency is not a "person" who may petition for post-issuance re-

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§18(a)(1)(D), 125 Stat. 330. Because infringement suits against the Government must be brought in the Court of Federal Claims—which is not named in the estoppel provisions—the Government might not be precluded by statute from relitigating claims raised before the Patent Office if it were able to institute post-issuance review under the AIA. See 28 U. S. C. §1498(a). Although Return Mail cites this asymmetry in support of its interpretation, we need not rely on it, because Return Mail already prevails for the reasons given above. At any rate, the practical effect of the estoppel provisions' potential inapplicability to the Government is uncertain given that this Court has not decided whether common-law estoppel applies in §1498 suits.

[11] Nor do we find persuasive the dissent's argument that the Postal Service should be allowed to petition for post-issuance review proceedings because its participation would further the purpose of the AIA: to provide a cost-effective and efficient alternative to litigation in the courts. See *post*, at 5; H. R. Rep. No. 112–98, pt. 1, pp. 47–48 (2001). Statutes rarely embrace every possible measure that would further their general aims, and, absent other contextual indicators of Congress' intent to include the Government in a statutory provision referring to a "person," the mere furtherance of the statute's broad purpose does not overcome the presumption in this case. See *Cooper*, 312 U. S., at 605 ("[I]t is not our function to engraft on a statute additions which we think the legislature logically might or should have made").

view under the AIA. The judgment of the United States Court of Appeals for the Federal Circuit is therefore reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

SUPREME COURT OF THE UNITED STATES

No. 17–1594

RETURN MAIL, INC., PETITIONER *v.* UNITED STATES POSTAL SERVICE, ET AL.

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

[June 10, 2019]

JUSTICE BREYER, with whom JUSTICE GINSBURG and JUSTICE KAGAN join, dissenting.

When A sues B for patent infringement, B may defend against the lawsuit by claiming that A's patent is invalid. In court, B must prove the invalidity of A's patent by "clear and convincing evidence." *Microsoft Corp.* v. *i4i L. P.*, 564 U. S. 91, 95 (2011). Congress, however, has also established a variety of *administrative* procedures that B may use to challenge the validity of A's patent. Although some of the statutes setting forth these administrative procedures have existed for several decades, we consider here the three administrative procedures that Congress established in the Leahy-Smith America Invents Act of 2011. See *ante*, at 3–5. All three involve hearings before the Patent Trial and Appeal Board, which is part of the Patent and Trademark Office. And all three involve a lower burden of proof: B need only prove by a preponderance of the evidence that A's patent is invalid. 35 U. S. C. §§316(e), 326(e); see America Invents Act, §18(a)(1), 125 Stat. 329.

The America Invents Act states that all three administrative procedures may be invoked only by a "person." 35 U. S. C. §§311(a), 321(a); America Invents Act, §18(a)(1)(B), 125 Stat. 330. Here we must decide whether the Government falls within the scope of the word "person." Are federal agencies entitled to invoke these administrative procedures on the same terms as private parties? In my view, the answer is "yes." For purposes of these statutes, Government agencies count as "persons" and so may invoke these procedures to challenge the validity of a patent.

The Court reaches the opposite conclusion based on the interpretive presumption that the word "person" excludes the Government. See *ante*, at 7. This presumption, however, is "no hard and fast rule of exclusion." *United States* v. *Cooper Corp.*, 312 U. S. 600, 604–605 (1941). We have long said that this presumption may be overcome when "'[t]he purpose, the subject matter, the context, the legislative history, [or] the executive interpretation . . . indicate an intent'" to include the Government. *International Primate Protection League* v. *Administrators of Tulane Ed. Fund*, 500 U. S. 72, 83 (1991) (quoting *Cooper*, *supra*, at 605). And here these factors indicate that very intent.

I

The language of other related patent provisions strongly suggests that, in the administrative review statutes at issue here, the term "person" includes the Government.

The Patent Act states that "[e]ach Federal agency is authorized" to "apply for, obtain, and maintain patents or other forms of protection . . . on inventions in which the Federal Government owns a right, title, or interest." 35 U. S. C. §207(a)(1). The Act then provides that a "*person*" shall be "entitled to a patent" if various "[c]onditions for patentability" have been met. §102(a)(1) (emphasis added). It authorizes a "*person* to whom the inventor has assigned" an invention to apply for a patent in some circumstances. §118 (emphasis added). And it generally allows "any *person*" who initially files a patent application in a foreign country to obtain in the United States the advantage of that earlier filing date. §119 (emphasis added). Because the Government is authorized to "obtain" patents, there is no dispute here that the word "person" in these patent-eligibility provisions must include the Government. See *ante*, at 10–11.

Now consider a few of the statutory provisions that help those *accused of infringing* a patent. Suppose A obtains a patent in Year One, modifies this patent in Year Three, and then accuses B of infringing the patent *as modified* in Year Five. What if B's conduct infringes the modified patent but did not infringe A's patent as it originally stood in Year One? In these circumstances, Congress has provided that A generally cannot win an infringement suit against B. The relevant statutes, known as the "intervening rights" provisions, state that B is entitled to a defense that his conduct did not violate the original, unmodified patent. §§252, 307(b), 318(c), 328(c). These statutes, several of which were enacted alongside the three administrative review procedures in the America Invents Act, provide that a "*person*" may take advantage of this defense. *Ibid.* (emphasis added). Again, as the parties all agree, the word "person" in these provisions includes the Government. See Reply Brief 3; *Lamson* v. *United States*, 117 Fed. Cl. 755, 760 (2014) (noting that the Government may "avail itself of any defense that is available to a private party in an infringement action").

The majority refers to several patent-related provisions that use the word "person" but that do not include the Government within the scope of that term. See *ante*, at 10, and n. 4. These provisions, however, concern details of administration that, almost by definition, could not involve an entity such as the Government. The first provision cited by the majority says that administrative patent judges must be "persons of competent legal knowledge and scientific ability." §6(a). Patent judges are human beings, not governments or corporations or other artificial entities. The second requires the Patent Office to keep confidential a referral to the Attorney General of possible fraud unless the Government charges "a person" with a related criminal offense. §257(e). Although the word "person" here could refer to a corporation, it cannot refer to the Government, for governments do not charge themselves with crimes. The third concerns payment for the "subsistence expenses and travel-related expenses" of "persons" who attend certain programs relating to intellectual property law. §2(b)(11). But governments as entities do not travel, attend events, or incur expenses for "subsistence" or "lodging"; only their employees do. *Ibid.* (The majority also refers to a fourth provision, which defines a "joint research agreement" as an agreement between "2 or more persons or entities." §100(h). If the Government is not a "person" under this provision, it is only because the adjacent term "entities" already covers the Government.)

The fact that the word "person" does not apply to the Government where that application is close to logically impossible proves nothing at all about the word's application here. On the one hand, Congress has used the word "person" to refer to Government agencies when the statute concerns the criteria for obtaining patents, or when the statute concerns the availability of certain infringement defenses. On the other, Congress has *not* used the word "person" to refer to Government agencies when doing so would be close to logically impossible, or where the context otherwise makes plain that the Government is not a "person." The provisions at issue here, which establish administrative procedures for the benefit of parties accused of infringement, are much closer to the former category than the latter. It therefore makes little sense to presume that the word "person" excludes the Government, for the surrounding provisions point to the opposite conclusion.

II

The statutes' purposes, as illuminated by the legislative history and longstanding executive interpretation, show even more clearly that Congress intended the term "person" to include the Government in this context.

Congress enacted the new administrative review procedures for two basic reasons. *First*, Congress sought to "improve the quality of patents" and "make the patent system more efficient" by making it easier to challenge "questionable patents." H. R. Rep. No. 112–98, pt. 1, pp. 39, 48 (2011); see *id.*, at 39 (noting the "growing sense that questionable patents are too easily obtained and are too difficult to challenge"); *id.*, at 45 (explaining that preexisting administrative procedures were "less viable alternativ[es] to litigation . . . than Congress intended"). Congress' goal of providing an easier way for parties to challenge "questionable patents" is implicated to the same extent whether the Government or a private party is the one accused of infringing an invalid patent. That is perhaps why the Executive Branch has long indicated that Government agencies count as "perso[ns]" who are entitled to invoke the administrative review procedures that predate the America Invents Act. See Dept. of Commerce, Patent and Trademark Office, Manual of Patent Examining Procedure §§2203, 2212 (4th rev. ed., Sept. 1982).

Second, the statutes help maintain a robust patent system in another way: They allow B, a patent holder who might be sued for infringing A's (related) patent, to protect B's own patent by more easily proving the invalidity of A's patent. Insofar as this objective underlies the statutes at issue here, it applies to the same extent whether B is a private person or a Government agency. Indeed, the Patent Act explicitly states that the Government may "maintain" patents and "undertake all other suitable and necessary steps to protect and administer rights to federally owned inventions on behalf of the Federal Government." 35 U. S. C. §§207(a)(1), (3). And the use of administrative procedures to "protect" a patented invention from claims of infringement (by clearing away conflicting patents that cover the same or similar ground) would seem to be "suitable and necessary" whether a private person or a Government agency invokes these procedures. Cf. *Halo Electronics, Inc.* v. *Pulse Electronics, Inc.*, 579 U. S. ___, ___ (2016) (slip op., at 14) (noting that a third-party patent covering part of an invention may be used to exact "licensing fees" from the inventor); *Acorda Therapeutics, Inc.* v. *Roxane Laboratories, Inc.*, 903 F. 3d 1310, 1337 (CA Fed. 2018) (explaining that a third-party patent covering part of an invention may be used to deter or curtail the inventor's use of the invention).

The majority responds that allowing a Government agency to invoke these administrative procedures would create an "awkward situation," as one Government agency—namely, the Patent Office—would end up adjudicating the patent rights of another Government agency. *Ante*, at 17. But why is that "awkward"? In the field of patent law, a Government agency facing a possible infringement suit has long been thought legally capable of invoking other forms of administrative review. See Manual of Patent Examining Procedure §§2203, 2212. Moreover, the statutes before us presumably would permit a private party to invoke any of the three new procedures to challenge a Government patent. In such cases, one Government agency, the Patent Office, would be asked to adjudicate the patent rights of another. Thus, the situation the majority attempts to avoid is already baked into the cake.

The majority also says that because federal agencies "do not face the threat of preliminary injunctive relief" when they are sued for patent infringement, Congress could have reasonably concluded that it was not necessary for the Government to be able to use the administrative procedures at issue here. *Ante*, at 16; see 28 U. S. C. §1498(a) (limiting the patentee to "reasonable and entire compensation" for infringement by the Government). But patent infringement suits against the Government still threaten to impose large damages awards. See, *e.g.*, *Hughes Aircraft Co.* v. *United States*, 31 Fed. Cl. 481, 488 (1994) (indicating that the value of the infringing technologies developed by the Government exceeded $3.5 billion); Pet. for Cert. in *United States* v. *Hughes Aircraft Co.*, O. T. 1998, No. 98–871, p. 8 (noting that damages ultimately exceeded $100 million). That fact can create a strong need for speedy resolution of a dispute over patent validity.

When, for example, the Department of Homeland Security recently instituted a research initiative to equip cell phones with hazardous-materials sensors in order to mitigate the risk of terrorist attacks, it faced an infringement lawsuit that threatened to interfere with the project. See *Golden* v. *United States*, 129 Fed. Cl. 630 (2016); Brief for Prof. Tejas N. Narechania as *Amicus Curiae* 9. When the Federal Communications Commission tried to ensure that cell phones would be able to provide their current location automatically to 911 operators, the threat of infringement litigation delayed the deployment of technologies designed to comply with that requirement. Narechania, Patent Conflicts, 103 Geo. L. J. 1483, 1498–1501 (2015). And when Congress enacted statutes requiring the examination of electronic passports at airports, the Government faced the threat of an infringement suit because airlines could not "comply with [their] legal obligations" without engaging in activities that would allegedly infringe an existing patent. *IRIS Corp.* v. *Japan Airlines Corp.*, 769 F. 3d 1359, 1362 (CA Fed. 2014); see *id.*, at 1363 (concluding that the Government may be sued based on the infringing activities of airlines).

I express no view on the merits of these actions. I simply point out that infringement suits against the Government can threaten to injure Government interests even absent the threat of injunctive relief. That fact runs counter to the majority's efforts to find an explanation for *why*

Congress would have wanted to deny Government agencies the ability to invoke the speedier administrative procedures established by the America Invents Act.

* * *

That, in my view, is the basic question: Why? Government agencies can apply for and obtain patents; they can maintain patents; they can sue other parties for infringing their patents; they can be sued for infringing patents held by private parties; they can invoke certain defenses to an infringement lawsuit on the same terms as private parties; they can invoke one of the pre-existing administrative procedures for challenging the validity of a private party's patents; and they can be forced to defend their own patents when a private party invokes one of the three procedures established by the America Invents Act. Why, then, would Congress have declined to give federal agencies the power to invoke these same administrative procedures?

I see no good answer to that question. Here, the statutes' "purpos[es]," the "subject matter," the "context," the "legislative history," and the longstanding "executive interpretation," together with the way in which related patent provisions use the term "person," demonstrate that Congress meant for the word "person" to include Government agencies. *International Primate Protection League*, 500 U. S., at 83 (quoting *Cooper*, 312 U. S., at 605). I would affirm the Federal Circuit's similar conclusion.

Consequently, with respect, I dissent.

CBA IP Law Section

Intellectual Property 2019 Year in Review

Trademarks

Caroline Mrohs
Moyles IP, LLC
February 10, 2020

Overview

- 2019 Case Law Highlights
- 2020 Cases to Watch
- 2019 USPTO Rule Updates
- Citations

moyles ip INTELLECTUAL PROPERTY

Iancu v. Brunetti (U.S.S.C.)
USPTO bar against immoral/scandalous marks unconstitutional

- Lanham Act, Section 2(a) prohibits registration of "immoral, deceptive, or scandalous matter"
- Brunetti sought registration of FUCT for clothing
- USPTO refused registration on basis of 2(a); TTAB affirmed, despite "evolving First Amendment jurisprudence"
  - *Matal v. Tam* (2017) – U.S. Supreme Court struck bar against registration of disparaging mark as unconstitutional
- The Federal Circuit found the mark to be scandalous, but struck the immoral/scandalous provision of 2(a) as content-based restriction that fails First Amendment strict scrutiny review
- Supreme Court affirmed, holding that no limiting construction could allow the government to decide morality while evading viewpoint discrimination

moyles ip INTELLECTUAL PROPERTY

Mission Products v. Tempnology (U.S.S.C.)

Trademark licensing contract survives rejection by debtor-owner in bankruptcy proceeding

- Tempnology entered into contract with Mission Products to license COOLCORE® and other marks in connection with distribution of clothing and accessories
- Tempnology filed for bankruptcy and rejected the contract to attempt to unilaterally revoke the trademark licenses
- Bankruptcy law allows debtor to reject most contracts to be free from obligations
- Circuit split on trademark owner's right to reject trademark license in bankruptcy proceeding
  - *Sunbeam* (7th Cir. 2012): rejection of trademark license constituted breach by licensor; licensee could continue use
  - 1st Circuit: licensor could reject trademark license in bankruptcy proceedings, and such rejection would result in a termination of the license
    - Concern for burden on bankrupt owner to monitor use of licensed mark during reorganization

moyles ip INTELLECTUAL PROPERTY

Mission Products v. Tempnology (U.S.S.C.)

Trademark licensing contract survives debtor-owner rejection in bankruptcy proceeding

- 1st Circuit decision followed 4th Circuit's 1985 decision in *Lubrizol* that licensee loses right to use any licensed copyright, trademarks, and patents upon licensor-debtor's rejection of executory IP license
- In 1988, Congress amended the Bankruptcy Code to protect IP (not trademark) licensees
  - Treat license agreement as terminated and assert claim for damages; or
  - Retain the right to use licensed IP for duration of license
- The Supreme Court overruled the 1st Circuit, holding debtor-licensor's rejection of contract serves as a breach of contract, but does not rescind the license
- Effect on strength of bankrupt trademark owner's registrations
- Contract drafting considerations

moyles ip INTELLECTUAL PROPERTY

Booking.com B.V. v. USPTO (4th Cir.)

Combination of generic term and .com may function as trademark

- TMEP 1215.05, Generic Refusals: "Generally, a mark comprised of a generic term(s) combined with a non-source-identifying gTLD is generic and without trademark or service mark significance
  - 1800MATTRESS.COM, HOTELS.COM, LAWYERS.COM, SPORTSBETTING.COM
  - Analogous to *Goodyear* (1888) – addition of corporate identifier to generic term cannot create protectable trademark
- BOOKING.COM for hotel reservation services denied registration as generic
- Applicant appealed to E.D.Va., presenting survey evidence that 75% of respondents identified BOOKING.COM as brand name

moyles ip
INTELLECTUAL PROPERTY

Booking.com B.V. v. USPTO (4th Cir.)

Combination of generic term and .com may function as trademark

- District court found Applicant's mark distinctive based on survey evidence and ordered registration on Principal Register
- 4th Circuit affirmed E.D.Va., relying on Applicant's survey evidence
- Rejected USPTO argument that survey evidence is irrelevant to question of genericness
- "If a term is deemed generic, subsequent consumer recognition of the term as brand-specific cannot change that determination."
- Dissent in relevant part by Judge Wynn (ex.: Amazon.com)
- The Supreme Court has granted cert. on whether the addition by an online business of a generic top-level domain (".com") to an otherwise generic term can create a protectable trademark

moyles ip INTELLECTUAL PROPERTY

Stone Brewing v. Molson Coors

Irreparable harm is not presumed in 9th Circuit

- Stone Brewing sells Stone IPA and own incontestable federal registration for STONE in connection with beer
- Stone Brewing sued Molson Coors for trademark infringement in view of new packaging for Keystone Light beer that emphasizes “Stone” portion
- District court denied Stone Brewing’s motion for preliminary injunction for failure to demonstrate a likelihood of irreparable injury
  - Launch of new packaging was over a year ago
- Court noted in order that Stone has a “moderately strong” infringement claim
  - *Sleekcraft* likelihood of confusion test

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Woodstock Ventures v. Woodstock Roots (S.D.N.Y.)

Illegal commercial activity is not within natural zone of expansion

- Plaintiff is the producer of the 1969 Woodstock music festival and has registrations for WOODSTOCK in connection with entertainment services, clothing, merchandise
- Defendant sells hemp-related products under the WOODSTOCK mark registered in connection with smokers' articles
- Plaintiff sued Defendant for infringement based on use of WOODSTOCK in connection with sale of recreational marijuana, which Plaintiff asserted was within their "natural zone of expansion" under federal trademark law
- Defendant filed infringement counterclaim based on Plaintiff's sale of cannabis products and moved for preliminary injunction

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Woodstock Ventures v. Woodstock Roots (S.D.N.Y.)

Illegal commercial activity is not within natural zone of expansion

- Motion denied for failure to demonstrate likelihood of success on trademark infringement claim (*Polaroid* factors)
- Proximity of products in the marketplace (3rd factor) and "bridging the gap" (4th factor) were found to weigh against likelihood of confusion
  - Defendant represented to the U.S.P.T.O. during prosecution of WOODSTOCK mark that their trademark in smokers' articles would not be used to market marijuana
  - District Court refused Defendant's argument that cannabis products are within a natural zone of expansion for Defendant as to its registration for smokers' articles
  - Court could not give weight to Defendant's alleged intent to expand into area of recreational marijuana sales due to illegality on the federal level

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Tiffany & Co. v. Costco (S.D.N.Y.)

Descriptive fair use; Counterfeiting

- Tiffany first sued Costco in 2013 for Costco's willful infringement of the TIFFANY mark and sale of counterfeit diamond engagement rings bearing the Tiffany name
- Costco defenses of descriptive fair use and that TIFFANY mark is generic were unsuccessful
- In 2017, Tiffany won an award of $8.25M in punitive damages plus $11.1M in tripled lost profits
- Post-judgment motion decided in 2019 that increased award total to $25.25M to include Tiffany's legal costs
- 2nd Circuit will hear appeal in 2020
  - Whether Costco's infringement constitutes counterfeiting
  - Whether "Tiffany" is a non-infringing way to describe a certain style of ring (rather than to identify a source)

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Cases to Watch in 2020

- *USPTO v. Booking.com B.V.* (U.S. Supreme Court)
- *Tiffany & Co. v. Costco Wholesale Corp.* (2nd Circuit)
- *Romag Fasteners v. Fossil* (U.S. Supreme Court, argued January 14, 2020)
- *Lucky Brands v. Marcel Fashion Group* (U.S. Supreme Court, argued January 13, 2020)

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Cases to Watch in 2020

Romag Fasteners v. Fossil

- Whether, under section 35 of the Lanham Act, 15 U.S.C. § 1117(a), willful infringement is a prerequisite for an award of an infringer's profits for a violation of section 43(a), id. § 1125(a).
- In 2002, Romag and Fossil entered into agreement to use Romag's magnetic fasteners on Fossil products
- In 2010, Romag discovered Fossil products with counterfeit snaps bearing Romag mark
- CT District Court found that Fossil infringed and acted with "callous disregard," but that Romag was not entitled to profits because infringement was not willful
- Fed. Cir. affirmed based on 2nd Circuit willfulness prerequisite
- Even Circuit split (6-6) on whether willful infringement is prerequisite for profits award

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Cases to Watch in 2020

Lucky Brands v. Marcel Fashion Group (U.S. Supreme Court, argued January 13, 2020)

- Whether, when a plaintiff asserts new claims, federal preclusion principles can bar a defendant from raising defenses that were not actually litigated and resolved in any prior case between the parties.
- Marcel sued Lucky for trademark infringement for using Marcel's GET LUCKY mark on jeans
- 2003 settlement: Lucky to stop using GET LUCKY and Marcel to release certain trademark-related claims it might have against Lucky in the future
- In subsequent lawsuits, Lucky did not consistently raise Marcel's release as a defense
- District court ruled for Lucky, finding that Marcel's claims against Lucky were "plainly foreclosed" by the settlement agreement
- On appeal, 2nd Circuit ruled in Marcel's favor, finding that claim preclusion encompasses defense preclusion

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U.S. Trademark Office Rule Updates

- U.S. Counsel Requirement
  - Requires foreign-domiciled trademark applicants and registrants to be represented by a U.S.-licensed attorney to file trademark documents with the USPTO
- Filing Requirements
  - Mandatory use of TEAS for all trademark filings (requests for paper filing accepted under limited circumstances)
  - Applicant/Registrant email address and practitioner email address
- Specimen Updates
  - Webpage specimen requires URL/print date
  - Specimen protest pilot program (TMSpecimenProtest@USPTO.gov)

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Citations

- *Iancu v. Brunetti*, 139 S. Ct. 2294 (U.S. 2019)
- *Mission Prod. Holdings v. Tempnology, LLC,* 139 S. Ct. 1652 (U.S. 2019)
- *Booking.com B.V. v. United States Patent & Trademark Office*, 915 F.3d 171 (4th Cir. 2019)
- *Stone Brewing Co. v. MillerCoors LLC*, No. 3:18-cv-00331-BEN-JMA, 2019 U.S. Dist. LEXIS 52153 (S.D. Cal. Mar. 26, 2019)
- *Woodstock Ventures LC v. Woodstock Roots, LLC, 387 F. Supp. 3d 306 (S.D.N.Y. 2019)*
- *Tiffany & Co. v. Costco Wholesale Corp*., No. 13 CV 1041-LTS-DCF, 2019 U.S. Dist. LEXIS 2844 (S.D.N.Y. Jan. 7, 2019)
- *Romag Fasteners, Inc. v. Fossil Inc., et al.*, 18-1233 (U.S. 2020)
- *Lucky Brand Dungarees, Inc., et al., v. Marcel Fashions Group, Inc.*, 18-1086 (U.S. 2020)
- https://www.uspto.gov/trademark/laws-regulations/trademark-rule-requires-foreign-applicants-and-registr have-us

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Page 306

387 F.Supp.3d 306 (S.D.N.Y. 2019)

WOODSTOCK VENTURES LC and the Woodstock Cannabis Company, LLC, Plaintiff/Counterclaim Defendants,

v.

WOODSTOCK ROOTS, LLC, Woodstock Products Company International, LLC d/b/a Woodstock American Products, Woodstock Cannabis Company, LLC, Axcentria Pharmaceuticals LLC, CHET-5 Broadcasting, LP, and Gary Chetkof, Defendants/Counterclaim Plaintiffs.

No. 18 Civ. 1840 (PGG)

United States District Court, S.D. New York

July 29, 2019

Page 307

[Copyrighted Material Omitted]

Page 308

[Copyrighted Material Omitted]

Page 309

Edward Tuck Colbert, Hunton Andrews Kurth LLP, Erik C. Kane, Andrews Kurth Kenyon LLP, Washington, DC, Jennifer Lynn Bloom, Shawn Patrick Regan, Hunton Andrews Kurth LLP, Jonathan Webster Thomas, Mayer Brown LLP, Jonathan D. Reichman, Andrews Kurth Kenyon LLP, New York, NY, for Plaintiff/Counterclaim Defendants.

Andrea Louise Christensen, Evangelos Michailidis, Duane Morris, LLP, New York, NY, Christiane Schuman Campbell, Joseph John Pangaro, Seth Adam Goldberg, Duane Morris LLP, Philadelphia, PA, Brian Douglas Siff, Dickstein Shapiro LLP, New York, NY, for Defendants/Counterclaim Plaintiffs.

ORDER

Paul G. Gardephe, United States District Judge

Page 310

The Complaint in this action was filed on February 28, 2018, and alleges that Defendants have engaged in trademark infringement by selling recreational marijuana under the WOODSTOCK trademark. (Cmplt. (Dkt. No. 1) ¶ 1) Plaintiffs are the producers of the 1969 Woodstock music festival and have used the WOODSTOCK mark in association with concerts, motion pictures, television programs, and merchandise. (*Id.* ¶ 32) Plaintiffs own a variety of federally-registered trademarks for the mark WOODSTOCK, which concern entertainment services, clothing, and other merchandise, such as posters. (*Id.*) Plaintiffs claim that recreational marijuana falls within their "natural zone of expansion" under federal trademark law and, as a result, Defendants are prohibited from using the mark in association with recreational marijuana. (*Id.* ¶ 253) Plaintiffs have not sought a temporary restraining order or a preliminary injunction.

Defendants filed their Answer and Counterclaims on June 11, 2018. (Dkt. No. 30) Defendants contend that - in connection with the radio station Radio Woodstock - they have "used the WOODSTOCK mark for more than thirty-five years for a variety of goods and services." (Answer (Dkt. No. 30) at 37)[1] Defendants assert that in 2008, Defendants and Plaintiffs entered into a "Co-Existence Agreement" in which they recognized that both Defendants and Plaintiffs "have rights in the WOODSTOCK mark; Defendants for broadcasting and promotional goods and services, and Plaintiffs for entertainment and promotional goods and services." (*Id.* at 37-38)

Defendants further allege that "[m]ore than five years ago," Defendants sought and obtained "federal registration of the WOODSTOCK mark for smokers' articles and related goods and services" - including tobacco-free electronic cigarettes for medical purposes, vaporizer pipes, and cigarette rolling papers - and that "[c]annabis and cannabis-related products are within a logical zone of expansion for Defendants as to Defendants' WOODSTOCK marks and registration for smokers' articles." (*Id.* at 38; Fed.Reg. No. 5,612,311 (Dkt. No. 91-1) (the "'311 Registration"); Fed.Reg. No. 5,380,815 (Dkt. No. 91-1) (the "'815 Registration"))

According to Defendants, "[s]ometime after Defendants' application for federal registration of the WOODSTOCK mark for smokers' articles, Plaintiffs began infringing on Defendants' rights by introducing directly competitive products to the market bearing variants of the WOODSTOCK mark." (Answer (Dkt. No. 30) at 38) In particular, Defendants contend that Plaintiffs may not lawfully use the WOODSTOCK mark in connection with the sale of marijuana and marijuana-related products, and that by doing so, Plaintiffs "have infringed on Defendants[']

rights to use the WOODSTOCK mark on smokers' articles and related goods and services." (*Id*. at 38-39, 49-50)

On August 27, 2018, Defendants moved for a preliminary injunction seeking to enjoin

Page 311

Plaintiffs from selling "cannabis and cannabis-related products" bearing the WOODSTOCK mark. (*See* Def. PI Br. (Dkt. No. 49)) Defendants' application for a preliminary injunction is premised on their federal trademark registrations. (*Id.* at 7 ("[Plaintiffs'] cannabis and cannabis-related products overlap with, and are inextricable related to, the goods covered by [Defendants'] common law and federally registered rights for the WOODSTOCK Mark for smokers' articles....")) Defendants contend that Plaintiffs are selling "cannabis and cannabis-related products in the same channels of trade, and to the same customers, as [Defendants]." (*Id*. at 13)

Defendants do not specify in their Answer or in their preliminary injunction papers what "cannabis-related" products sold by Plaintiffs infringe on Defendants' WOODSTOCK mark. As best as this Court can determine, however, it appears that Defendants object to Plaintiffs' sale of WOODSTOCK-branded recreational marijuana and vaping devices. (Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 42; Def. PI Br. (Dkt. No. 49) at 13; Litwack Decl. (Dkt. No. 42) ¶ 19)

Defendants claim that Plaintiffs' "overlapping products bear a WOODSTOCK Mark *identical* to [Defendants'] federally registered mark for certain smokers' articles," which includes tobacco-free electronic cigarettes for medical purposes, vaporizer pipes, and cigarette rolling papers. (Def. PI Br. (Dkt. No. 49) at 13 (emphasis in original); '311 Registration (Dkt. No. 91-1); '815 Registration (Dkt. No. 91-1)) Defendants contend that Plaintiffs' sale of recreational marijuana and "cannabis-related" products - which the Court understands to be a reference to vaping devices - infringes on their mark for "smokers' articles" and has caused them irreparable harm. (Def. PI Br. (Dkt. No. 49) at 23; Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 42 ("Plaintiffs' federally unlawful marijuana products include vaping devices similar to the vaping devices Defendants sell.")

In February 2019, the Honorable Robert W. Sweet - to whom this action was assigned - conducted a three-day hearing concerning Defendants application for a preliminary injunction. Judge Sweet died on March 24, 2019, and on April 1, 2019, this action was reassigned to this Court.

Having reviewed, *interalia*, the transcripts of the February 2019 hearing and the parties' competing proposed findings of fact and conclusions of law (Dkt. Nos. 99, 100), the Court concludes that Defendants have not demonstrated a likelihood of success on the merits of their trademark infringement claim, because they have not demonstrated a likelihood of confusion arising from Plaintiffs' use of the WOODSTOCK mark for recreational marijuana and vaping devices and Defendants' use of the WOODSTOCK mark for "smokers' articles." Accordingly, Defendants' motion for a preliminary injunction will be denied.

DISCUSSION

As discussed above, Defendants contend that they are entitled to a preliminary injunction because Plaintiffs' use of the WOODSTOCK mark in connection with the sale of "cannabis and cannabis-related products" infringes on Defendants' WOODSTOCK trademark as used for "smokers' articles," in violation of § 32 of the Lanham Act, 15 U.S.C. § 1114, and § 43 of the Lanham Act, 15 U.S.C. § 1125(a). (Def. PI Br. (Dkt. No. 49) at 16; *see also* Answer (Dkt. No. 30) ¶¶ 63-72)

Defendants own two federal trademark registrations: Registration No. 5380815 and Registration No. 5612311. (*See* '311 Registration (Dkt. No. 91-1); '815 Registration (Dkt. No. 91-1)) The '815 Registration

Page 312

grants Defendants the right to use the WOODSTOCK mark on "cigarette roiling papers" and "lighters for smokers." ('815 Registration (Dkt. No. 91-1)) The '311 Registration grants Defendants the right to use the WOODSTOCK mark on "tobacco free electronic cigarettes for medical purposes comprised of e-liquids derived from the mature stalks of industrial hemp exclusive of any resins," and "cigarette cases; smokeless cigarette vaporizer pipes for use with either tobacco-based e-liquids or e-liquids derived from the mature stalks of industrial hemp exclusive of any resins." ('311 Registration (Dkt. No. 91-1))

Plaintiffs claim that they have been selling WOODSTOCK-branded recreational marijuana since December 2016. (Feb. 8, 2019 Tr. (Dkt. No. 105) 483:20-22) Defendants have been aware of Plaintiffs' sale of WOODSTOCK-branded recreational marijuana since at least July 2017, because Plaintiffs sent Defendants a cease and desist letter at that time stating that "[Plaintiffs are] currently and actively engaged in the licensing and sale of recreational marijuana." (Feb. 8, 2019 Tr. (Dkt. No. 105) 492:10-12; July 21, 2017 Cease and Desist Letter (Dkt. No. 49-2)) It was not until August 27, 2018, that Plaintiffs filed their motion for a preliminary injunction.[2] (Def. PI Br.

(Dkt. No. 49))

In a typical trademark infringement action, the parties offer substantial evidence as to how their marks are displayed in the marketplace. Color, font, typeface, and other style and design features can be important in determining whether there is a likelihood of confusion. *Seee.g., Juicy Couture, Inc. v. Bella Int'l Ltd.,* 930 F.Supp.2d 489, 500 (S.D.N.Y. 2013) (noting that when courts "evaluat[e] the similarity of marks," they " 'look to the overall impression created by the [marks] and the context in which they are found and consider the totality of factors that could cause confusion among prospective purchasers' " (quoting *Gruner + Jahr USA Publ'g v. Meredith Corp.,* 991 F.2d 1072, 1078 (2d Cir. 1993)); *J.T. Colby & Co. v. Apple Inc.,* No. 11 CIV. 4060 DLC, 2013 WL 1903883, at *16 (S.D.N.Y. May 8, 2013) (in considering whether there is a likelihood of confusion, "it is appropriate to consider 'the products' sizes, logos, typefaces, and package designs,' in addition to any other contextual clues that might

Page 313

serve to distinguish the marks." (quoting *W.W.W. Pharm. Co., Inc. v. Gillette Co.,* 984 F.2d 567, 573 (2d Cir. 1993))).

Here, Defendants - the parties seeking a preliminary injunction - have offered no exemplars of how their WOODSTOCK mark is displayed in the marketplace. Plaintiffs have submitted evidence showing that their WOODSTOCK mark is displayed in a "bubble" font, and with a dove and guitar logo prominently featured in association with the word WOODSTOCK. (*See* Plaintiffs' product packaging (Dkt. No. 57-48)) Plaintiffs have also submitted certain social media postings of Defendants in which Defendants' WOODSTOCK mark is shown. Defendants' WOODSTOCK mark is in a more standardized, non-bubble format, and is presented in conjunction with the words "American Products." (PX 9 (Defendants' social media posts))

Plaintiffs' WOODSTOCK mark is show below, followed by Defendants' WOODSTOCK mark.

(Image Omitted)

(Dkt. No. 57-51)

(Image Omitted) (PX 9)

I. *LEGAL STANDARDS*

A court may issue a preliminary injunction only where

the plaintiff has demonstrated "either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation ...." Second, the court may issue the injunction only if the plaintiff has demonstrated "that he is likely to suffer irreparable injury in the absence of an injunction." ... Third, a court must consider the balance of hardships between the plaintiff and defendant and issue the injunction only if the balance of hardships tips in the plaintiff's favor. Finally, the court must ensure

Page 314

that the "public interest would not be disserved" by the issuance of a preliminary injunction.

Salinger v. Colting, 607 F.3d 68, 79-80 (2d Cir. 2010).

Defendants' application for a preliminary injunction is premised on the argument that Plaintiffs' use of the WOODSTOCK mark in connection with the sale of recreational marijuana and vaping devices creates a likelihood of consumer confusion with Defendants WOODSTOCK-branded goods, in that consumers will conclude that Plaintiffs' recreational marijuana and vaping devices are associated with Defendants' WOODSTOCK-branded goods. (Def. PI Br. (Dkt. No. 49) at 16-23; Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 42). "In an action for trademark infringement, where a mark merits protection, a showing that a significant number of consumers are likely to be confused about the source of the goods identified by the allegedly infringing mark is generally sufficient to demonstrate both irreparable harm and a likelihood of success on the merits." *Virgin Enterprises Ltd. v. Nawab,* 335 F.3d 141, 146 (2d Cir. 2003).

Here, Defendants' application for a preliminary injunction turns on the question of whether Defendants have demonstrated a likelihood of success on their trademark infringement claim.

A claim for trademark infringement is analyzed under a two-prong test, which "looks first to whether the plaintiff's mark is entitled to protection, and second to whether defendant's use of the mark is likely to cause consumers confusion as to the origin or sponsorship of the defendant's goods." (*Id*.) A mark is entitled to protection when it is inherently distinctive; if the mark is 'merely descriptive,' ... it qualifies for protection only if it has acquired secondary meaning." *Time Inc. v. Petersen Pub. Co. L.L.C.,* 173 F.3d 113, 117 (2d Cir. 1999).

To determine whether there is a likelihood of confusion between two sets of marks, courts look to the following eight factors set forth in *Polaroid Corp. v. Polarad Elecs. Corp.,* 287 F.2d 492 (2d Cir. 1961): "(1) the strength of the [movant's] mark; (2) the similarity of the marks; (3) the competitive proximity of the products in the marketplace;

(4) the likelihood that the senior user will 'bridge the gap' by moving into the junior user's product market; (5) evidence of actual confusion; (6) the junior user's bad faith in adopting the mark; (7) the respective quality of the products; and (8) the sophistication of the consumers in the relevant market." *Juicy Couture*, 930 F.Supp.2d at 499 (citing *Polaroid*, 287 F.2d at 495).

II. *ANALYSIS*

A. *Protectability of Defendants' Marks*

Plaintiffs do not dispute that the WOODSTOCK mark is distinctive. Indeed, they concede that "the mark WOODSTOCK for cannabis is arbitrary and, thus, inherently distinctive." (Pltf. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 100) at 57) Plaintiffs contend, however, that Defendants have no right to bring a claim for trademark infringement because Plaintiffs - and not Defendants - have priority rights to the use of the WOODSTOCK mark on "smokers' articles." (*Seeid* . at 44 ("The evidence presented at the hearing established that Plaintiffs had been engaged in the marketing and sale of smokers' articles since 1994, and that sales of smokers' articles under the WOODSTOCK brand have been open and continuous to the present."))

Defendants counter that they have priority rights over the WOODSTOCK mark

Page 315

for "smokers' articles," because their constructive first use of the WOODSTOCK mark on smokers' articles pre-dates any actual use by Plaintiffs. (Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 50) Defendants contend that they "enjoy a constructive first use priority date of October 3, 2013" - the date they filed their application for trademark rights in "smokers' articles." (*Id.*) They further contend that Plaintiffs did not sell marijuana until either 2016 or 2017. (*Id*. at 50-51) Therefore, according to Defendants, their constructive first use date pre-dates Plaintiffs' sales of marijuana.

"[E]xclusive rights in a trademark are acquired not by registration, but through prior appropriation and use." *4 Pillar Dynasty LLC v. Saucony, Inc.,* No. 1:16-CV-2824-GHW, 2017 WL 1906868, at *4 (S.D.N.Y. May 8, 2017). Accordingly, " '[t]he user who first appropriates the mark obtains an enforceable right to exclude others from using it, as long as the initial appropriation and use are accompanied by an intention to continue exploiting the mark commercially.' " *H.W. Carter & Sons, Inc. v. William Carter Co.,* 913 F.Supp. 796, 802 (S.D.N.Y. 1996) (quoting *La Societe Anonyme des Parfums Le Galion v. Jean Patou, Inc.,* 495 F.2d 1265, 1271 (2d Cir. 1974)).

Here, this Court need not resolve the issue of whether Plaintiffs or Defendants have established priority rights in the WOODSTOCK mark as used for "smokers' articles," because - even assuming that Defendants have trademark priority in the mark WOODSTOCK for "smokers' articles" - Defendants have not shown a likelihood of confusion between their WOODSTOCK-branded products and Plaintiffs' sale of WOODSTOCK-branded recreational marijuana and vaping devices.

B. *Likelihood of Confusion - Analysis of thePolaroidFactors*

1. *Strength of Defendants' Marks*

"A mark's strength is measured by two factors: '(1) the degree to which it is inherently distinctive; and (2) the degree to which it is distinctive in the marketplace.' " *Alzheimer's Disease & Related Disorders Ass'n, Inc. v. Alzheimer's Found. of Am., Inc.,* 307 F.Supp.3d 260, 287 (S.D.N.Y. 2018) (*quoting W.W.W. Pharm*., 984 F.2d at 572); *see alsoJuicy Couture* , 930 F.Supp.2d at 499 ("A mark's strength may be based on its inherent distinctiveness or the distinctiveness it has acquired in the marketplace."). "These factors have been labeled 'conceptual strength' and 'commercial strength.' " *Alzheimer's Disease*, 307 F.Supp.3d at 287 (quoting 2 McCarthy on Trademarks § 11:83 (5th ed.))

As noted above, Plaintiffs concede that the WOODSTOCK mark is conceptually distinctive. (*See* Pltf. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 100) at 57) Plaintiffs argue, however, that Defendants' mark is not distinctive in the marketplace. (*Id*. at 58 ("An analysis of the 'commercial strength' prong of the first *Polaroid* factor, however, weighs heavily in Plaintiffs favor."))

"In determining whether a mark has acquired [commercial] distinctiveness, courts consider a number of non-exhaustive factors: (1) advertising expenditures; (2) sales success; (3) unsolicited media coverage of the product; (4) attempts to plagiarize the mark; (5) the length and exclusivity of the mark's use; and (6) consumer studies linking the name to the source." *Juicy Couture*, 930 F.Supp.2d at 499.

Here, Defendants have offered evidence that they advertised on their "own website,

Page 316

" "display[ed] advertising,"[3] engaged in "search engine optimization, did some advertising on Radio Woodstock..., and did a number of other social media events for ... [their] federally permitted products." (Feb. 7, 2019 Tr. (Dkt. No. 103) at 187:3-197:9; 199:9-199:14) Defendants also produced a brand guide and engaged a "street team" to generate a social media presence online. (*See* DX 14 (brand guide); Feb. 7, 2019 Tr. (Dkt. No. 103) at 210:7-212:19)) Although Defendants contend that they have incurred "at least $249,000 in marketing expenses," they have provided little information as to what services were purchased with that money. (Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 27) Defendants have likewise not offered evidence of sales success, unsolicited media coverage of their products, attempts to plagiarize their mark, or consumer studies linking the WOODSTOCK mark to Defendants. Moreover, the evidence indicates that Defendants' gross sales of WOODSTOCK-branded products from September 1, 2017 through January 31, 2019 were only $12,837. (Feb. 7, 2019 Tr. (Dkt. No. 103) at 201:18-21; DX 16 (Woodstock gross sales))

In sum, acknowledging that Defendants' mark is conceptually strong, the evidence demonstrates that it is commercially weak. Accordingly, this factor weighs only modestly in Defendants' favor.

2. *Similarity of the Marks*

"When evaluating the similarity of marks, 'courts look to the overall impression created by the [marks] and the context in which they are found and consider the totality of factors that could cause confusion among prospective purchasers.' " *Juicy Couture*, 930 F.Supp. at 500 (quoting *Gruner + Jahr USA Publ'g*, 991 F.2d at 1078) "The fact that the marks use the same word is not dispositive if the differences in the ways the marks are presented in the marketplace make confusion less likely." *J.T. Colby*, 2013 WL 1903883, at *16. "In this regard, it is appropriate to consider 'the products' sizes, logos, typefaces, and package designs,' in addition to any other contextual clues that might serve to distinguish the marks." *Id.* (quoting W.W.W. Pharm., 984 F.2d at 573).

As discussed above, there is little evidence here as to the typeface, color, font, style, and design of Defendants' WOODSTOCK mark. Indeed, Defendants have offered no evidence as to how their mark is typically displayed.

Plaintiffs have offered evidence that their WOODSTOCK mark is displayed in a "bubble" font and is always accompanied by a prominent dove and guitar logo, while Defendants' WOODSTOCK mark is never accompanied by a dove and guitar logo. (Pltf. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 100) at 14; Plaintiffs' product packaging (Dkt. No. 57-48); Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No, 99) at 15 ("Litwack sought a license specifically for the word Woodstock, rather than a license for the dove and guitar mark ...."); *id.* at 23 (stating that Defendants have not used any image with a dove "in any customer-facing advertising or marketing materials"). Defendants' social media posts for their WOODSTOCK-branded products show a more standardized, non-bubble font; a reference to "American Products"; and no dove and guitar logo. (PX 9) Suffice it to say that the "overall impression" of the two marks is substantially different.

While Defendants concede that Plaintiff's distinctive dove and guitar logo is associated with Plaintiffs' WOODSTOCK

Page 317

mark (*see* Feb. 7, 2019 Tr. (Dkt. No. 103) 168:2-6 (Q: Do you recognize that to be a dove associated with Woodstock Ventures? A: Yes, I do.); 174:6-8 (Q: You understand that to be the Woodstock Ventures dove and guitar? A: Yes, I do.)), they contend that Plaintiffs' use of the dove and guitar logo with their WOODSTOCK mark has no legal significance. According to Defendants, "any form of the word 'Woodstock' used by Plaintiffs on their competing goods is not merely similar, but *identical* to Defendants' Smokers' Articles Mark." (*See* Pltf. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 41) (emphasis in original).

The Court disagrees. The different fonts of the parties' marks; Plaintiffs' use of the prominent dove and guitar logo in conjunction with their WOODSTOCK mark; and Defendants' use of the term "American Products" in connection with their WOODSTOCK mark all undercut Defendants' arguments concerning the likelihood of confusion in the marketplace. *See J.T. Colby*, 2013 WL 1903883, at *17 (finding two marks that share the same word - IBOOKS - distinguishable because, among other things, one mark is "depicted next to an image of an open book against a wood-colored background"); *seealsoNabisco, Inc. v. Warner-Lambert Co.*, 220 F.3d 43, 47 (2d Cir. 2000) (finding marks dissimilar because "the parties present[ed] their marks in starkly different typefaces and styles").

Given the differences in how the parties present their WOODSTOCK marks in the marketplace, the "similarity of marks" factor does not favor the issuance of a preliminary injunction.

3. *Proximity of the Products in the Marketplace*

"The third Polaroid factor considers the extent to which the parties' products compete with each other for customers." *Juicy Couture*, 930 F.Supp.2d at 501. "In considering this factor, courts examine 'the nature of the products themselves and the structure of the relevant market,' including 'the manner in which the products are advertised, and the channels through which the goods are sold.' " *Id.* (quoting *Cadbury Beverages v. Cott Corp.*, 73 F.3d 474, 478 (2d Cir. 1996)).

Defendants argue that there is commercial proximity here, because "both parties sell vaping devices" and "both parties market their products to the same consumers." (Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 42) Defendants cite testimony indicating that (1) Plaintiffs are marketing "vape pens," which are used to consume recreational marijuana (Feb. 8, 2019 Tr. (Dkt. No. 105) at 372:4-14); (2) Defendants are collaborating with the manufacturer of "a vaping device" (Feb. 7, 2019 Tr. (Dkt. No. 103) at 198:17-23); and (3) Plaintiffs and Defendants are both targeting millennials, as well as older adults. (*Compare* Feb. 8, 2019 Tr. (Dkt. No. 105) at 379:11-12) *with* Feb. 7, 2019 Tr. (Dkt. No. 103) at 196:8-13)

Plaintiffs sell their recreational marijuana and vaping products at state-licensed marijuana dispensaries. (Pltf. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 100) at 61 ("Plaintiffs' marijuana products are to be sold in licensed cannabis dispensaries where legal under state law."); *see also* (Feb. 8, 2019 Tr. (Dkt. No. 105) at 372:11-13 (Q: How many dispensaries does Harmony presently sell Woodstock-branded products to approximately? A: Now? I would say three or four hundred.); (Feb. 8, 2019 Tr. (Dkt. No. 105) at 385:16-18 (Q: Can you sell recreational cannabis in New York? A: If we - not recreational, not today, but we can sell medical.)) Although Defendants have offered little if any evidence that their products

Page 318

are sold in state-licensed marijuana dispensaries, they assert, in a conclusory fashion, that Defendants' products are sold at these locations. (Litwack Decl. (Dkt. No. 42) ¶ 19 (asserting that Plaintiffs will sell their "improper and infringing goods in the same trade channels (*i.e.*, smoke shops and dispensaries) and to the same customers (*i.e.*, patrons of those smoke shops and dispensaries) as Woodstock Products' WOODSTOCK goods are marketed and sold."); *seealso* Feb. 7, 2019 Tr. (Dkt. No. 103) 198-3-13 (listing Defendants' vendors)).

Assuming *arguendo* that the parties' WOODSTOCK-branded goods are being sold in the same trade channels, "[t]he different nature" of plaintiffs' and Defendants' products "tempers [any] findings of competitive proximity." *Joules Ltd. v. Macy's Merch. Grp., Inc.,* 695 Fed.Appx. 633, 637 (2d Cir. 2017). Based on the evidence offered at the hearing and the parties' submissions, the Court concludes that the nature of Plaintiffs' WOODSTOCK-branded recreational marijuana and vaping devices, and Defendants' cannabis-related "smokers' articles," are different.

Plaintiffs' products all involve the use of recreational marijuana, while Defendants have expressly disavowed the notion that their products are intended for use with recreational marijuana. (*See* Pltf. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 100) at 61; Feb. 8, 2019 Tr. (Dkt. No. 105) at 385:19-387:12 (describing that the "vapable oil" sold by Plaintiffs contains THC and is derived from "the cannabis plant"); *seealso* PX 1 (Defendants' July 18, 2014 submission to U.S. Patent and Trademark Office) ("Applicant believes that, with the clarification that these are not nor do they refer to marijuana or any illegal substance, the description should be clear."))

Accordingly, even if the parties' products are marketed through the same or similar trade channels, this fact does not suggest a likelihood of confusion, because Plaintiffs' products either constitute or are intended for use with recreational marijuana, while Defendants' "smokers' articles" are not intended for use with recreational marijuana. *See, e.g., Constellation Brands, Inc. v. Arbor Hill Assocs., Inc.,* 535 F.Supp.2d 347, 366 (W.D.N.Y. 2008) (concluding that two alcoholic beverages sold in similar channels are not related because "the nature of the two products is clearly different, since Arbor Hill is traditional table wine, while Arbor Mist is a mix of wine and fruit juice, with a lower alcohol content than most wine.")

The Court concludes that the "proximity in the marketplace" factor does not weigh in favor of granting Defendants' motion for a preliminary injunction.

4. *"Bridging the Gap"*

"The term 'bridging the gap' is used to describe the senior user's interest in preserving avenues of expansion and entering into related fields." *C.L.A.S.S. Promotions, Inc. v. D.S. Magazines, Inc.,* 753 F.2d 14, 18 (2d Cir. 1985). Here, Defendants contend that "[c]annabis and cannabis-related products are within a logical zone of expansion for Defendants as to Defendants' WOODSTOCK marks and registration for smokers' articles." (Answer (Dkt. No. 30) at 38)

In considering Defendants' application for a preliminary injunction, however, this Court cannot give weight to Defendants' alleged intent to expand into the area of selling recreational marijuana, because the sale of recreational marijuana is illegal under federal law. *CreAgri, Inc. v. USANA Health Scis., Inc.,* 474 F.3d 626, 630 (9th Cir. 2007) ("It has long been the policy of the PTO's Trademark Trial and

Page 319

Appeal Board that use in commerce only creates trademark rights when the use is *lawful* .") (emphasis in original). Indeed, in moving for summary judgment on Plaintiffs' trademark infringement claims, Defendants argued that "[b]ecause federally unlawful cannabis is still prohibited by federal law, the trademark protection afforded to [Plaintiffs' mark] cannot be extended to federal unlawful cannabis by virtue of the zone of natural expansion." (Def. Sum, J. Br, (Dkt. No. 82) at 9)

Finally, as noted above, when Defendants registered their mark for "smokers' articles," they represented to the U.S. Patent and Trademark Office that their trademark in "smokers' articles" would not be used to market marijuana. (*See* PX 1 (Defendants' July 18, 2014 submission to U.S. Patent and Trademark Office)) Accordingly, this factor does not weigh in favor of granting a preliminary injunction.

5. *Evidence of Actual Confusion*

There is no evidence of actual confusion in the marketplace. Accordingly "this factor ... favors neither party." *Juicy Couture*, 930 F.Supp.2d at 501.

6. *Bad Faith*

"The 'inquiry into willfulness or bad faith considers whether [the non-moving party] adopted its mark with the intention of capitalizing on [the moving party's] reputation and goodwill and on any confusion between his and the senior user's product.' " *Id*. at 501-02 (quoting *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc.,* 440 F.Supp.2d 249, 278 (S.D.N.Y. 2006)).

There is no evidence here that Plaintiffs' use of the WOODSTOCK mark reflects an attempt to capitalize on Defendants' reputation and goodwill. While Defendants contend that they first conceptualized the idea of using the WOODSTOCK mark on "smokers' articles," and that Plaintiffs made numerous attempts to circumvent Defendants' trademark for smokers' articles by applying to register marks such as "Vapestock" and "Weedstock" (*see* Def. Proposed Findings of Fact and Conclusions of Law (Dkt. No. 99) at 22), these allegations do not demonstrate that Plaintiffs' use of the WOODSTOCK mark on recreational marijuana and vaping devices is an attempt to "capitaliz[e] on [Defendants'] reputation and goodwill." De Beers LV Trademark Ltd., 440 F.Supp.2d at 278. Indeed, there is no evidence that Defendants have amassed significant goodwill in the marketplace for recreational marijuana and vaping devices.

This factor does not weigh in favor of granting a preliminary injunction.

7. *Quality of the Products*

"This factor requires the Court to 'consider[ ] whether the senior user's reputation could be tarnished by [the] inferior merchandise of the junior user.' " *Juicy Couture*, 930 F.Supp.2d at 502 (quoting *Scarves by Vera. Inc. v. Todo Imps. Ltd.*, 544 F.2d 1167, 1172 (2d Cir. 1976)) There is no evidence that Defendants' reputation has been tarnished by Plaintiffs' products, and Defendants have made no such argument. Accordingly, this factor does not weigh in favor of granting a preliminary injunction.

8. *Consumers' Sophistication*

"The final *Polaroid* factor is 'grounded on the belief that unsophisticated consumers aggravate the likelihood of confusion.' " *Juicy Couture*, 930 F.Supp.2d at 502 (quoting *Simon & Schuster, Inc. v. Dove Audio, Inc.*, 970 F.Supp. 279, 300 (S.D.N.Y. 1997)). Here, neither side has offered evidence regarding consumer sophistication. Accordingly this factor is neutral.

Page 320

Virgin Enterprises Ltd., 335 F.3d at 151 ("Noting that neither side had submitted evidence on the sophistication of consumers, the court made no finding favoring either side. We agree that the sophistication factor is neutral in this case.").

* * * *

Having considered each of the *Polaroid* factors, the Court concludes that Defendants have not demonstrated a likelihood of confusion. The strength of Defendants' marks, the similarities of the parties' marks, and the competitive proximity of the parties' marks - which are "often considered the most significant factors" - do not weigh in Defendants' favor. *Juicy Couture*, 930 F.Supp.2d at 503.

Because Defendants have not demonstrated a likelihood of success on their trademark infringement claims, their motion for a preliminary injunction will be denied.

CONCLUSION

This Order constitutes the Court's findings of fact and conclusions of law. For the reasons stated above, Defendants' motion for a preliminary injunction is denied. The Clerk of Court is directed to terminate the motion (Dkt. No. 40).

SO ORDERED.

Notes:

[1] Except as to deposition transcripts, all citations in this

Order reflect page numbers assigned by this District's Electronic Case Filing system. Citations to depositions reflect the transcript page numbers.

[2] As discussed below, the Court concludes that Defendants have not demonstrated a likelihood of success on their counterclaims for trademark infringement. Defendants' delay in moving for a preliminary injunction also raises a significant issue, however. As discussed above, Defendants have been aware of Plaintiffs' sale of WOODSTOCK-branded recreational marijuana since at least July 2017 (*see* July 21, 2017 Cease and Desist Letter (Dkt. No. 49-2)), but they did not file their motion for a preliminary injunction until August 27, 2018, more than a year later. A delay of this length " 'undercuts the sense of urgency that ordinarily accompanies a motion for preliminary relief and suggests that there is, in fact, no irreparable injury.' " *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 277 (2d Cir. 1985) (quoting *Le Sportsac, Inc. v. Dockside Research, Inc.*, 478 F.Supp. 602, 609 (S.D.N.Y. 1979)); *see alsoMajorica, S.A. v. R.H. Macy & Co.*, 762 F.2d 7, 8 (2d Cir. 1985) ("Lack of diligence, standing alone, may ... preclude the granting of preliminary injunctive relief, because it goes primarily to the issue of irreparable harm rather than occasioned prejudice."); *Can't Stop Prods., Inc. v. Sixuvus, Ltd.*, 295 F.Supp.3d 381, 401 (S.D.N.Y. 2018) ("Here, Defendants were notified on May 30, 2017, that the license would be terminated, but did not move for injunctive relief until December 1, 2017. Defendants' six-month delay impedes their ability to show irreparable harm absent injunctive relief."); *Empower Energies, Inc. v. SolarBlue, LLC*, No. 16CV3220 (DLC), 2016 WL 5338555, at *12 (S.D.N.Y. Sept. 23, 2016) ("A period of delay in bringing a motion for preliminary relief may indicate 'an absence of the kind of irreparable harm required to support a preliminary injunction.' " (quoting *Citibank, N.A.*, 756 F.2d at 276)).

[3] Defendants provide no details concerning their alleged display of advertising.

TIFFANY AND COMPANY and TIFFANY N.J. LLC, Plaintiffs,

v.

COSTCO WHOLESALE CORP., Defendant.

No. 13 CV 1041-LTS-DCF

United States District Court, S.D. New York

January 7, 2019

MEMORANDUM OPINION AND ORDER

LAURA TAYLOR SWAIN, UNITED STATES DISTRICT JUDGE.

The Court has entered judgment in favor of Tiffany and Company and Tiffany (NJ) LLC (collectively "Tiffany" or "Plaintiffs") based on the Court's partial grant of summary judgment against Costco Wholesale Corp. ("Costco" or "Defendant") on the issues of liability for trademark infringement and counterfeiting, *Tiffany & Co. v. Costco Wholesale Corp.*, 127 F.Supp.3d 241 (S.D.N.Y. 2015) (the "Summary Judgment Opinion"), a jury verdict awarding punitive damages (Docket Entry No. 353), and the Court's finding, based upon the trial record and the jury's advisory verdict, that Tiffany is entitled to an accounting of profits and an injunction, *Tiffany & Co. v. Costco Wholesale Corp.*, 274 F.Supp.3d 216 (S.D.N.Y. 2017) (the "Post-Trial Opinion"). Before the Court are Plaintiffs' motion for attorneys' fees pursuant to 15 U.S.C. section 1117(b) and Defendant's motion to amend the Court's findings pursuant to Federal Rule of Civil Procedure 52(b) ("Rule 52(b)"), to alter or amend the Court's judgment pursuant to Federal Rule of Civil Procedure 59(e) ("Rule 59(e)"), and for judgment as a matter of law or, alternatively, a motion for a new trial, pursuant to Federal Rule of Civil Procedure 50(b) ("Rule 50(b)").

The Court has considered the parties' submissions carefully and, for the following reasons, grants Plaintiffs' motion for attorneys' fees in part and denies Defendant's motion in its entirety.

Background

Familiarity with the facts and prior decisions in this case are presumed.

The Court entered the Summary Judgment Opinion granting summary judgment in favor of Plaintiffs on September 8, 2015, finding Defendant liable for copyright infringement and counterfeiting. 127 F.Supp.3d at 246-56. Following a trial to determine damages, the jury returned a verdict finding that Defendant's profits from the infringing goods "totaled $3, 700, 000, that such profits are inadequate to compensate Tiffany, that $5, 500, 000 would be a just award of profits, and that Tiffany is entitled to an award of statutory damages for the same conduct in the amount of $2, 000, 000 and punitive damages for such conduct in the amount of $8, 250, 000." Post-Trial Opinion, 274 F.Supp.3d at 219. The Court treated the accounting of profits as an equitable remedy and, therefore, treated the jury's verdict with respect to Defendant's profits as advisory. *Id.* at 220-21. The Court found that the jury's award of $3.7 million dollars adequately reflected Defendant's actual profit margin on the infringing rings, taking into account a portion of membership fees which were used to subsidize Defendant's unusually thin profit margins on the rings themselves. *Id.* at 222-24. The Court did not, however, agree with the jury's finding that $3.7 million dollars was inadequate and thus did not award the additional $1.8 million specified by the jury. *Id.* at 224. The Court trebled the profits award to $11.1 million and found that Plaintiffs were entitled to attorneys' fees pursuant to 15 U.S.C. § 1117(b). *Id.* at 224-25. The Court also found that, as a matter of law, punitive damages were authorized in connection with an award of profits under the Lanham Act, that the jury's determination that punitive damages were warranted was adequately supported by the evidence, and the award amount was not excessive. *Id.* at 225-26.

Discussion

Defendant's Motion

Motion to Alter or Amend Judgment

The Court turns first to Defendant's motion to alter or amend the Court's judgment, pursuant to Rule 59(e), [1] which seeks reversal of the determination in the Court's Summary Judgment Opinion that Defendant is liable for counterfeiting and that its infringement was willful, which constitutes one circumstance warranting the award of an accounting of profits under the Lanham Act. *See Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767, 772 (2d Cir. 1984) (discussing prerequisites for an order of an accounting of profits under the Lanham Act).

Rule 59(e) authorizes a court to revisit a prior decision based upon an intervening change in controlling law, the availability of new evidence, to correct errors of law or facts upon which the judgment is based, or to prevent manifest injustice. *Munafo v. Metro. Transp. Auth.*, 381 F.3d 99, 105 (2d Cir. 2004); *see also Hayuk v. Starbucks Corp.*, No. 15 CV 4887-LTS, 2016 WL 5719785, at *1 (S.D.N.Y. Sept. 30, 2016). "[A] Rule 59 [motion] is evaluated under the same standard as a motion for reconsideration under Local Civil Rule 6.3." *Hayuk*, 2016 WL 5719785, at *1. However, the standard for granting a motion for reconsideration is strict and such a motion will be denied unless the moving party can point to controlling decisions or facts that the court overlooked that might reasonably be expected to alter the conclusion reached by the court. *Shrader v. CSX Transp., Inc.*, 70 F.3d 255, 257 (2d Cir. 1995). Rule 59(e) reconsideration is not a "tool to repackage and relitigate arguments and issues already considered by the Court in deciding the original motion." *In re Papadopoulos* , No. 12 CV 13125-JLG, 2015 WL 1216541, at *2 (Bankr. S.D.N.Y. Mar. 13, 2015) (internal quotation and citation omitted). Reconsideration of a court's prior order "is an extraordinary remedy to be employed sparingly" in the interest of finality. *Meteor AG v. Fed. Exp. Corp.*, No. 08 CV 3773-JGK, 2009 WL 3853802, at *3 (S.D.N.Y. Nov. 18, 2009) (quoting *In re Health Mgmt. Sys., Inc. Sec. Litig.*, 113 F.Supp.2d 613, 614 (S.D.N.Y. 2000)) (internal quotation marks and citation omitted).

Defendant contends that the Court wrongly granted summary judgment with respect to Plaintiffs' counterfeiting claim by applying an incorrect legal standard and that, if the Court applied the correct legal standard, it would conclude that issues of material fact existed sufficient to deny summary judgment.

In the Summary Judgment Opinion, the Court stated that the "Lanham Act defines a counterfeit mark as 'a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.'" Summary Judgment Opinion, 127 F.Supp.3d at 254 (quoting 15 U.S.C.S. § 1127 (LexisNexis 2006)). The use of such a mark must be "likely to cause confusion, to cause mistake, or to deceive." *Id.* (quoting *U.S. v. Milstein*, 401 F.3d 53, 62 (2d Cir. 2005)) (internal quotation marks and citation omitted). The Court stated that a spurious mark "deceptively suggest[s] an erroneous origin [or] fake." Summary Judgment Opinion, 127 F.Supp.3d at 255 (quoting *GMA Accessories, Inc. v. BOP, LLC*, 765 F.Supp.2d 457, 472 (S.D.N.Y. 2011)) (alterations omitted). The Court further determined that counterfeiting may be found even where the infringing mark is not directly affixed to the good. *Id.* (citing *Shell Co., Ltd. v. Los Frailes Service Station, Inc.*, 596 F.Supp.2d 193 (D.P.R. 2008)).

Defendant cites to no controlling law that the Court overlooked in articulating the standard for Lanham Act counterfeiting, but nonetheless disagrees with the standard and the Court's analysis based on that standard. Defendant first argues that the Court erroneously relied on its analysis of several of the factors described in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492 (2d Cir. 1961), which, according to Defendant, are used only to examine consumer confusion and thus are relevant only to the issue of whether a defendant infringed, rather than counterfeited, a mark. Defendant correctly points out that "[w]hen counterfeit marks are involved, it is not necessary to consider the factors set out in [*Polaroid*,] which are used to determine whether a mark is a colorable imitation of a registered mark that creates a likelihood of confusion about its source, because counterfeit marks are inherently confusing." *Colgate-Palmolive Co. v. J.M.D. All-Star Imp. & Exp. Inc.*, 486 F.Supp.2d 286, 289 (S.D.N.Y. 2007) (internal quotation marks omitted). This Court did not, however, rely on the selected *Polaroid* factors simply to equate its finding of infringement to counterfeiting, but rather invoked them in aid of its analysis of the elements of a counterfeiting claim. In examining whether the marks were substantially indistinguishable and spurious, the Court referred to its previous analysis of: (1) the similarity of the two marks, to address whether they were identical or substantially indistinguishable and whether the use of the Tiffany mark deceptively suggested a false origin and thus was spurious; (2) the finding of actual confusion to address the requirement that the counterfeit "cause confusion, . . . cause mistake, or . . . deceive, " *Milstein*, 401 F.3d at 62 (internal citation and quotation marks omitted); and (3) Defendant's bad faith, with respect to the issue of intent to confuse customers. Summary Judgment Opinion, 127 F.Supp.3d at 255-56.

Defendant next argues that an analysis of the spuriousness of a mark "requires that the Court consider 'how the marks appear to consumers in the marketplace' - in other words, the entire context of the Contested Signs and the sale of the Costco Rings." (Def.'s Mem. to Amend J., Docket Entry No. 450, 10 (quoting *Colgate-Palmolive*, 486 F.Supp.2d at 289) (alterations and emphasis omitted)). The Court did, in fact, consider the sale of the counterfeit rings from the perspective of the consumer in the broad context of the entire sale, concluding that the undisputed facts of record on that motion practice, viewed in the light most favorable to Costco, demonstrated that Costco's use of the Tiffany mark suggested a false origin despite being placed on a nearby sign rather than on the ring itself. The Court considered, *inter alia*, the evidence regarding the placement of Costco's signs, the location of the mark on those signs, the sale of rings nearly identical to Plaintiffs', and uncontroverted evidence that real consumers were actually confused in concluding that Defendant's use was spurious. *See* Summary Judgment *Opinion*, 127 F.Supp.3d at 255-56.

Finally, Defendant contends that counterfeiting may only be found when the infringing good is a "stitch-for-stitch" copy of the plaintiff's good and that the use of the mark on a "colorable imitation" will support a claim for infringement, but not a claim for counterfeiting. *See Gucci Am., Inc. v. Guess?, Inc.*, 868 F.Supp.2d 207, 223, 242 (S.D.N.Y. 2012) (stating that courts uniformly apply the 15 U.S.C. section 1127 definition of counterfeiting to stitch-for-stitch copies);

see also Johnson v. Connolly, No. C 06-6414 VRW, 2007 WL 1151004, at *2 (N.D. Cal. Apr. 18, 2007) (stating that a mere colorable imitation will not sustain a claim for counterfeiting). Here, the Court found that there was no genuine issue of material fact as to whether, taking into account the entire context of Costco's display, the placement of the Tiffany mark on signs where Costco would normally place a brand name to advertise the sale of rings that were essentially copies of Plaintiffs' rings rendered the rings as displayed for sale indistinguishable from those of Plaintiffs, despite the presence of the stamp of the true manufacturer inside the counterfeit rings. *Cf. Louis Vuitton Malletier S.A. v. Sunny Merch. Corp.*, 97 F.Supp.3d 485, 499-500 (S.D.N.Y. 2015) (finding that a counterfeit product need not be a stitch-for-stich copy and that products may be found counterfeit even if they are inferior in quality in comparison to the original good). Defendant has articulated no facts or controlling law overlooked by or previously unavailable to the Court and Defendant's motion to reconsider the grant of summary judgment with respect to Plaintiffs' counterfeiting claim is, therefore, denied.

Defendant next argues that the Court did not adequately consider evidence that, Defendant contends, would have raised a genuine issue of material fact as to whether Defendant's infringement was willful. Specifically, Defendant points to evidence that clerical employees simply created the signs bearing the Tiffany mark to follow the company practice of displaying the setting style indicated on the vendor invoices and that, upon receiving a demand letter from Plaintiffs, Defendant ceased using the term Tiffany, alerted all purchasers of the infringing rings about Plaintiffs' legal position, and offered to accept any returns based on this information. (Def.'s Mem. to Amend J. at 17-18 (citing Docket Entry No. 122 ¶¶ 14-16, 20-23; Docket Entry No. 122-4).)

In support of its finding of willfulness, the Court relied on its *Polaroid* bad faith analysis. Summary Judgment Opinion, 127 F.Supp.3d at 261. The Court considered the facts proffered by Defendant in the context of its presentation in its summary judgment papers, and concluded based on the record in the summary judgment motion practice that Defendant's assertions that its employees relied on the vendor invoices for characterization of the setting as "Tiffany" on Costco's signs were untenable in light of the evidence that Costco had actively encouraged those same vendors to copy Plaintiffs' products. *Id.* at 252. Accordingly, Defendant has failed to demonstrate an error of law or fact necessary to warrant reconsideration.

Imputation of Membership Revenue as Profits

Defendant next argues that the Court must alter and amend its judgment, findings of fact, and conclusions that Plaintiffs were entitled to a portion of Defendant's membership revenue to compensate for Costco's unusually small declared profit margin on the sale of the infringing rings, pursuant to Rules 52(b)[2] and 59(e). Defendant contends that the Court relied only upon the "unsubstantiated assertion by Plaintiffs' expert, Brent Kaczmarek, that Costco makes most of its money on membership fees, allowing for a smaller profit margin" on the infringing rings, pointing to purported deficiencies in his study. (Def.'s Mem. to Amend J. at 19 (internal quotation marks and alternations omitted).) However, the Court also relied upon the testimony of Douglas Schutt, Defendant's Chief Merchandising Officer, in which Schutt acknowledged that Defendant is able to charge only a small 13% markup on the rings because of its membership fees, which function to offset this lower margin. *Post-Trial Opinion*, 274 F.Supp.3d at 223 (citing *Trial Tr., Docket Entry* No. 402, at 443:19-444:4).

Defendant also objects to the Court's imputation of an approximately 50% profit margin to account for the diminished markup of 10.31% or 13% Costco charged for its rings[3] and bring the profit computation on the rings into alignment with more traditional jewelry stores, which typically accrue a profit of 50-100%. *See id.* at 223. Defendant contends that the Court failed to provide a rationale as to why imputing the profit margin for a traditional jewelry store to Costco is appropriate given that Costco sells a wider stock of products and employs a vastly different business model. As the Court previously noted, equity requires that where, as here, the sale of the jewelry is subsidized by the revenue derived from membership sales, which are themselves driven by the lure of discounted jewelry and other products, awarding only the profits earned directly from the sale of the infringing rings would be insufficient. *Id.* at 224; 15 U.S.C.S. § 1117(a) (LexisNexis 2006) ("If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."). To hold otherwise would essentially sanction trademark infringement so long as a defendant could shift profits to a different incoming revenue stream. Furthermore, once a plaintiff proves a defendant's sales, the burden shifts to the defendant to "prove all elements of cost or deduction claimed." 15 U.S.C.S. § 1117(a) (LexisNexis 2006). Accordingly, Defendant bore the burden of proving the proper profit margin, taking into account any unique features of its business plan, including the impact of its membership fees on its pricing and profits for sales of the infringing rings at issue here. Defendant's proffer of general figures derived only from its own acquisition and selling price differentials was insufficient to carry this burden, and the Court's equitable determination, which imputed a profit margin at the low end of the relevant regular retail range, was supported by the trial record.

Defendant also asserts that the imputation of a portion of membership fees as a portion of the profits attributable to the sale of the rings under the Tiffany mark conflicts with the Court's summary judgment decision striking Plaintiffs' demand for an accounting of Costco's profits for the sale of memberships and other merchandise. In its Summary Judgment Opinion, the Court held that Plaintiffs had proffered no evidence that the infringement caused customer confusion with respect to the sale of memberships or other goods. *See id.*, 127 F.Supp.3d at 59-60. The Court also found that Kaczmarek's assertions that the sale of the counterfeit rings caused a "halo effect, " enticing customers to visit Costco stores more often and/or make increased purchases there, were not supported by any measurements of the impact of the infringement on the sale of memberships or other goods.[4] *Id.*

The Court's summary judgment decision rejected only Plaintiffs' stand-alone demand for an accounting of Costco's profits from the sales of memberships and other goods, noting that there was no evidence to demonstrate that Defendant's infringement resulted in such profits. By contrast, the Court's apportionment of membership fee revenue to profits in connection with specific sales of merchandise was based on Schutt's admission that income from membership fees subsidized a much lower than normal markup on the infringing rings. (*See Trial Tr., Docket Entry* No. 402, at 444:1-4.) There is no inconsistency between the summary judgment decision and the imputation of a higher profit level for actual merchandise sales, as based on the trial evidence.

For the foregoing reasons, Defendant's Rule 52(b) and 59(e) motions are denied with respect to the Court's equitable award of a portion of membership fee revenue to account for the subsidization of low-margin sales of the infringing rings by membership fees.

Rule 50(b) Motion

Defendant also seeks a determination that the jury's award of punitive damages was inappropriate as a matter of law.[5] Specifically, Defendant contends that punitive damages were unavailable under New York law because Plaintiffs did not suffer any actual damages and that the jury's verdict was not supported by sufficient evidence that Defendant intended to deceive its customers as to the origin of the infringing rings.

"Under Rule 50, judgment as matter of law is appropriate where there is no legally sufficient evidentiary basis for a reasonable jury to find for a party. . . . [A] court may properly grant judgment as a matter of law where viewed in the light most favorable to the nonmoving party, the evidence is such that, without weighing the credibility of the witnesses or otherwise considering the weight of the evidence, there can be but one conclusion as to the verdict that reasonable men could have reached." *Merrill Lynch Interfunding, Inc. v. Argenti* , 155 F.3d 113, 120 (2d Cir. 1998) (quoting *Samuels v. Air Transport Local 504,* 992 F.2d 12, 14 (2d Cir.1993)) (internal quotation marks and citations omitted). "In ruling on a motion for judgment as a matter of law, [a court] must view the evidence in a light most favorable to the non-movant and grant that party every reasonable inference that the jury might have drawn in its favor." *Id.* at 120-121 (internal quotation marks omitted). Judgment as a matter of law "may only be granted if there exists such a complete absence of evidence supporting the verdict that the jury's findings could only have been the result of sheer surmise and conjecture, or the evidence in favor of the movant is so overwhelming that reasonable and fair minded persons could not arrive at a verdict against it." *Brady v. Wal-Mart Stores, Inc.*, 531 F.3d 127, 133 (2d Cir. 2008) (quoting *Luciano v. Olsten Corp.,* 110 F.3d 210, 214 (2d Cir. 1997)) (internal quotation marks and alterations omitted).

With respect to Defendant's contention that Plaintiffs may not recover punitive damages under New York law absent establishing compensatory or actual damages, the Court has already rejected this very argument in its Post-Trial Opinion. 274 F.Supp.3d at 225-26. The Court held that punitive damages are available where a plaintiff pursued an accounting of profits and statutory damages under the Lanham Act because that statute provides a mechanism to "compensate plaintiffs even in the absence of proof of actual damages or profits, " and, for the reasons stated in its Post-Trial Opinion, now adheres to the same conclusion.[6] *Id.*

Defendant then argues that the jury's award of punitive damages was unsupported by evidence that Costco sought to deceive or mislead customers into believing that Plaintiffs had manufactured the ring. Specifically, Defendant contends that the use of the term "Tiffany" was intended to signal the style of the setting rather than its source of manufacture and that evidence of Defendant's senior executives' attitude towards the use of Plaintiffs' mark, marketing strategies designed to create the impression of an association with Plaintiffs, and consumer confusion do not demonstrate the "gross, wanton or willful" behavior required for the award of punitive damages under state law. Post-Trial Opinion, 274 F.Supp.3d at 226 (internal quotation marks and citation omitted). In its Post-Trial Opinion, the Court dismissed Defendant's argument that such evidence was insufficient, and Defendant has advanced no further, reasoned argument in support of its position, [7] instead only disparagingly recounting the Court's characterization of the evidence in its Post-Trial Opinion. Accordingly, Defendant has failed to show that the jury's verdict was so insufficiently supported that it could only have been the result of surmise or conjecture, and, for the reasons stated in the Post-Trial Opinion, this aspect of the motion is denied. *See Brady*, 531 F.3d at 133.

Defendant also seeks a new trial based on the Court's instructions informing the jury that the Court had already found Defendant's infringement to be willful and sufficient to constitute counterfeiting, in addition to the Court's exclusion of evidence at trial to establish a lack of customer confusion and evidence of alternative, non-infringing uses of the term "Tiffany."

"A jury instruction is erroneous if it misleads the jury as to the correct legal standard . . . and requires a new trial unless the error is harmless[, in that it] . . . did not influence the jury's verdict." *Gordon v. New York City Bd. of Educ.*, 232 F.3d 111, 116 (2d Cir. 2000) (internal quotation marks and citations omitted). As previously explained, the Court's instructions that Defendant's actions were willful and constituted counterfeiting under the Lanham Act were properly supported by the holdings contained in the Summary Judgment Opinion.

Because Defendant concedes that it was indeed permitted to introduce evidence as to non-infringing uses of the term "Tiffany, " a new trial is not warranted on that ground.[8]

Defendant also argues that it was prejudiced by the Court's ruling that it could not present evidence that customers were not actually confused by Costco's actions in connection with its opposition to the award of punitive damages. The Court excluded evidence of lack of actual consumer confusion because Plaintiffs had presented unrebutted evidence of such confusion on summary judgment, which established the predicate for an accounting of profits, a conclusion that would be inappropriate to revisit at trial. (Conference Tr., Docket Entry No. 275, at 18, 34-35, 44, 61); *see also Summary Judgment Opinion*, 127 F.Supp.3d at 260 n.5. Defendant nonetheless asserts that it was prejudiced by its inability to present evidence that customers were not actually confused to support its contention that Defendant was not liable for punitive damages. Defendant is unable to point to the record to demonstrate that it ever sought to introduce, or that the Court precluded, evidence of lack of consumer confusion in connection with the question of whether Costco's actions were "gross, wanton, . . . willful . . . or other[wise] morally culpable, " and thus whether punitive damages were warranted. *SeeSummary Judgment Opinion*, 127 F.Supp.3d 241 at 261-62 (internal quotation marks and citation omitted); (Conference Tr., Docket Entry No. 275, at 18, 34-35, 44, 61). Accordingly, Defendant is not entitled to a new trial based on its inability to introduce evidence of actual confusion.

For the foregoing reasons, Defendant's motion for judgment as a matter of law or a new trial is denied.

Plaintiffs' Motion for Attorneys' Fees and Expenses

The Court found, in its Post-Trial Opinion, that Plaintiffs were entitled to reasonable attorneys' fees pursuant to 15 U.S.C. section 1117(b) ("Section 1117(b)"), which authorizes both the trebling of damages and the award of attorneys' fees "in a case involving [the] use of a counterfeit mark or designation . . . unless the court finds extenuating circumstances." 15 U.S.C.S. § 1117(b) (LexisNexis 2018). Plaintiffs now request awards of attorneys' fees in the sum of $5, 600, 765.50, disbursements billed to Plaintiffs in the amount of $176, 666.70, and amounts paid by Plaintiffs directly to expert witnesses and other third-party service vendors in the sum of $640, 241.14, for a total award of $6, 417, 673.34. (Decl. of Jeffrey A. Mitchell, Docket Entry No. 447, ¶ 3.) Defendant contends that Plaintiffs are only eligible to receive fees for the portion of their counsel's legal work that related directly to the counterfeiting claim, that attorneys' fees are not available under Section 1117(b) if the counterfeit good is stamped with the actual manufacturer's trademark, and that Plaintiffs are not entitled to expenses attributable to expert witnesses.

Defendant's argument that the remedies for a counterfeiting claim provided by Section 1117(b) are not available when the counterfeit good is stamped with the trademark of the actual manufacturer, rather than the mark of the plaintiff, is simply another variation on Defendant's challenge of the Court's determination on the merits of the counterfeiting claim. Defendant cites no new law or facts, but simply refers back to its summary judgment briefing in which it argued that it could not be liable for counterfeiting because its rings were stamped with the mark of the true manufacturer. (*See* Def.'s Mem. in Opp'n to Attys.' Fees, Docket Entry No. 451, at 1, 1 n.1.) Because the Court has concluded that Defendant engaged in counterfeiting despite the use of the true manufacturer's mark, Plaintiffs are entitled to the statutory remedies that are available in a Lanham Act case involving counterfeiting. *SeeSummary Judgment Opinion*, 127 F.Supp.3d at 254-56.

Defendant next argues that attorneys' fees awarded under Section 1117(b) must be limited to the expenses attributable to the prosecution of Plaintiffs' counterfeiting claim and cannot extend to fees incurred in prosecuting Plaintiffs' Lanham Act claim for infringement or Plaintiffs' state-law claims, and in defending against Defendant's counterclaim for invalidation of Plaintiffs' trademark as generic. Although the parties have not offered any authority as to whether fees for non-counterfeiting claims can be awarded pursuant to Section 1117(b), the broad, plain language of

Section 1117(b), which authorizes treble Lanham Act damages for violations of 15 U.S.C. § 1114(a)(1) and attorneys' fees in "*case[s] involving* [the] use of a counterfeit mark" where the violation consists of intentional use of the mark in connection with the sale of goods, indicates that awards in cases of counterfeiting are not limited strictly to fees incurred in prosecuting claims charging counterfeiting. 15 U.S.C.S. § 1117(b) (LexisNexis 2018) (emphasis added). This broad language, including the statute's reference to the general Lanham Act liability provision, clearly suggests that the Court should award attorneys' fees incurred in prosecuting the Lanham Act infringement claim, not just the counterfeiting claim itself. This interpretation of the statute is pragmatic as well as logical and consistent with the plain language of the statute. Counterfeiting is an elevated form of infringement and an evaluation of both causes of action, as previously discussed, requires an examination of overlapping and interrelated factors.[9] *See Gucci Am.*, 868 F.Supp.2d at 242 (describing counterfeiting as the "'hard core' or 'first degree' of trademark infringement that seeks to trick the consumer into believing he or she is getting the genuine article"); Summary Judgment Opinion, 127 F.Supp.3d at 254-56 (utilizing the *Polaroid* infringement factors to inform the Court's counterfeiting analysis). The analogous state-law claims are almost entirely congruent with the Lanham Act infringement claim, thus making it impossible for the Court to apportion fees among them as to the litigation of the merits of the substantive claims.[10], [11] *Cf. Gracie v. Gracie*, 217 F.3d 1060, 1069-1070 (9th Cir. 2000) (stating that attorneys' fees awarded pursuant to Section 1117(a) should be apportioned between Lanham Act claims and non-Lanham Act claims unless the claims are so interrelated as to make such apportionment impossible). Fees incurred to defend the validity of the trademark against Defendant's counterclaim that it was generic must be also be awarded because it was necessary for Plaintiffs to preserve their trademark in order to use it as the basis for their counterfeiting claim.[12]

One aspect of the litigation is not compensable under Section 1117(b), however. Plaintiffs' claim for punitive damages under state law, did not, however, arise under the Lanham Act and addresses issues distinct from those that are core to the Lanham Act claims. Fees incurred solely in connection with that claim must, therefore, be disaggregated from those incurred in litigating the Lanham Act issues. Plaintiffs' attorneys' fee request is therefore denied to the extent it seeks recovery of fees incurred in litigating the punitive damages aspect of the state-law claims and related post-trial motion practice. Plaintiffs will be directed to recompute their attorneys' fee request to exclude fees incurred in connection with the punitive damages claim.

Defendant also opposes Plaintiffs' expense reimbursement request to the extent that it includes expert witness fees, arguing that fees for expert witnesses are not reimbursable under the Lanham Act and citing *Merck Eprova AG v. Brookstone Pharm., LLC*, No. 09 CV 9684 RJS, 2013 WL 3146768, at *5 (S.D.N.Y. June 10, 2013). Plaintiffs do not dispute this proposition, but cite *Merck* for the proposition that the Court may invoke its inherent powers where the party "clearly acted in bad faith or conducted [it]self dishonestly." *Id.* at *5 (quoting *Kensington Int'l Ltd. v. Congo*, No. 03 CV 4578(LAP), 2007 WL 2456993, at *6 (S.D.N.Y. Aug. 24, 2007)) (internal quotation marks omitted). Plaintiffs assert that the jury's award of punitive damages, which was necessarily predicated on a finding of gross, wanton, and willful behavior by the Defendant, establishes a proper basis for an award of expert witness fees pursuant to the Court's inherent powers. Plaintiffs' reliance on the jury's finding as to Defendant's conduct in connection with the events that gave rise to this litigation is, however, misplaced. An award of fees pursuant to the Court's inherent powers requires a demonstration of bad faith in the conduct of the litigation, not merely in the conduct giving rise to liability. *Cf. Id.* at *5 (finding that, in addition to the defendants' business model being built on the deception of the public, the defendants' vexatious and wanton conduct within the litigation warranted the shifting of attorneys' fees); *see also Ransmeier v. Mariani*, 718 F.3d 64, 68 (2d Cir. 2013) (explaining that a court's inherent power to impose sanctions is grounded in its authority "to control the proceedings that take place *before this Court*") (emphasis added).

Here, while Defendant's conduct of this litigation was undoubtedly very aggressive, Plaintiffs have not shown that Costco's defense was conducted in bad faith or dishonestly so as to warrant the use of the Court's inherent power to award expert witness fees. Plaintiffs' request for reimbursement of $519, 656.66 in expert witness fees associated with Dr. Jacob Jacoby, of Jacob Jacoby Research, Inc., and Kaczmarek of Navigant Consulting, is therefore denied. *See Merck*, 2013 WL 3146768, at *5; (*see* Mitchell Decl. ¶ 25; *see also* Docket Entry No. 447-18 (specifying the costs to each vendor).) However, for the reasons that follow, Plaintiffs' application for fees for consumer surveys and investigation is granted in the sum of $120, 584.48. (Docket Entry No. 447-18.)

Relatedly, Defendant contends that the Court may not award professional fees to vendors who produced evidence for Plaintiffs, including PhiPower, which conducted a genericism survey, Target Research Group, which contacted Costco customers to determine whether they were actually confused as to the origin of the counterfeit rings, and Investigative Consultants, which photographed the infringing signs and interacted with Costco salespeople. (Mitchell Decl. ¶ 25.) Courts will award expenses for consumer surveys under Section 1117(b) if the Court found them helpful or relied on them in adjudicating the claims, but will decline to grant such fees if the surveys are minimally probative. *See Audemars Piguet Holding S.A. v. Swiss Watch Int'l, Inc.*, 42 F.Supp.3d 540, 544-48 (S.D.N.Y. 2014), *modified,* No. 12 CV 5423 LAP, 2015 WL 150756 (S.D.N.Y. Jan. 12, 2015) (awarding consumer survey expenses under Section 1117). Similarly, courts in this circuit have awarded fees in trademark cases for the costs of private investigators. *Innovation Ventures, LLC v. Ultimate One Dystric. Corp.*, 176 F.Supp.3d 137, 163-63 (E.D.N.Y. 2016).

Because the Court relied on information from PhiPower's genericism survey[13]and deposition testimony of customers identified by Target Research Group[14] and because an investigator for Investigative Consultants testified at trial, the award of such expenses for services by those vendors is appropriate. *See SummaryJudgment Opinion,* 127 F.Supp.3d at 249-51; (Mitchell Decl. ¶ 25).

The Court next turns to the reasonableness of Plaintiffs' requested fees. "A district court has 'considerable discretion' in determining what constitutes a reasonable fee award, " which "should be based on a 'reasonable hourly rate, '" or "'the rate a paying client would be willing to pay,' as determined based on a holistic assessment of all of the circumstances at issue in the case." *Trustees of New York City Dist. Council of Carpenters Pension Fund, Welfare Fund, Annuity Fund v. Vintage Tile & Flooring, Inc.*, No. 14-CV-06450 KBF, 2015 WL 3797273, at *6 (S.D.N.Y. June 18, 2015) (quoting *Arbor Hill Concerned Citizens Neighborhood Ass'n v. Cnty. of Albany*, 522 F.3d 182, 190 (2d Cir. 2008)). A "reasonable hourly rate" should also correspond with the prevailing rates "'in the community for similar services by lawyers of reasonably comparable skill[,] expertise and reputation.'" *Id.* (quoting *McDonald ex rel. Prendergast v. Pension Plan of the NYSA-ILA Pension Tr. Fund*, 450 F.3d 91, 96 (2d Cir. 2006)).

Plaintiffs proffer contemporaneous time records in support of their application that specify the dates, hours expended, and nature of the work done for each attorney who has prosecuted this action. (Docket Entry Nos. 447-1 through 447-9.) The Court finds that the hourly rates, ranging from $315-$585 per hour for an associate (depending on experience) to between $625 and $845 per hour for a partner, are reasonable considering the prevailing rates for firms engaging in complex litigation in this district. (Mitchell Decl. ¶¶ 13-24, 26-30; *see* 2014 ALM Legal Intelligence 2014 Billing Survey, Docket Entry No. 447-26 (providing a survey of billing rates for the nation's 350 largest law firms).)

Plaintiffs' request that fees be calculated at its counsel's undiscounted rate is not opposed by Defendant. The Second Circuit has upheld the award of fees based on an attorney's full rate notwithstanding a discounted rate actually charged to a prevailing party, reasoning that a defendant who acted willfully, as the jury's award of punitive damages recognizes in this case, should not benefit from a discount negotiated between a plaintiff and its counsel.[15] *Getty Petroleum Corp. v. Barco Petroleum Corp.*, 858 F.2d 103, 114 (2d Cir. 1988); *but see Crescent Publ'g Group, Inc. v. Playboy Enters.*, 246 F.3d 142, 151 (2d Cir. 2001) (stating that "the actual billing arrangement is a significant, though not necessarily controlling, factor in determining what fee is 'reasonable'" in a copyright case). Moreover, Plaintiffs' discount was offset, at least in part, by the contingency fee. The Court will, therefore, award fees at Plaintiffs' counsel's non-discounted rate.

The Court has reviewed carefully the Plaintiffs' proffered contemporaneous time records and finds Plaintiffs' request, including the hours expended and nature of the work done, is reasonable, and is adequately supported by documentation.[16] Accordingly, Plaintiffs are entitled to their requested fees, and expenses less fees paid to expert witnesses, in the sum of $5, 898, 016.68, less the fees attributable to work performed solely in connection with the pursuit of punitive damages under state law.

Conclusion

For the foregoing reasons, Defendant's motion pursuant to Rules 50(b), 52(b), and 59(e) is denied.

Plaintiffs' motion for attorneys' fees and expenses is granted in part and denied in part. Plaintiffs' attorneys' fee request is denied as to fees incurred solely in the litigation of Plaintiffs' claim for punitive damages and is granted in all other respects. Plaintiffs' motion is denied to the extent it seeks the reimbursement of expert witness fees, and is granted as to the $120, 584.48 sought for reimbursement of expenses incurred in connection with consumer surveys and investigation. Plaintiffs are directed to file an affidavit enumerating the attorneys' fees incurred solely in litigating the punitive damages claim, and a proposed order awarding (a) the remainder of Plaintiffs' requested attorneys' fees, (b) the consumer survey and investigation fees referred to in the foregoing paragraph, and (c) disbursements in the amount of $176.666.70, no later than **January 21, 2019**. Any opposition to the proposed order, and any counterorder, must be filed by **January 28, 2019**. Any reply submission must be filed by **February 1, 2019**. Courtesy copies of the filings must be provided for Chambers.

This Memorandum Order resolves Docket Entry No. 449.

SO ORDERED.

Notes:

[1] Through the Rule 52(b) portion of its motion, Defendant seeks to have the Court reconsider its holdings articulated in the Summary Judgment Opinion. Rule 52(b), however, is focused on factual findings and is not an appropriate vehicle for revisitation of a summary judgment decision. *Buck v. Libous*, No. 02 CV 1142, 2005 WL 2033491, at *1 n.2 (N.D.N.Y. Aug. 17, 2005) ("Since a court engages in no fact-finding when it decides a summary judgment motion, a party may not use Rule 52(b) to seek reconsideration of such a decision."). The Court will therefore evaluate Defendant's motion to reconsider the Summary Judgment Opinion under Rule 59(e), which permits the timely reconsideration of any final judgment, including any interlocutory orders that are not separately appealable, such as the partial grant of summary judgment at issue here. *See* Fed R. Civ. P. 54(a) (defining judgment as "any order from which an appeal lies"); *see also Doninger v. Niehoff*, 642 F.3d 334, 338 n.1 (2d Cir. 2011) (stating that an order granting partial summary judgment is generally not appealable prior to a final decision in the case).

[2] Rule 52(b) is an appropriate mechanism to reexamine the Court's findings following a bench trial, where, as here, the jury verdict for Lanham Act damages was advisory. A Rule 52(b) motion is evaluated under a similar reconsideration standard as a Rule 59(e) motion and should be "denied unless the moving party can point to controlling decisions or data that the court overlooked." *L.I. Head Start Child Dev. Serves., Inc. v. Econ. Opportunity Comm'n of Nassau Cty., Inc.*, No. CV 00-7394-ADS, 2010 WL 8816299, at *7 (E.D.N.Y. May 28, 2010), *aff'd*, 710 F.3d 57 (2d Cir. 2013) (quoting *Rafter v. Liddle*, 288 Fed.Appx. 768 (2d Cir. 2008)).

[3] Each party proffered evidence to support a different markup figure, both of which were significantly below the 50% profit margin imputed by the Court. *See* Post-Trial Opinion, 274 F. Sup. 3d at 223.

[4] *See also* Order, September 16, 2016, Docket Entry No. 335, at 2 (overruling Costco's objection to evidence of the "halo effect" and "treasure hunt" theories, holding that such evidence is "relevant to the issues of Costco's motivation, state of mind and bad faith with respect to the subject sales and signage.")

[5] After Plaintiffs rested their case, Defendant moved for judgment as a matter of law pursuant to Federal Rule of Civil Procedure 50(a), which motion the Court denied. (Trial Tr., Docket Entry No. 406, at 947:2-962:6.) Defendant now renews its motion pursuant to Rule 50(b). In its Post-Trial Opinion, the Court observed that Defendant did not make any "explicit motions under Rule 50(b) and 59, [but that] it ha[d] made a number of arguments that implicate the weight and propriety of evidence." Post-Trial Opinion, 274 F.Supp.3d at 227. The Court rejected Defendant's arguments "with respect to evidentiary bases of the jury's implicit conclusions concerning the extent and reprehensibility of Costco's wrongful conduct." *Id.* Because Defendant submitted its earlier briefing papers in response to the Court's order (Docket Entry No. 387), and did not explicitly move for judgment as a matter of law pursuant to Rules 50(b) and 59(e), the Court considers the instant motion.

[6] Defendant points to the Court's statement that "the Lanham Act itself contemplates. . . an award of statutory damages . . ., which permits consideration of both punitive and compensatory factors, without the need to establish profits or actual damages in the recognition that such measures of monetary relief may be difficult to prove in these cases." Post-Trial Opinion, 274 F.Supp.3d at 225. Defendant contends that this statement is inconsistent with an award of a punitive component of damages where "Plaintiffs explicitly disavowed actual damages of any sort, " despite the existence of sales records from which to calculate Costco's profits. (Def.'s Mem. to Amend J. at 21 (emphasis omitted).) The Court's statement was, however, made in support of the proposition that an accounting of profits or a statutory damages award will satisfy the prerequisite for actual damages without the need to establish actual loss, not to suggest that a plaintiff would be barred from collecting punitive damages unless it exhausts every effort to quantify profits or damages. *See* Post-Trial Opinion, 274 F.Supp.3d at 225.

[7] Defendant also argues that Plaintiffs failed to present evidence to affirmatively establish that use of the term "Tiffany" was intended to imply the origin of the rings rather than the style of the setting. The Court already concluded that the jury considered ample evidence, "including evidence of the conduct and attitude of Costco's senior executives towards use of the 'Tiffany' mark and the lawsuit, customer confusion, and marketing strategies designed to invoke an association with Tiffany, " to support its award of punitive damages. Post-Trial Opinion, 274 F.Supp.3d at 226.

[8] (Def.'s Reply in Support of Mot. to Amend J., Docket Entry No. 457, at 9 ("Plaintiffs note that Costco was permitted to include six references to the non-trademark meaning of Tiffany. . . . Costco was nevertheless prohibited from presenting evidence regarding actual confusion.").)

[9] The specific factors examined in connection with both causes of action included bad faith, degree of similarity, and actual confusion. Summary Judgment Opinion, 127 F.Supp.3d at 255.

[10] Plaintiffs' state-law infringement claims were subject

to substantially the same analysis as their federal counterparts and are thus also impossible to apportion. *See Lopez v. Gap, Inc.*, 883 F.Supp.2d 400, 430 (S.D.N.Y. 2012) (quoting *Lorillard Tobacco Co. v. Jamelis Grocery, Inc.*, 378 F.Supp.2d 448, 456 (S.D.N.Y.2005)).

[11] The Second Circuit has, in dicta, expressed skepticism regarding awards of attorneys' fees under Section 1117(a) for non-Lanham Act claims, even where such claims are intertwined with Lanham Act claims, because the practice could permit large fee awards in cases with very small Lanham Act components. *Sleepy's LLC v. Select Comfort Wholesale Corp.*, 909 F.3d 519, 532 (2d Cir. 2018). Indeed, in *Sleepy's*, the sole Lanham Act claim in an "all-but-the-kitchen-sink" complaint appeared to the appellate court to have been peripheral to the lawsuit. *Id.* at 533. The Court finds little if any basis for such concerns in this case, because the state-law claims here are almost entirely congruent with their Lanham Act counterparts in terms of both the scope of discovery and the legal analysis. Any apportionment would, therefore, be entirely arbitrary, reducing Plaintiffs' fee award simply because Plaintiffs elected to articulate their claims as ones under New York law as well as under the Lanham Act.

[12] Defendant was granted summary judgment dismissing Plaintiffs' federal trademark dilution claim. As Plaintiffs did not contest that aspect of Defendant's motion, it does not appear that Plaintiffs incurred any fees in connection with this claim. Summary Judgment Order, 127 F.Supp.3d at 262.

[13] Although Plaintiffs assert that design of this survey was a joint effort between Jacoby and PhiPower, Plaintiffs have submitted no evidence from which the Court can determine what, if any, of Jacoby's costs were attributable to his work in designing and conducting the survey, as opposed to acting as an expert witness. Accordingly, Plaintiffs' request for fees related to Jacoby's contributions to this survey is denied, but the request for costs attributed to PhiPower, which worked only on the survey, is granted.

[14] The Court finds that Target Research Group's canvassing of Costco customers to identify those confused as to the origin of the rings is sufficiently akin to the work of a private investigator, or in the alternative, the conduct of a survey, to warrant an award of attorneys' fees.

[15] The invoices provided by Plaintiff reflect a 30% discount from the requested fees, negotiated in exchange for a 20% contingency fee. (Mitchell Decl. ¶ 7.)

[16] Plaintiffs cite several examples of litigation expenses that they incurred and which they contend demonstrate the contentious nature of this litigation. These examples include a request for Costco to print material that was originally turned over to Plaintiffs in electronic form, a dispute over whether the correct witness was produced for a deposition, and the notice of appeal of the Summary Judgment Opinion, which Plaintiffs claim was facially barred as interlocutory. (Mitchell Decl. ¶¶ 33-45.) Defendant cites these same incidents as examples of extraneous litigation unrelated to the counterfeiting claim that supports its application for fees. The Court finds no reasons why Plaintiffs' litigation of or opposition to these issues were in any way unjustified or tangential to the Court's determinations given the contentiousness and complexity of this case.

No. 18-

In the Supreme Court of the United States

ROMAG FASTENERS, INC., PETITIONER

v.

FOSSIL, INC., FOSSIL STORES I, INC.,
MACY'S, INC., AND MACY'S RETAIL HOLDINGS, INC.

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

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether, under section 35 of the Lanham Act, 15 U.S.C. § 1117(a), willful infringement is a prerequisite for an award of an infringer's profits for a violation of section 43(a), *id.* § 1125(a).

CORPORATE DISCLOSURE STATEMENT

Petitioner Romag Fasteners, Inc. has no parent corporation, and no publicly held company owns ten percent or more of its stock.

TABLE OF CONTENTS

Page

Table of contents—continued:

TABLE OF AUTHORITIES

Page

Cases:

Page

Cases—continued:

Page

Miscellaneous:

In the Supreme Court of the United States

No. 18-

ROMAG FASTENERS, INC., PETITIONER

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FOSSIL, INC., FOSSIL STORES I, INC.,
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*ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT*

PETITION FOR A WRIT OF CERTIORARI

Romag Fasteners, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the district court is reported at 29 F. Supp. 3d 85. Pet. App. 62a-105a. The opinion of the United States Court of Appeals for the Federal Circuit is reported at 817 F.3d 782. Pet. App. 16a-33a. The Federal Circuit's order reinstating its prior decision in part and remanding the case for further proceedings is not reported but is available at 686 F. App'x 889 (per curiam). Pet. App. 13a-15a. The Federal Circuit's order granting

Fossil's motion to dismiss Romag's appeal in part is unreported. Pet. App. 1a-4a.

JURISDICTION

The court of appeals granted respondents' motion to dismiss petitioner's appeal in part on February 5, 2019 (Pet. App. 1a-4a). This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 35 of the Lanham Act, 15 U.S.C. § 1117(a), provides in pertinent part:

> When . . . a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled . . . subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.

Sections 35 and 43 of the Lanham Act, 15 U.S.C. §§ 1117, 1125, are set forth in their entirety in the appendix. Pet. App. 114a-127a

STATEMENT

This case presents an important, recurring, and outcome-determinative question of federal trademark law that has sharply divided the courts of appeals six to six. Section 43(a) of the Lanham Act prohibits false representations regarding the origin, endorsement, or association of goods through the use of another's distinctive mark—*i.e.*, trademark infringement. Section 35 of the Act provides that a plaintiff is entitled to recover an infringer's profits, "subject to the principles of equity," if it establishes "a violation under section 1125(a)." 15 U.S.C. § 1117(a). The Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuits make an infringer's profits available under section 35 without requiring a threshold showing of willfulness; the infringer's intent is merely one factor among many in fashioning an equitable remedy.

The remaining six geographic circuits have reached the opposite conclusion. In the Second, Eighth, Ninth, Tenth, and District of Columbia Circuits, plaintiffs have no chance to persuade a judge to award them profits under section 35(a) unless they first clear the hurdle of showing willful infringement. The First Circuit imposes the same requirement where, as here, the parties are not direct competitors. The conflict among the courts of appeals is square, well developed, and—without this Court's intervention—intractable.

The Court should take this opportunity to break the stalemate and bring much-needed clarity to this recurrent issue of trademark law. Whether willfulness is a prerequisite to an award of profits under section 35(a) was squarely presented and dispositive below. The jury found that respondents Fossil, Inc. and Fossil Stores I, Inc. (collectively, Fossil) had infringed petitioner Romag Fasteners, Inc.'s trademark rights. But the jury also determined that Fossil's infringement was not willful. Second Circuit law, which the Federal Circuit applied because the case was filed in the District of Connecticut, thus precluded Romag from receiving *any* of Fossil's profits.

Romag would have faced the same bar to recovery under the law of the First, Eighth, Ninth, Tenth, or District of Columbia Circuits. But if this case arose under the law of the Third, Fourth, Fifth, Sixth, Seventh, or Eleventh

Circuits, Romag would have had the opportunity to litigate whether an award of profits was consistent with "principles of equity." 15 U.S.C. § 1117(a).

Which of those conflicting standards applies has serious practical and policy implications. Because a plaintiff's actual damages are often difficult to measure, an award of an infringer's profits is often the only meaningful monetary relief that trademark owners can secure for infringement. This case illustrates the point. Because petitioner could not prove its actual damages, it recovered absolutely nothing from Fossil's infringement. Profits awards, moreover, serve a vital deterrent purpose in protecting the public against counterfeit and falsely marked goods. An inflexible and atextual willfulness requirement sets the bar too high, depriving mark holders of an important remedy and failing adequately to deter infringement.

The question presented occurs with remarkable frequency. District courts across the Nation address claims for infringers' profits in many cases each year. Given the even split among the circuits, similarly situated parties will continue to receive disparate treatment until this Court steps in.

This case, in short, is an ideal candidate for review. It presents a pure question of federal law on which the courts of appeals are evenly divided. That question is dispositive, has substantial practical and policy implications for all Lanham Act cases, and arises often. The Court should grant the petition.

A. Statutory Framework

The Lanham Act guards against unfair competition, fraud, and deception "by making actionable the deceptive and misleading use of marks." Pub. L. No. 79-489, § 45, 60 Stat. 427, 444 (1946) (codified at 15 U.S.C. § 1127). To that end, the Act prohibits a range of infringing conduct and prescribes specific remedies for violations.

1. Section 43 contains a series of provisions that protect mark holders from infringing conduct. Three are relevant here. *First*, section 43(a) prohibits false representations regarding the origin, endorsement, or association of goods through the use of another's distinctive mark. *Second*, section 43(c), which Congress added in 1996, creates a federal cause of action for trademark dilution, an "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)(B); *see* Pub. L. No. 104-98, § 3, 109 Stat. 985, 985 (1996). *Third*, section 43(d) prohibits a person other than the mark holder from registering or using the Internet domain name of a mark with bad-faith intent to profit from the mark. Congress enacted this latter prohibition against "cyberpiracy" in 1999.

2. Section 35 sets forth remedies for violations of section 43. Before Congress enacted sections 43(c) and 43(d), section 35 provided:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.

15 U.S.C. § 1117(a) (1996).

After it enacted section 43(c), Congress amended section 35 "by striking 'or a violation under section 43(a),' and inserting 'a violation under section 43(a), *or a willful violation under section 43(c)*.'" Pub. L. No. 106-43, § 3, 113 Stat. 218, 219 (1999) (emphasis added).

Congress enacted section 43(d) in 1999. In the same legislation, Congress amended section 35(a) to "insert[] ', (c), or (d)' after 'section 43(a).'" Pub. L. No. 106-113, § 3003, 113 Stat. 1501, 1501A-549 (1999). The statute thus read: "When a violation . . . under section 1125(a), (c), or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established," the plaintiff could recover an infringer's profits, "subject to the principles of equity." 15 U.S.C. § 1117(a) (1999).

Recognizing that, after this amendment, section 35(a) referred twice to section 43(c), in November 2002 Congress made a "technical correction[]." Pub. L. No. 107-273, § 13207, 116 Stat. 1758, 1906 (2002). Since the 2002 amendment, the statute has read:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, *a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title*, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.

15 U.S.C. § 1117(a) (emphasis added).

B. Factual and Procedural Background

1. Petitioner, Romag Fasteners, Inc., is a family business based in Milford, Connecticut. Romag sells patented magnetic snap fasteners under its registered trademark, ROMAG, for use as closures in wallets, handbags, and other leather goods. Pet. App. 17a. Howard Reiter, who serves as Romag's president, invented the snaps. He represents the fourth generation of hardware and fastener makers in his family.

Fossil designs, markets, and distributes fashion accessories, including handbags and small leather goods. Fossil does not manufacture its own products. Instead, Fossil contracts with factories outside the United States to produce its designs. Pet. App. 17a. Superior Leather Limited, which operates a factory in China, manufactured the Fossil products at issue in this case.

In 2002, Fossil and Romag entered into an agreement to use Romag fasteners in Fossil's products. Fossil agreed to instruct its manufacturers to purchase Romag fasteners from Wing Yip Metal Manufactory Accessories, Limited. Wing Yip is the sole authorized manufacturer of Romag fasteners in mainland China. Between 2002 and 2008, Superior Leather purchased, at a minimum, tens of thousands of Romag fasteners. Between 2008 and 2010, however, Superior Leather's purchases of Romag fasteners declined precipitously. Pet. App. 17a-18a.

In 2010, Reiter discovered that certain Fossil handbags sold in the United States contained counterfeit snaps bearing the Romag mark. Pet. App. 18a.

2. On November 22, 2010, Romag brought suit in the United States District Court for the District of Connecticut against Fossil and retailers of Fossil products, includ-

ing Macy's Inc. and Macy's Retail Holdings, Inc. (collectively, Macy's), for patent and trademark infringement. Pet. App. 18a. Romag alleged that the defendants knowingly adopted and used the Romag mark, without Romag's consent, when selling Fossil handbags that contained magnetic snap fasteners bearing Romag's mark. Romag sought injunctive relief and monetary damages, including an accounting of the defendants' profits.

After a seven-day trial in April 2014, a jury found that Fossil had infringed Romag's trademark, falsely represented that its products came from the same source as Romag's, and infringed Romag's patents. Pet. App. 18a. The jury found that none of Fossil's violations were willful. Pet. App. 18a.

The jury found that Romag should be awarded trademark damages under two separate theories. It first determined that Fossil should pay $90,759.36 in profits to Romag "to prevent unjust enrichment." Pet. App. 108a. The jury went on to find that Fossil should pay another $6,704,046 in profits "to deter future trademark infringement." Pet. App. 109a. In reaching the latter conclusion, the jury necessarily found that Fossil had acted with "callous disregard" for Romag's trademark rights. *See* Jury Instrs. at 23, *Romag Fasteners, Inc. v. Fossil, Inc.*, 29 F. Supp. 3d 85 (No. 3:10-cv-01827), ECF No. 410. The jury determined that 1% of Fossil's profits were attributable to its infringement. Pet. App. 109a. The jury also awarded Romag patent damages at a royalty rate of $0.09 per unit, for a total of $51,052.14 against Fossil and $15,320.61 against Macy's.

The district court conducted a separate two-day bench trial on equitable defenses and remedies. *See* 15 U.S.C. § 1117(a) (setting forth the role of the court in adjusting the amount of recovery based on profits). At the end of that proceeding, the district court held that "Romag is not entitled to any award of profits as a result of Plaintiff's failure to prove that Fossil's trademark infringement was willful." Pet. App. 95a.

The court noted the split of appellate authority over whether section 35 of the Lanham Act requires a showing of willful infringement in order to recover profits for a violation of section 43(a). It believed, however, "that a finding of willfulness remains a requirement for an award of defendants' profits in this Circuit." Pet. App. 99a. As a result, the district court struck Romag's profits award in its entirety. Pet. App. 102a. The district court also reduced the jury's patent-damages award by 18% on the basis of laches. Pet. App. 83a.

Both parties filed post-trial motions. Romag moved for judgment as a matter of law against Macy's for trademark infringement. Romag argued that the jury's verdict against Fossil necessarily established Macy's liability for the trademark violation. See Pl.'s Mot. J. Matter of Law and New Trial, *Romag*, 29 F. Supp. 3d 85 (No. 3:10-cv-1827), ECF No. 472. The court agreed and granted judgment against Macy's, reasoning that the evidence established that Fossil bags sold at Macy's contained counterfeit snaps. Pet. App. 41a-42a. Because of the court's prior ruling requiring willful infringement, however, the court did not address Romag's entitlement to an award of Macy's profits for trademark infringement.

Fossil, for its part, filed "a 'conditional' motion for judgment as a matter of law and for a new trial." Pet. App. 58a. Fossil argued that, even if the district court's willfulness ruling were incorrect and reversed on appeal, "the [c]ourt's judgment eliminating any profit award would continue to be appropriate under equitable considerations." Def.'s Mem. Supp. Conditional Post-Trial Mot. at

1-2, 7-8, *Romag*, 29 F. Supp. 3d 85 (No. 3:10-cv-1827), ECF No. 476.

The district court denied the motion, holding that it was "unripe." Pet. App. 59a. The court observed that, if its ruling were overturned on appeal, it would then have to determine "after an analysis of the equitable factors governing an award of profits" whether Romag was "entitled to such an award." Pet. App. 59a.

Romag appealed to the Federal Circuit, which had exclusive appellate jurisdiction over the entire case because it involved a patent claim. *See* 28 U.S.C. § 1295(a)(1); *see also, e.g.*, *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1299 (Fed. Cir. 2004) ("In deciding issues not unique to our exclusive jurisdiction, we apply the law of the regional circuit in which the district court sits.").

3. The court of appeals affirmed. Pet. App. 16a-33a. It began by observing that this Court "has never addressed whether proof of willfulness is required to recover the infringer's profits." Pet. App. 20a. The court then canvassed the circuit split and observed that the Second Circuit required a showing of willfulness, both before and after the 1999 amendment. Pet. App. 21a-24a, 28a (citing, *inter alia*, *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532 (2d Cir. 1992), and *Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247 (2d Cir. 2014)).

The Federal Circuit acknowledged that the Second Circuit had not explicitly analyzed the import of the 1999 amendment. Pet. App. 28a. But it noted that the Second Circuit had adhered to its pre-1999 precedent in post-1999 cases. Pet. App. 28a. And it found "nothing in the 1999 amendment" that would "permit[] [it] to declare that the governing Second Circuit precedent is no longer good law." Pet. App. 28a-29a. The Federal Circuit also affirmed the district court's laches ruling. Pet. App. 20a.

4. Romag petitioned for a writ of certiorari. Its petition raised both the question currently presented and the question of whether and to what extent laches may bar an award for patent infringement brought within the Patent Act's six-year limitations period. Because the Court resolved the second question in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 137 S. Ct. 954 (2017), the Court granted Romag's petition, vacated the Federal Circuit's decision, and remanded for further proceedings in light of *SCA Hygiene Products*. 137 S. Ct. 1373 (2017).

The Federal Circuit recalled its prior mandate and reinstated the appeal, along with "those aspects of [its] earlier decision and judgment . . . affirming the district court's judgment declining to award Fossil's profits." Pet. App. 15a. The Federal Circuit remanded the case to the district court for entry of a new "damages judgment amount consistent with the Supreme Court's opinion" in *SCA Hygiene Products*. Pet. App. 14a.

On November 8, 2017, the district court entered an "Amended Partial Final Judgment" awarding Romag patent damages in the full amount of the jury's verdict, $51,052.14 against Fossil and $15,320.61 against Macy's, but reserving the question whether Romag was entitled to prejudgment interest. Pet. App. 12a. The district court entered an amended final judgment, which provided for prejudgment interest, attorneys' fees, and costs, on September 11, 2018. Pet. App. 8a-10a. It amended that judgment in immaterial respects on October 15, 2018. Pet. App. 5a-7a.

5. Romag appealed again to the Federal Circuit in November 2018. Pet. App. 3a. Fossil moved to dismiss the portion of the appeal that addressed the question presented under the Lanham Act on the ground that the issue had already been litigated and reaffirmed by the Federal Circuit on remand from the Supreme Court. Pet. App. 2a-3a.

On February 5, 2019, the Federal Circuit granted the motion "to the extent that the appeal is limited to issues decided by the district court in its orders after the remand from this court"—*i.e.*, the patent-damages issues. Pet. App. 3a. It explained that "a court will not generally revisit an issue once decided in the litigation." Pet. App. 3a (internal quotation marks omitted). The court further explained that it saw "no reason to relitigate an issue that has already been fully addressed." *Id.*

Following that order, Romag informed the Federal Circuit that its "sole remaining challenge to the district court's judgment in this case concerns the Lanham Act profits issue" and that, as a result, no further issues remained to be briefed. Notice, *Romag Fasteners, Inc. v. Fossil, Inc.*, No. 18-2417, ECF No. 35 (Feb. 19, 2019).

This petition followed.

REASONS FOR GRANTING THE PETITION

I. The Courts of Appeals Are Intractably Divided Over Whether Willfulness Is A Prerequisite To Recover Profits for Trademark Infringement

Every federal court of appeals has considered whether plaintiffs must establish willful infringement before they can litigate their entitlement to an award of an infringer's profits for a violation of section 43(a). Six have answered in the negative; six have answered in the affirmative. That deep and even split on a frequently recurring question thwarts uniform application of federal trademark law. This Court's review is therefore warranted.

1. a. As the decision below acknowledged, the Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuits do not require plaintiffs to show willfulness before considering whether to award them profits to remedy violations of section 43(a). In those circuits, the infringer's intent is just one of several factors in a flexible analysis of the equities.

Quick Technologies, Inc. v. Sage Group PLC, 313 F.3d 338 (5th Cir. 2002), is typical of cases holding that a plaintiff need not make a threshold showing of willfulness to recover an infringer's profits. There, the Fifth Circuit observed that "several of [its] sister circuits have embraced a willfulness requirement in order to obtain an award of profits." *Id.* at 347. But, the court continued, the "plain language of § 1117(a)" after the 1999 amendment confirmed that there is no "bright-line rule." *Id.* at 349. "[W]illful infringement" is, instead, "an important factor which must be considered when determining whether an accounting of profits is appropriate." *Id.*

The Third, Fourth, and Sixth Circuits have followed the Fifth Circuit's multifactor approach. In *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168 (3d Cir. 2005), the Third Circuit held that "willfulness is an important equitable factor but not a prerequisite" to recovery of profits. *Id.* at 171. The Fourth Circuit agreed that, "although willfulness is a proper and important factor in an assessment of whether to make a damages award, it is not an essential predicate thereto." *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006); *see also id.* at 175 n.13 (addressing the effect of the 1999 amendment to the Lanham

Act). And the Sixth Circuit determined that willfulness is "not required" but is rather "one element that courts may consider in weighing the equities." *Laukus v. Rio Brands, Inc.*, 391 F. App'x 416, 424 (6th Cir. 2010).

Similarly, in the Eleventh Circuit, "an accounting of a defendant's profits is appropriate" in any one of three circumstances: where "(1) the defendant's conduct was willful and deliberate, (2) the defendant was unjustly enriched, *or* (3) it is necessary to deter future conduct." *Optimum Techs., Inc. v. Home Depot U.S.A., Inc.*, 217 F. App'x 899, 902 (11th Cir. 2007) (per curiam) (emphasis added) (citing *Howard Johnson Co. v. Khimani*, 892 F.2d 1512, 1521 (11th Cir. 1990)). And the Seventh Circuit has held that, "[o]ther than general equitable considerations, there is no express requirement that . . . the infringer wilfully [*sic*] infringe the trade dress to justify an award of profits." *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989).

b. In stark contrast to those decisions, six circuits interpret section 35 to require a threshold showing of willfulness before plaintiffs can litigate their entitlement to recover an infringer's profits under section 43(a).

Five circuits require plaintiffs to establish willfulness in all cases—an approach that the Federal Circuit embraced in the decision below. Most recently, the Ninth Circuit clarified that "willfulness remains a prerequisite for awarding a defendant's profits." *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426, 441 (9th Cir. 2017), *cert. denied*, 138 S. Ct. 1984 (2018). In reaching its decision, the Ninth Circuit relied in part on the Federal Circuit's analysis of the 1999 amendment in this case. *See id.*

In the Second Circuit, "a finding of defendant's willful deceptiveness is a prerequisite for awarding profits." *Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 261 (2d Cir. 2014) (quoting *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir. 1992)). The Tenth Circuit likewise "require[s] a showing that Defendant's actions were willful to support an award of profits under 15 U.S.C. § 1117(a)." *W. Diversified Servs., Inc. v. Hyundai Motor Am., Inc.*, 427 F.3d 1269, 1273 (10th Cir. 2005). In the Eighth Circuit, an accounting of profits is available only "[i]f a registered owner proves willful, deliberate infringement or deception." *Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc.*, 41 F.3d 1242, 1247 (8th Cir. 1994). And the D.C. Circuit has held that "an award based on a defendant's profits requires proof that the defendant acted willfully or in bad faith." *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990).

The First Circuit also requires a showing of willfulness, but only in cases, like this one, where the plaintiff and defendant are not direct competitors. In *Tamko Roofing Products, Inc. v. Ideal Roofing Co.*, 282 F.3d 23 (1st Cir. 2002), the First Circuit explained that "an accounting of defendant's profits *where the products directly compete* does not require fraud, bad faith, or palming off." *Id.* at 36. According to that court, "when the rationale for an award of defendant's profits is to deter some egregious conduct," rather than as a proxy for the plaintiff's losses, "willfulness is required." *Id.* at 36 n.11; *see also Fishman Transducers, Inc. v. Paul*, 684 F.3d 187, 191 (1st Cir. 2012) (describing the direct-competition context as a "primary exception" to the "usual[] require[ment]" of willfulness).

2. Courts, academics, and commentators widely acknowledge the square conflict that this case presents.

Numerous courts, including the Federal Circuit below, have catalogued the disagreement. Pet. App. 26a-29a; *see also, e.g.*, *Stone Creek*, 875 F.3d at 441 (noting that the courts of appeals "remain divided on the role of willfulness in awarding profits"); *Masters v. UHS of Del., Inc.*, 631 F.3d 464, 471 n.2 (8th Cir. 2011) ("A circuit split exists concerning whether a Lanham Act plaintiff must prove willful infringement . . . to be eligible for monetary damages under 15 U.S.C. § 1125(a)."); *Quick Techs.*, 313 F.3d at 347-48 (collecting cases).

Academics have lamented the "schizophrenic view [in the circuits] of the remedy of an accounting of profits and the nefarious bad faith requirement." Danielle Conway-Jones, *Remedying Trademark Infringement: The Role of Bad Faith in Awarding an Accounting of Defendant's Profits*, 42 Santa Clara L. Rev. 863, 864 (2002). Scholarly publications regularly acknowledge the lack of consensus among the courts over whether willfulness is required. *See, e.g.*, David S. Almeling, *The Infringement-Plus-Equity Model: A Better Way to Award Monetary Relief in Trademark Cases*, 14 J. Intell. Prop. L. 205, 216-17 (2007); Kara L. Rossetti, *Intellectual Property Survey*, 77 Denv. U. L. Rev. 543, 551-52 (2000); Mark A. Thurmon, *Confusion Codified: Why Trademark Remedies Make No Sense*, 17 J. Intell. Prop. L. 245, 248-49 (2010); Timothy D. Kroninger, Comment, *Awarding Profits in Trademark Infringement Actions: Reconciling the Circuit Split on the Willfulness Requirement with Underlying Trademark Law Rationales*, 2018 Mich. St. L. Rev. 793, 797. Many, in fact, have called for this Court to decide the question presented. *See, e.g.*, Almeling, *supra*, at 217; Blake R. Bertagna, *Poaching Profits: An Examination of the Ability of a Trademark Owner to Recover an Infringer's Profits Under the Lanham Act as Amended in 1999*, 16 Tex. Intell. Prop. L.J. 257, 276-77 (2008); Rachel

Anne Zisek, Note, *Where There's A Will, There's A Way: Reconciling Theories of Willful Infringement and Disgorgement Damages in Trademark Law*, 22 J. Intell. Prop. L. 463, 483 (2015).

The circuit split is so stark that three leading treatises on trademark law and the Restatement of Unfair Competition discuss it—and agree that this Court's intervention is necessary to break the deadlock. *See* 3 Anne Gilson LaLonde, *Gilson on Trademarks* § 14.03(6)(c)(i) (2018) ("Some courts hold that profits are available in a trademark infringement, unfair competition or cybersquatting case even if the defendant did not act willfully, but many require some level of willful behavior for such a monetary award."); *id.* (speculating that this Court would reject a willfulness requirement "[i]f the willfulness issue came before the Court"); 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 30.62 (5th ed. 2018) (noting the disagreement and stating that "[t]he Supreme Court has not ruled on this question"); Siegrun D. Kane, *Kane on Trademark Law* § 17:3.1 (6th ed. 2013) ("Some circuits require a showing of intentional or willful infringement before awarding defendants' profits. Other circuits do not."); Restatement (Third) of Unfair Competition § 37 cmt. e (Am. Law Inst. 1995) (discussing the disparate approaches).

The division over whether a plaintiff must establish willful infringement to obtain an award of an infringer's profits for violations of section 43(a), in sum, is stark, deep, and longstanding. That state of affairs is intolerable for a federal statute that should apply uniformly across the country. Only this Court can break the impasse.

II. The Question Presented Is Recurring, Important, and Squarely Presented

1. The frequency with which courts grapple with the question presented amplifies its importance. All twelve geographic circuits—thirteen circuits including the decision below—have weighed in. And during the last year alone, district courts decided more than a dozen claims for infringers' profits, reaching the following conflicting results:

A number of district courts required willfulness for disgorgement of profits. *See, e.g.*, *Alfwear, Inc. v. Icon Health & Fitness, Inc.*, No. 2:17cv00476, 2018 WL 6592728, at *1 (D. Utah Dec. 14, 2018); *Pipe Restoration Techs., LLC v. Coast Bldg. & Plumbing, Inc.*, No. 8:13-cv-00499, 2018 WL 6012219, at *5 (C.D. Cal. Nov. 16, 2018); *Toyo Tire & Rubber Co. v. Doublestar Dong Feng Tyre Co.*, No. 15-00246, 2018 WL 3203421, at *6 (C.D. Cal. June 26, 2018); *Synoptek, LLC v. Synaptek Corp.*, No. 16-01838, 2018 WL 3359017, at *9 (C.D. Cal. June 4, 2018); *Obesity Research Inst., LLC v. Fiber Research Int'l, LLC*, 310 F. Supp. 3d 1089, 1127 (S.D. Cal. 2018); *7-Eleven, Inc. v. Z-Eleven Convenience Store Inc.*, No. 16-cv-4116, 2018 WL 1521859, at *3 (E.D.N.Y. Jan 17, 2018); *Lavatec Laundry Tech. GmbH v. Voss Laundry Sols.*, No. 3:13-cv-00056, 2018 WL 2426655, at *7-9 (D. Conn. Jan. 9, 2018).

Multiple district courts relied on willfulness—and willfulness alone—to determine that profits should be awarded. *See AECOM Energy & Constr., Inc. v. Ripley*, 348 F. Supp. 3d 1038, 1062-65 (C.D. Cal. 2018) (awarding infringer's profits given "ample evidence" of willful infringement); *Mionix, LLC v. ACS Tech.*, No. 16-cv-02154, 2018 WL 4042729, at *10-11 (D. Colo. Aug. 24, 2018) ("disgorgement [was] an available and appropriate remedy" because infringement was willful); *Marketquest Grp., Inc.*

v. BIC Corp., 316 F. Supp. 3d 1234, 1299 (S.D. Cal. 2018) (noting an accounting of profits would be "appropriate" where infringement was willful); *Yah Kai World Wide Enters., Inc. v. Napper*, 292 F. Supp. 3d 337, 356 (D.D.C. 2018) (finding plaintiffs entitled to profits because infringement was willful).

Meanwhile, district courts in other circuits applied a multifactor analysis to decide whether profits awards were appropriate. *See, e.g.*, *KCI USA, Inc. v. Healthcare Essentials, Inc.*, No. 1:14-cv-549, 2018 WL 4327802, at *7 (N.D. Ohio Sept. 10, 2018). In stark contrast to courts where willful infringement automatically entitled the mark holder to profits, some of these courts declined to award profits for other reasons, even in the presence of willful infringement. *See Hamdan v. Tiger Bros. Food Mart Inc.*, No. 15-412, 2018 WL 3029991, at *3-5 (M.D. La. May 22, 2018) (relying on factors other than willfulness to hold that award of profits was not appropriate); *SurgiQuest v. Lexion Med., Inc.*, No. 14-382, 2018 WL 2247216, at *9-10 (D. Del. May 16, 2018) (declining to award profits even though willfulness of infringement "weigh[ed] in favor of disgorgement").

Finally, still another district court noted the confusion among the circuits and sidestepped the issue altogether. *See Safeway Transit LLC v. Discount Party Bus, Inc.*, 334 F. Supp. 3d 995, 1008 n.7 (D. Minn. 2018) (noting circuit split and avoiding the question of whether infringement was willful).

2. Not only does the question presented occur regularly, but its resolution has significant practical and policy implications.

As a practical matter, whether willfulness is a prerequisite to recovery of an infringer's profits often determines whether the mark holder can recover any monetary remedy for a trademark violation. Compensation based on the plaintiff's actual damages is often difficult to measure and obtain. Many courts require a plaintiff to prove actual consumer confusion or deception in order to receive its own damages. *See* 5 McCarthy, *supra*, § 30:74; 3 Gilson, *supra*, § 14.03(3)(b).

But "[i]n literally hundreds of cases, the courts have universally acknowledged that proof of actual confusion is extremely difficult, if not almost impossible, to secure." Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: Monetary Relief Should Not Require Proof of Actual Confusion*, 75 Denv. U. L. Rev. 229, 245 (1997); *see Fishman Transducers, Inc.*, 684 F.3d at 194 ("proving causation and amount are very difficult unless the two products directly compete," making trademark damages awards "comparatively rare"). An award of the infringer's profits, therefore, can be the difference between a meaningful recovery for trademark infringement and no recovery at all.

Whether a mark holder must make a threshold showing of willfulness before recovering profits substantially impacts the availability of that remedy. As this Court recently observed, there is a significant difference between a factor being "an important factor" in an analysis and "the controlling one." *Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979, 1988 (2016). In *Kirtsaeng*, the Court granted certiorari to resolve a similar conflict under the Copyright Act. *See id.* at 1984 n.1. Here, the distinction between treating willfulness of infringement as a weighty concern, on the one hand, and as a dispositive concern, on the other hand, can change the outcome of a case.

In *Banjo Buddies*, for example, the Third Circuit assumed that infringement was not willful but still sustained an award of an infringer's profits because "all of the other . . . factors support[ed]" the award. 399 F.3d at 175. And in *Synergistic International, LLC v. Korman*, 2007 WL 517677 (E.D. Va. Feb. 8, 2007), the trial court awarded the infringer's profits even though it found that the defendant did not engage in willful infringement. *Id.* at *11. In both cases, the mark holder recovered the infringer's profits, even though there was no willful infringement; the result would have been different in half of the geographic circuits.

Resolution of the question presented is also vital to the policy considerations motivating the Lanham Act. Congress enacted the Lanham Act to harmonize the then-existing patchwork of trademark protections and to ensure that trademark rights would not vary based on geography. H.R. Rep. No. 79-219, at 1-2, 4 (1945); *see also Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 (1992) (Stevens, J., concurring) (observing that the Act was intended to create "uniform legal rights and remedies that were appropriate for a national economy").

As things stand, however, a mark holder's eligibility to recover profits depends on which court is deciding the infringement dispute. That is contrary to Congress' purpose in enacting the Lanham Act. And it underscores the urgent need for this Court's guidance.

3. a. This case is an ideal vehicle to resolve the conflict in the circuits. The issue is squarely presented and outcome-determinative. The Federal Circuit held that "Romag is not entitled to recover Fossil's profits, as Romag did not prove that Fossil infringed willfully." Pet.

App. 33a. And the absence of willfulness would have similarly precluded Romag from recovering profits under the law of the First, Eighth, Ninth, Tenth, or D.C. Circuits.

Under the law of one of the six circuits that does not impose a threshold willfulness requirement, Romag could have instead litigated whether an award of profits was consistent with background "principles of equity" and could have had an opportunity to recover profits notwithstanding the lack of willfulness. 15 U.S.C. § 1117(a).

In that multifactor analysis, Fossil's lack of willfulness would have been a factor, but it would not have been dispositive. The district court also would have weighed the jury's finding that Fossil exhibited "callous disregard" for Romag's trademark rights. *See* Jury Instrs. at 23, *Romag*, 29 F. Supp. 3d 85 (No. 3:10-cv-01827), ECF No. 410 (explaining that the jury must find that Fossil "demonstrated callous disregard" to award damages meant to deter Fossil from future infringement and instructing the jury to consider, among other circumstances, whether Fossil "turned a blind eye to the use of counterfeit snap fasteners"). But Romag never received an opportunity for a court to consider those factors because the district court was bound by the Second Circuit's willfulness requirement.

b. The petition is also timely. "A party aggrieved by an interlocutory ruling of an appellate court is entitled to wait until a final judgment is entered before seeking certiorari review." Stephen M. Shapiro et al., *Supreme Court Practice* 84 (10th ed. 2013); *accord* 17 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 4036 (3d ed. 2018) ("[F]ailure to seek review, or an unsuccessful petition, do[es] not preclude review of all issues in the case after complete disposition in further proceedings.").

That is precisely what Romag did in this case. After this Court granted, vacated, and remanded the prior petition in this case in light of *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 137 S. Ct. 954 (2017), the Federal Circuit reinstated its decision in part as to the Lanham Act issue and remanded the case to the district court for further proceedings on the issue of patent damages. Pet. App. 14a-15a.

Romag was not required to petition for certiorari on the Lanham Act issue at that interlocutory juncture. Shapiro, *supra*, at 84. The case now has returned to—and been finally resolved by—the Federal Circuit. Pet. App. 3a. It is most logical to petition the Court now given that certiorari from interlocutory decisions is appropriate only in extenuating circumstances. *See* Sup. Ct. R. 11 (a writ of certiorari before final judgment "will be granted only upon a showing that the case is of such imperative public importance as to justify deviation from normal appellate practice and to require immediate determination in this Court").

The Federal Circuit resolved the willfulness issue in an interlocutory order, but it is perfectly appropriate for this Court to address that issue now that there is a final judgment. This Court has "authority to consider questions determined in earlier stages of litigation." *Major League Baseball Players Ass'n v. Garvey*, 532 U.S. 504, 508 n.1 (2001) (per curiam); *see also Panama R. Co. v. Napier Shipping Co.*, 166 U.S. 280, 283-84 (1897) (per curiam). And this Court routinely does so. *See, e.g.*, *Mercer v. Theriot*, 377 U.S. 152, 153-54 (1964) (collecting cases).

* * *

This case, in sum, presents a clean opportunity for this Court to address a question that has divided the lower courts for decades. A decision in Romag's favor—holding that the district court must consider all relevant factors and cannot bar Romag from receiving profits merely because the jury did not find willful infringement—would conclusively resolve an intractable six-six circuit split and restore uniformity to federal trademark law.

The Court should grant the petition to resolve the deep and longstanding division on this important issue.

III. The Decision Below Is Wrong

In the decision below, the Federal Circuit applied an extra-statutory willfulness requirement that flouts the plain text of section 35(a) and undermines the broader policies of the Lanham Act. This Court should not allow that serious misinterpretation of federal law to stand.

1. Section 35(a) provides that a mark holder may recover damages, including an infringer's profits—subject to the principles of equity—when "a violation under section 1125(a) or (d) of this title, *or a willful violation under section 1125(c) of this title*, shall have been established." 15 U.S.C. § 1117(a) (emphasis added). Congress' decision to distinguish between damages for "a violation" of the Lanham Act's infringement and cyberpiracy provisions (sections 43(a) and (d)) and "a willful violation" of trademark dilution protections (section 43(c)) has meaning.

"When Congress includes particular language in one section of a statute but omits it in another, this Court presumes that Congress intended a difference in meaning." *Dig. Realty Tr., Inc. v. Somers*, 138 S. Ct. 767, 777 (2018) (alterations omitted) (quoting *Loughrin v. United States*, 573 U.S. 351, 358 (2014)). As the Third Circuit has explained, Congress included "willful" before "violation under section 43(c)," but not before "violation under section 43(a) or (d)," which "indicates that Congress intended to condition monetary awards for § 43(c) violations, but not § 43(a) violations, on a showing of willfulness." *Banjo Buddies*, 399 F.3d at 174; *see also Synergistic*, 470 F.3d at 175 n.13; *Quick Techs.*, 313 F.3d at 348.

The drafting history of the statute reinforces that conclusion. Before 1999, section 35(a) provided that a mark holder could recover an infringer's profits, subject to the principles of equity, when "a violation under section 1125(a) of this title[] shall have been established." 15 U.S.C. § 1117(a) (1996).

Some courts interpreted that language as requiring a showing of willfulness as a prerequisite to recovery of infringer's profits; others did not. *Compare, e.g.*, *Bishop v. Equinox Int'l Corp.*, 154 F.3d 1220, 1223 (10th Cir. 1998) ("[A]n award of profits requires a showing that defendant's actions were willful or in bad faith."), *with Roulo*, 886 F.2d at 941 ("Other than general equitable considerations, there is no express requirement that . . . the infringer wilfully [*sic*] infringe the trade dress to justify an award of profits.").

After enacting section 43(c)—and against the backdrop of that circuit split—Congress amended the language of section 35(a) three times in three years. Each time, it carefully distinguished between "a violation under section 43(a)" and "a willful violation under section 43(c)." Pub. L. No. 106-43, § 3, 113 Stat. 218, 219 (1999); Pub. L. No. 106-113, § 3003, 113 Stat. 1501, 1501A-549 (1999); Pub. L. No. 107-273, § 13207, 116 Stat. 1758, 1906 (2002).

If Congress intended to impose a threshold willfulness requirement for profits awards under section 43(a)—in addition to section 43(c)—it had a straightforward way to do so: it could have referred to "willful violations under sections 43(a) and (c)." *See Dig. Realty*, 138 S. Ct. at 777;

accord Sandoz Inc. v. Amgen Inc., 137 S. Ct. 1664, 1677 (2017).

Instead, over the course of three separate amendments, Congress maintained an explicit threshold willfulness requirement for awards of profits for trademark dilution (section 43(c)), but not trademark infringement or cyberpiracy (sections 43(a) and (d)). That confirms that the statute means what it says: willfulness is not a prerequisite for an award of infringer's profits where there is a violation of the trademark infringement provision in section 43(a).

The Federal Circuit's contrary conclusion is flawed. The court dismissed the distinction between "a violation" under section 43(a) and "a willful violation" under section 43(c) as merely correcting a latent drafting error. Pet. App. 29a-30a. Section 43(c)'s trademark dilution protections, the Federal Circuit observed, originally provided that a plaintiff could recover "the remedy set forth" in section 35(a) "if the [violation] was willfully intended." Pet. App. 24a-25a (internal quotation marks and alteration omitted). But the version of section 35(a) then in effect only provided relief for violations of section 43(a). To resolve that issue, the Federal Circuit wrote, Congress amended section 35(a) to include a "willful violation under section" 43(c). Pet. App. 25a-26a.

But that hypothesizing about Congress' purpose misses the point. The Court's "task is to construe what Congress has enacted." *Duncan v. Walker*, 533 U.S. 167, 172 (2001); *see also Arthur Andersen LLP v. United States*, 544 U.S. 696, 705 (2005) (explaining that the Court's role is "simply [to] interpret the statute as written"). And the enacted text could not be clearer that willfulness is required to award profits under section 43(c), but *not* under section 43(a). *See* p. 6, *supra*.

Even on its own terms, the Federal Circuit's argument fails to explain why Congress referred to "a willful violation," as opposed to "a violation," of section 43(c). If background principles of equity require a showing of willfulness before any award of profits, as the Second Circuit and the courts that agree with it have held, then Congress would not have needed to specify that infringer's profits were available only for "a willful violation of section 43(c)." Pet. App. 22a-23a. That requirement already would have been embedded in the statute.

If Congress believed that all violations must be willful to warrant recovery under "the principles of equity," Congress would not have needed to specify that "willful violations" of section 43(c) warrant an award of profits. *See Cooper Indus., Inc. v. Aviall Servs., Inc.*, 543 U.S. 157, 166 (2004) (explaining that the Court is "loath" to interpret statutes in a way that "would render part of the statute entirely superfluous").

2. Grafting a willfulness requirement onto section 43(a) violations would also undermine the Lanham Act's objectives. The availability of an award of an infringer's profits provides an important alternative means of compensating the trademark owner for its injuries. A forward-looking injunction, on its own, cannot effect that purpose. At the same time, an award of profits protects the public by depriving the infringer of the benefits of past violations and by providing a powerful deterrent to future infringement.

Imposing a threshold willfulness requirement on profits awards in this context hinders those goals. A plaintiff who cannot establish willful infringement may be unable to obtain any monetary compensation, even though it has established trademark infringement. A willfulness prerequisite allows an infringer who acts negligently—or even, as the jury found here, with "callous disregard" for the trademark owner's rights—to escape liability while profiting handsomely from the use or sale of counterfeit goods.

Indeed, in the context of awards of enhanced damages for patent infringement, this Court has rejected "unduly rigid" threshold requirements that "insulat[e] some of the worst . . . infringers from any liability." *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016). Conditioning profits awards on willfulness encourages distributors of consumer products to turn a blind eye to counterfeiting, rather than monitor their supply chains for counterfeit items. That concern is especially acute in today's market, where many large brands outsource their manufacturing function. That, in turn, makes it difficult to obtain evidence of willfulness from actual infringers. And—under the Second Circuit's rule—it allows brands to avoid liability by failing to monitor their supply chain.

On the other hand, the Lanham Act's trademark dilution provision guards against *non-competing* uses of similar marks. Congress sensibly limited a profits award in that context to willful violations of the prohibition on trademark dilution. *See* p. 6, *supra*.

Particularly in the face of the decentralization of supply networks and the practical difficulties that mark holders face in vindicating their rights abroad, it is essential that U.S. trademark laws adequately protect the intellectual property rights of mark holders. Section 35 ensures that a mark holder has access to monetary remedies when goods manufactured in foreign factories contain counterfeit components and constituent materials. A willfulness requirement for an award of an infringer's profits conflicts with the statutory text and impedes the purposes of the Lanham Act.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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MARCH 20, 2019

587 U.S. ____ (2019)

MISSION PRODUCT HOLDINGS, INC.

v.

TEMPNOLOGY, LLC, NKA OLD COLD LLC

No. 17-1657

United States Supreme Court

May 20, 2019

Argued February 20, 2019

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

Petitioner Mission Product Holdings, Inc., entered into a contract with Respondent Tempnology, LLC, which gave Mission a license to use Tempnology's trademarks in connection with the distribution of certain clothing and accessories. Tempnology filed for Chapter 11 bankruptcy and sought to reject its agreement with Mission. Section 365 of the Bankruptcy Code enables a debtor to " reject any executory contract" —meaning a contract that neither party has finished performing. 11 U. S. C. §365(a). It further provides that rejection " constitutes a breach of such contract." §365(g). The Bankruptcy Courtapproved Tempnology's rejection and further held that the rejectionterminated Mission's rights to use Tempnology's trademarks. The Bankruptcy Appellate Panel reversed, relying on Section 365(g)'s statement that rejection " constitutes a breach" to hold that rejectiondoes not terminate rights that would survive a breach of contract outside bankruptcy. The First Circuit rejected the Panel's judgment and reinstated the Bankruptcy Court's decision.

Held:

1. This case is not moot. Mission presents a plausible claim for money damages arising from its inability to use Tempnology's trademarks, which is sufficient to preserve a live controversy. See *Chafin v. Chafin,* 568 U.S. 165, 172. Tempnology's various arguments that Mission is not entitled to damages do not so clearly preclude recovery as to render this case moot. Pp. 6-7.

2. A debtor's rejection of an executory contract under Section 365 of the Bankruptcy Code has the same effect as a breach of that contract outside bankruptcy. Such an act cannot rescind rights that the contract previously granted. Pp. 7-16.

(a) Section 365(g) provides that rejection "constitutes a breach." And "breach" is neither a defined nor a specialized bankruptcy term-it means in the Code what it means in contract law outside bankruptcy. See *Field v. Mans,* 516 U.S. 59, 69. Outside bankruptcy, a licensor's breach cannot revoke continuing rights given to a counterparty under a contract (assuming no special contract term or state law). And because rejection "constitutes a breach," the same result must follow from rejection in bankruptcy. In preserving a counterparty's rights, Section 365 reflects the general bankruptcy rule that the estate cannot possess anything more than the debtor did outside bankruptcy. See *Board of Trade of Chicago v. Johnson,* 264 U.S. 1, 15. And conversely, allowing rejection to rescind a counterparty's rights would circumvent the Code's stringent limits on "avoidance" actions-the exceptional cases in which debtors may unwind pre-bankruptcy transfers that undermine the bankruptcy process. See, *e.g.,* §548(a). Pp. 8-12.

(b) Tempnology's principal counterargument rests on a negative inference drawn from provisions of Section 365 identifying categories of contracts under which a counterparty may retain specified rights after rejection. See §§365(h), (i), (n). Tempnology argues that these provisions indicate that the ordinary consequence of rejection must be something different-*i.e.,* the termination of contractual rights previously granted. But that argument offers no account of how to read Section 365(g) (rejection "constitutes a breach") to say essentially its opposite. And the provisions Tempnology treats as a reticulated scheme of exceptions each emerged at a different time and responded to a discrete problem-as often as not, correcting a judicial ruling of just the kind Tempnology urges.

Tempnology's remaining argument turns on how the special features of trademark law may affect the fulfillment of the Code's goals. Unless rejection terminates a licensee's right to use a trademark, Tempnology argues, a debtor must choose between monitoring the goods sold under a license or risking the loss of its trademark, either of which would impede a debtor's ability to reorganize. But the distinctive features of trademarks do not persuade this Court to adopt a construction of Section 365 that will govern much more than trademark licenses. And Tempnology's plea to facilitate reorganizations cannot overcome what Section 365(a) and (g) direct. In delineating the burdens a debtor may and may not escape, Section 365's edict that rejection is breach expresses a more complex set of aims than Tempnology acknowledges. Pp. 12-16.

879 F.3d 389, reversed and remanded.

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

OPINION

KAGAN, JUSTICE

Section 365 of the Bankruptcy Code enables a debtor to "reject any executory contract"-meaning a contract that neither party has finished performing. 11 U.S.C. §365(a). The section further provides that a debtor's rejection of a contract under that authority "constitutes a breach of such contract." §365(g).

Today we consider the meaning of those provisions in the context of a trademark licensing agreement. The question is whether the debtor-licensor's rejection of that contract deprives the licensee of its rights to use the trademark. We hold it does not. A rejection breaches a contract but does not rescind it. And that means all the rights that would ordinarily survive a contract breach, including those conveyed here, remain in place.

I

This case arises from a licensing agreement gone wrong. Respondent Tempnology, LLC, manufactured clothing and accessories designed to stay cool when used in exercise. It marketed those products under the brand name "Coolcore," using trademarks *(e.g.,* logos and labels) to distinguish the gear from other athletic apparel. In 2012, Tempnology entered into a contract with petitioner Mission Product Holdings, Inc. See App. 203-255. The agreement gave Mission an exclusive license to distribute certain Coolcore products in the United States. And more important here, it granted Mission a non-exclusive license to use the Coolcore trademarks, both in the United States and around the world. The agreement was set to expire in July 2016. But in September 2015, Tempnology filed a petition for Chapter 11 bankruptcy. And it soon afterward asked the Bankruptcy Court to allow it to "reject" the licensing agreement. §365(a).

Chapter 11 of the Bankruptcy Code sets out a framework for reorganizing a bankrupt business. See §§1101- 1174. The filing of a petition creates a bankruptcy estate consisting of all the debtor's assets and rights. See §541. The estate is the pot out of which creditors' claims are paid. It is administered by either a trustee or, as in this case, the debtor itself. See §§1101, 1107.

Section 365(a) of the Code provides that a "trustee [or debtor], subject to the court's approval, may assume or reject any executory contract." §365(a). A contract is executory if "performance remains due to some extent on both sides." *NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 522, n. 6 (1984) (internal quotation marks omitted). Such an agreement represents both an asset (the debtor's right to the counterparty's future performance) and a liability (the debtor's own obligations to perform). Section 365(a) enables the debtor (or its trustee), upon entering bankruptcy, to decide whether the contract is a good deal for the estate going forward. If so, the debtor will want to assume the contract, fulfilling its obligations while benefiting from the counterparty's performance. But if not, the debtor will want to reject the contract, repudiating any further performance of its duties. The bankruptcy court will generally approve that choice, under the deferential "business judgment" rule. *Id.*, at 523.

According to Section 365(g), "the rejection of an executory contract[ ] constitutes a breach of such contract." As both parties here agree, the counterparty thus has a claim against the estate for damages resulting from the debtor's nonperformance. See Brief for Petitioner 17, 19; Brief for Respondent 30-31. But such a claim is unlikely to ever be paid in full. That is because the debtor's breach is deemed to occur "immediately before the date of the filing of the [bankruptcy] petition," rather than on the actual post-petition rejection date. §365(g)(1). By thus giving the counterparty a pre-petition claim, Section 365(g) places that party in the same boat as the debtor's unsecured creditors, who in a typical bankruptcy may receive only cents on the dollar. See *Bildisco*, 465 U.S., at 531-532 (noting the higher priority of post-petition claims).

In this case, the Bankruptcy Court (per usual) approved Tempnology's proposed rejection of its executory licensing agreement with Mission. See App. to Pet. for Cert. 83-84. That meant, as laid out above, two things on which the parties agree. First, Tempnology could stop performing under the contract. And second, Mission could assert (for whatever it might be worth) a pre-petition claim in the bankruptcy proceeding for damages resulting from Tempnology's nonperformance.

But Tempnology thought still another consequence ensued, and it returned to the Bankruptcy Court for a declaratory judgment confirming its view. According to Tempnology, its rejection of the contract also terminated the rights it had granted Mission to use the Coolcore trademarks. Tempnology based its argument on a negative inference. See Motion in No. 15-11400 (Bkrtcy. Ct. NH), pp. 9-14. Several provisions in Section 365 state that a counterparty to specific kinds of agreements may keep exercising contractual rights after a debtor's rejection. For example, Section 365(h) provides that if a bank- rapt landlord rejects a lease, the tenant need not move out; instead, she may stay and pay rent (just as she did before) until the lease term expires. And still closer to home, Section 365(n) sets out a similar rule for some types of intellectual property licenses: If the debtor-licensor rejects the agreement, the licensee can continue to use the property (typically, a patent), so long as it makes whatever payments the contract demands. But Tempnology pointed out that neither Section 365(n) nor any similar provision covers trademark licenses. So, it reasoned, in that sort of contract a different rule must apply: The debtor's rejection must extinguish the rights that the agreement had conferred on the trademark licensee. The Bankruptcy Court agreed. See *In re Tempnology, LLC,* 541 B. R. 1 (Bkrtcy. Ct. NH 2015). It held, relying on the same "negative inference," that Tempnology's rejection of the licensing agreement revoked Mission's right to use the Coolcore marks. *Id.,* at 7.

The Bankruptcy Appellate Panel reversed, relying heavily on a decision of the Court of Appeals for the Seventh Circuit about the effects of rejection on trademark licensing agreements. See *In re Tempnology, LLC,* 559 B. R. 809, 820-823 (Bkrtcy. App. Panel CA1 2016); *Sunbeam Products, Inc. v. Chicago Am. Mfg., LLC,* 686 F.3d 372, 376-377 (CA7 2012). Rather than reason backward from Section 365(n) or similar provisions, the Panel focused on Section 365(g)'s statement that rejection of a contract "constitutes a breach." Outside bankruptcy, the court explained, the breach of an agreement does not eliminate rights the contract had already conferred on the non-breaching party. See 559 B. R., at 820. So neither could a rejection of an agreement in bankruptcy have that effect. A rejection "convert[s]" a "debtor's unfulfilled obligations" to a pre-petition damages claim. *Id.,* at 822 (quoting *Sunbeam,* 686 F.3d, at 377). But it does not "terminate the contract" or "vaporize[]" the counterparty's rights. 559 B. R., at 820, 822 (quoting *Sunbeam*, 686 F.3d, at 377). Mission could thus continue to use the Coolcore trademarks.

But the Court of Appeals for the First Circuit rejected the Panel's and Seventh Circuit's view, and reinstated the Bankruptcy Court decision terminating Mission's license. See *In re Tempnology, LLC,* 879 F.3d 389 (2018). The majority first endorsed that court's inference from Section 365(n) and similar provisions. It next reasoned that special features of trademark law counsel against allowing a licensee to retain rights to a mark after the licensing agreement's rejection. Under that body of law, the majority stated, the trademark owner's "[f]ailure to monitor and exercise [quality] control" over goods associated with a trademark "jeopardizes] the continued validity of [its] own trademark rights." *Id.,* at 402. So if (the majority continued) a licensee can keep using a mark after an agreement's rejection, the licensor will need to carry on its monitoring activities. And according to the majority, that would frustrate "Congress's principal aim in providing for rejection": to "release the debtor's estate from burdensome obligations." *Ibid,* (internal quotation marks omitted). Judge Torruella dissented, mainly for the Seventh Circuit's reasons. See *id.,* at 405-407.

We granted certiorari to resolve the division between the First and Seventh Circuits. 586 U.S.__(2018). We now affirm the Seventh's reasoning and reverse the decision below.[1]

II

Before reaching the merits, we pause to consider Temp-nology's claim that this case is moot. Under settled law, we may dismiss the case for that reason only if "it is impossible for a court to grant any effectual relief whatever" to Mission assuming it prevails. *Chafin v. Chafin,* 568 U.S. 165, 172 (2013) (internal quotation marks omitted). That demanding standard is not met here.

Mission has presented a claim for money damages-essentially lost profits-arising from its inability to use the Coolcore trademarks between the time Tempnology rejected the licensing agreement and its scheduled expiration date. See Reply Brief 22, and n. 8. Such claims, if at all plausible, ensure a live controversy. See *Memphis Light, Gas & Water Div. v. Craft,* 436 U.S. 1, 8-9 (1978). For better or worse, nothing so shows a continuing stake in a dispute's outcome as a demand for dollars and cents. See 13C C. Wright, A. Miller & E. Cooper, Federal Practice and Procedure §3533.3, p. 2 (3d ed. 2008) (Wright & Miller) ("[A] case is not moot so long as a claim for monetary relief survives"). Ultimate recovery on that demand may be uncertain or even unlikely for any number of reasons, in this case as in others. But that is of no moment. If there is any chance of money changing hands, Mission's suit remains live. See *Chafin,* 568 U.S., at 172.

Tempnology makes a flurry of arguments about why Mission is not entitled to damages, but none so clearly precludes recovery as to make this case moot. First, Tempnology contends that Mission suffered no injury because it "never used the trademark[s] during [the post-rejection] period." Brief for Respondent 24; see Tr. of Oral Arg. 33. But that gets things backward. Mission's non-use of the marks during that time is precisely what gives rise to its damages claim; had it employed the marks, it would not have lost any profits. So next, Tempnology argues that Mission's non-use was its own "choice," for which damages cannot lie. See *id.,* at 26. But recall that the Bankruptcy Court held that Mission *could not* use the marks after rejection (and its decision remained in effect through the agreement's expiration). See *supra,* at 4. And although (as Tempnology counters) the court issued "no injunction," Brief for Respondent 26, that difference does not matter: Mission need not have flouted a crystal-clear ruling and courted yet more legal trouble to preserve its claim. Cf. 13B Wright & Miller §3533.2.2, at 852 ("[C]ompliance [with a judicial decision] does not moot [a case] if it remains possible to undo the effects of compliance," as through compensation). So last, Tempnology claims that it bears no blame (and thus should not have to pay) for Mission's injury because all it did was "ask[ ] the court to make a ruling." Tr. of Oral Arg. 34-35. But whether Tempnology did anything to Mission amounting to a legal wrong is a prototypical merits question, which no court has addressed and which has no obvious answer. That means it is no reason to find this case moot.

And so too for Tempnology's further argument that Mission will be unable to convert any judgment in its favor to hard cash. Here, Tempnology notes that the bankruptcy estate has recently distributed all of its assets, leaving nothing to satisfy Mission's judgment. See Brief for Respondent 27. But courts often adjudicate disputes whose "practical impact" is unsure at best, as when "a defendant is insolvent." *Chafin*, 568 U.S., at 175. And Mission notes that if it prevails, it can seek the unwinding of prior distributions to get its fair share of the estate. See Reply Brief 23. So although this suit "may not make [Mission] rich," or even better off, it remains a live controversy- allowing us to proceed. *Chafin*, 568 U.S., at 176.

III

What is the effect of a debtor's (or trustee's) rejection of a contract under Section 365 of the Bankruptcy Code? The parties and courts of appeals have offered us two starkly different answers. According to one view, a rejection has the same consequence as a contract breach outside bankruptcy: It gives the counterparty a claim for damages, while leaving intact the rights the counterparty has received under the contract. According to the other view, a rejection (except in a few spheres) has more the effect of a contract rescission in the non-bankruptcy world: Though also allowing a damages claim, the rejection terminates the whole agreement along with all rights it conferred. Today, we hold that both Section 365's text and fundamental principles of bankruptcy law command the first, rejection-as-breach approach. We reject the competing claim that by specifically enabling the counterparties in some contracts to retain rights after rejection, Congress showed that it wanted the counterparties in all other contracts to lose their rights. And we reject an argument for the rescission approach turning on the distinctive features of trademark licenses. Rejection of a contract- any contract-in bankruptcy operates not as a rescission but as a breach.

A

We start with the text of the Code's principal provisions on rejection-and find that it does much of the work. As noted earlier, Section 365(a) gives a debtor the option, subject to court approval, to "assume or reject any executory contract." See *supra*, at 2. And Section 365(g) describes what rejection means. Rejection "constitutes a breach of [an executory] contract," deemed to occur "immediately before the date of the filing of the petition." See *supra*, at 3. Or said more pithily for current purposes, a rejection is a breach. And "breach" is neither a defined nor a specialized bankruptcy term. It means in the Code what it means in contract law outside bankruptcy. See *Field v. Mans*, 516 U.S. 59, 69 (1995) (Congress generally meant for the Bankruptcy Code to "incorporate the established meaning" of "terms that have accumulated settled meaning" (internal quotation marks omitted)). So the first place to go in divining the effects of rejection is to non-bankruptcy contract law, which can tell us the effects of breach.

Consider a made-up executory contract to see how the law of breach works outside bankruptcy. A dealer leases a photocopier to a law firm, while agreeing to service it every month; in exchange, the firm commits to pay a monthly fee. During the lease term, the dealer decides to stop servicing the machine, thus breaching the agreement in a material way. The law firm now has a choice (assuming no special contract term or state law). The firm can keep up its side of the bargain, continuing to pay for use of the copier, while suing the dealer for damages from the service breach. Or the firm can call the whole deal off, halting its own payments and returning the copier, while suing for any damages incurred. See 13 R. Lord, Williston on Contracts §39:32, pp. 701-702 (4th ed. 2013) ("[W]hen a contract is breached in the course of performance, the injured party may elect to continue the contract or refuse to perform further"). But to repeat: The choice to terminate the agreement and send back the copier is for the *law firm*. By contrast, the *dealer* has no ability, based on its own breach, to terminate the agreement. Or otherwise said, the dealer cannot get back the copier just by refusing to show up for a service appointment. The contract gave the law firm continuing rights in the copier, which the dealer cannot unilaterally revoke.

And now to return to bankruptcy: If the rejection of the photocopier contract "constitutes a breach," as the Code says, then the same results should follow (save for one twist as to timing). Assume here that the dealer files a Chapter 11 petition and decides to reject its agreement with the law firm. That means, as above, that the dealer will stop servicing the copier. It means, too, that the law firm has an option about how to respond-continue the contract or walk away, while suing for whatever damages go with its choice. (Here is where the twist comes in: Because the rejection is deemed to occur "immediately before" bankruptcy, the firm's damages suit is treated as a pre-petition claim on the estate, which will likely receive only cents on the dollar. See *supra*, at 3.) And most important, it means that assuming the law firm wants to keep using the copier, the dealer cannot take it back. A rejection does not terminate the contract. When it occurs, the debtor and counterparty do not go back to their precontract positions. Instead, the counterparty retains the rights it has received under the agreement. As after a breach, so too after a rejection, those rights survive.

All of this, it will hardly surprise you to learn, is not just about photocopier leases. Sections 365(a) and (g) speak broadly, to "any executory contract[s]." Many licensing agreements involving trademarks or other property are of that kind (including, all agree, the Tempnology-Mission contract). The licensor not only grants a license, but provides associated goods or services during its term; the licensee pays continuing royalties or fees. If the licensor breaches the agreement outside bankruptcy (again, barring any special contract term or state law), everything said above goes. In particular, the breach does not revoke the license or stop the licensee from doing what it allows. See, *e.g., Sunbeam,* 686 F.3d, at 376 ("Outside of bankruptcy, a licensor's breach does not terminate a licensee's right to use [the licensed] intellectual property"). And because rejection "constitutes a breach," §365(g), the same consequences follow in bankruptcy. The debtor can stop performing its remaining obligations under the agreement. But the debtor cannot rescind the license already conveyed. So the licensee can continue to do whatever the license authorizes.

In preserving those rights, Section 365 reflects a general bankruptcy rule: The estate cannot possess anything more than the debtor itself did outside bankruptcy. See *Board of Trade of Chicago v. Johnson,* 264 U.S. 1, 15 (1924) (establishing that principle); §541(a)(1) (defining the estate to include the "interests *of the debtor* in property" (emphasis added)). As one bankruptcy scholar has put the point: Whatever "limitation[s] on the debtor's property [apply] outside of bankruptcy[ ] appl[y] inside of bankruptcy as well. A debtor's property does not shrink by happenstance of bankruptcy, but it does not expand, either." D. Baird, Elements of Bankruptcy 97 (6th ed. 2014). So if the not-yet debtor was subject to a counterparty's contractual right (say, to retain a copier or use a trademark), so too is the trustee or debtor once the bankruptcy petition has been filed. The rejection-as-breach rule (but *not* the rejection-as-rescission rule) ensures that result. By insisting that the same counterparty rights survive rejection as survive breach, the rule prevents a debtor in bankruptcy from recapturing interests it had given up.

And conversely, the rejection-as-rescission approach would circumvent the Code's stringent limits on "avoidance" actions-the exceptional cases in which trustees (or debtors) may indeed unwind pre-bankruptcy transfers that undermine the bankruptcy process. The most notable example is for fraudulent conveyances-usually, something-for-nothing transfers that deplete the estate (and so cheat creditors) on the eve of bankruptcy. See §548(a). A trustee's avoidance powers are laid out in a discrete set of sections in the Code, see §§544-553, far away from Section 365. And they can be invoked in only narrow circumstances-unlike the power of rejection, which may be exercised for any plausible economic reason. See, *e.g.,* §548(a) (describing the requirements for avoiding fraudulent transfers); *supra,* at 2-3. If trustees (or debtors) could use rejection to rescind previously granted interests, then rejection would become functionally equivalent to avoidance. Both, that is, would roll back a prior transfer. And that result would subvert everything the Code does to keep avoidances cabined-so they do not threaten the rule that the estate can take only what the debtor possessed before filing. Again, then, core tenets of bankruptcy law push in the same direction as Section 365's text: Rejection is breach, and has only its consequences.

B

Tempnology's main argument to the contrary, here as in the courts below, rests on a negative inference. See Brief for Respondent 33-41; *supra,* at 3-4. Several provisions of Section 365, Tempnology notes, "identif[y] categories of contracts under which a counterparty" may retain specified contract rights "notwithstanding rejection." Brief for Respondent 34. Sections 365(h) and (i) make clear that certain purchasers and lessees of real property and timeshare interests can continue to exercise rights after a debtor has rejected the lease or sales contract. See §365(h)(1) (real-property leases); §365(i) (real-property sales contracts); §§365(h)(2), (i) (timeshare interests). And Section 365(n) similarly provides that licensees of some intellectual property-but not trademarks-retain contractual rights after rejection. See §365(n); §101(35A); *supra,* at 4. Tempnology argues from those provisions that the ordinary consequence of rejection must be something different- *i.e.,* the termination, rather than survival, of contractual rights previously granted. Otherwise, Tempnology concludes, the statute's "general rule" would "swallow the exceptions." Brief for Respondent 19.

But that argument pays too little heed to the main provisions governing rejection and too much to subsidiary ones. On the one hand, it offers no account of how to read Section 365(g) (recall, rejection "constitutes a breach") to say essentially its opposite *(i.e.,* that rejection and breach have divergent consequences). On the other hand, it treats as a neat, reticulated scheme of "narrowly tailored exception[s]," *id.,* at 36 (emphasis deleted), what history reveals to be anything but. Each of the provisions Temp-nology highlights emerged at a different time, over a span of half a century. See, *e.g.,* 52 Stat. 881 (1938) (real-property leases); §l(b), 102 Stat. 2538 (1988) (intellectual property). And each responded to a discrete problem-as often as not, correcting a judicial ruling of just the kind Tempnology urges. See Andrew, Executory Contracts in Bankruptcy, 59 U. Colo. L. Rev. 845, 911-912, 916-919 (1988) (identifying judicial decisions that the provisions overturned); compare, *e.g., In re Sombrero Reef Club, Inc.,* 18 B. R. 612, 618-619 (Bkrtcy. Ct. S.D. Fla. 1982), with, *e-g->* §§365(h)(2), (i). Read as generously as possible to Tempnology, this mash-up of legislative interventions says nothing much of anything about the content of Section 365(g)'s general rule. Read less generously, it affirmatively refutes Tempnology's rendition. As one bankruptcy scholar noted after an exhaustive review of the history: "What the legislative record [reflects] is that whenever Congress has been confronted with the consequences of the [view that rejection terminates all contractual rights], it has expressed its disapproval." Andrew, 59 U. Colo. L. Rev., at 928. On that account, Congress enacted the provisions, as and when needed, to reinforce or clarify the general rule that contractual rights survive rejection.[2]

Consider more closely, for example, Congress's enactment of Section 365(n), which addresses certain intellectual property licensing agreements. No one disputes how that provision came about. In *Lubrizol Enterprises v. Richmond Metal Finishers,* the Fourth Circuit held that a debtor's rejection of an executory contract worked to revoke its grant of a patent license. See 756 F.2d 1043, 1045-1048 (1985). In other words, *Lubrizol* adopted the same rule for patent licenses that the First Circuit announced for trademark licenses here. Congress sprang into action, drafting Section 365(n) to reverse *Lubrizol* and ensure the continuation of patent (and some other intellectual property) licensees' rights. See 102 Stat. 2538 (1988); S. Rep. No. 100-505, pp. 2-4 (1988) (explaining that Section 365(n) "corrects *[Lubrizol's]* perception" that "Section 365 was ever intended to be a mechanism for stripping innocent licensee[s] of rights"). As Tempnology highlights, that provision does not cover trademark licensing agreements, which continue to fall, along with most other contracts, within Section 365(g)'s general rule. See Brief for Respondent 38. But what of that? Even put aside the claim that Section 365(n) is part of a pattern-that Congress whacked Tempnology's view of rejection wherever it raised its head. See *supra,* at 13. Still, Congress's repudiation of *Lubrizol* for patent contracts does not show any intent to *ratify* that decision's approach for almost all others. Which is to say that no negative inference arises. Congress did nothing in adding Section 365(n) to alter the natural reading of Section 365(g)-that rejection and breach have the same results.

Tempnology's remaining argument turns on the way special features of trademark law may affect the fulfillment of the Code's goals. Like the First Circuit below, Tempnology here focuses on a trademark licensor's duty to monitor and "exercise quality control over the goods and services sold" under a license. Brief for Respondent 20; see *supra,* at 5. Absent those efforts to keep up quality, the mark will naturally decline in value and may eventually become altogether invalid. See 3 J. McCarthy, Trademarks and Unfair Competition §18:48, pp. 18-129, 18-133 (5th ed. 2018). So (Tempnology argues) unless rejection of a trademark licensing agreement terminates the licensee's rights to use the mark, the debtor will have to choose between expending scarce resources on quality control and risking the loss of a valuable asset. See Brief for Respondent 59. "Either choice," Tempnology concludes, "would impede a [debtor's] ability to reorganize," thus "undermining a fundamental purpose of the Code." *Id.,* at 59-60.

To begin with, that argument is a mismatch with Tempnology's reading of Section 365. The argument is trademark-specific. But Tempnology's reading of Section 365 is not. Remember, Tempnology construes that section to mean that a debtor's rejection of a contract terminates the counterparty's rights "unless the contract falls within an express statutory exception." *Id.,* at 27-28; see *supra,* at 12. That construction treats trademark agreements identically to most other contracts; the only agreements getting different treatment are those falling within the discrete provisions just discussed. And indeed, Tempnology could not have discovered, however hard it looked, any trademark-specific rule in Section 365. That section's special provisions, as all agree, do not mention trademarks; and the general provisions speak, well, generally. So Tempnology is essentially arguing that distinctive features of trademarks should persuade us to adopt a construction of Section 365 that will govern not just trademark agreements, but pretty nearly every executory contract. However serious Tempnology's trademark-related concerns, that would allow the tail to wag the Doberman.

And even putting aside that incongruity, Tempnology's plea to facilitate trademark licensors' reorganizations cannot overcome what Sections 365(a) and (g) direct. The Code of course aims to make reorganizations possible. But it does not permit anything and everything that might advance that goal. See, *e.g., Florida Dept. of Revenue v. Piccadilly Cafeterias, Inc.,* 554 U.S. 33, 51 (2008) (observing that in enacting Chapter 11, Congress did not have "a single purpose," but "str[uck] a balance" among multiple competing interests (internal quotation marks omitted)). Here, Section 365 provides a debtor like Tempnology with a powerful tool: Through rejection, the debtor can escape all of its future contract obligations, without having to pay much of anything in return. See *supra,* at 3. But in allowing rejection of those contractual duties, Section 365 does not grant the debtor an exemption from all the burdens that generally applicable law-whether involving contracts or trademarks-imposes on property owners. See 28 U.S.C. §959(b) (requiring a trustee to manage the estate in accordance with applicable law). Nor does Section 365 relieve the debtor of the need, against the backdrop of that law, to make economic decisions about preserving the estate's value-such as whether to invest the resources needed to maintain a trademark. In thus delineating the burdens that a debtor may and may not escape, Congress also weighed (among other things) the legitimate interests and expectations of the debtor's counterparties. The resulting balance may indeed impede some reorganizations, of trademark licensors and others. But that is only to say that Section 365's edict that rejection is breach expresses a more complex set of aims than Tempnology acknowledges.

IV

For the reasons stated above, we hold that under Sec- tion 365, a debtor's rejection of an executory contract in bankruptcy has the same effect as a breach outside bankruptcy. Such an act cannot rescind rights that the contract previously granted. Here, that construction of Section 365 means that the debtor-licensor's rejection cannot revoke the trademark license.

We accordingly reverse the judgment of the Court of Appeals and remand the case for further proceedings consistent with this opinion.

It is so ordered.

Justice Sotomayor, concurring.

I agree with the Court that a debtor's choice to reject an executory contact under 11 U.S.C. §365(a) functions as a breach of the contract rather than unwinding the rejected contract as if it never existed. *Ante,* at 8-10. This result follows from traditional bankruptcy principles and from the general rule set out in §365(g) of the Bankruptcy Code. I also agree that no specific aspects of trademark law compel a contrary rule that equates rejection with rescission. I therefore join the Court's opinion in full. I write separately to highlight two potentially significant features of today's holding.

First, the Court does not decide that every trademark licensee has the unfettered right to continue using licensed marks postrejection. The Court granted certiorari to decide whether rejection "terminates rights of the licensee that would survive the licensor's breach under applicable nonbankruptcy law." Pet. for Cert. i. The answer is no, for the reasons the Court explains. But the baseline inquiry remains whether the licensee's rights would survive a breach under applicable nonbankruptcy law. Special terms in a licensing contract or state law could bear on that question in individual cases. See *ante,* at 9-10; Brief for American Intellectual Property Law Association as *Amicus Curiae* 20-25 (discussing examples of contract terms that could potentially lead a bankruptcy court to limit licensee rights postrejection).

Second, the Court's holding confirms that trademark licensees' postrejection rights and remedies are more expansive in some respects than those possessed by licensees of other types of intellectual property. Those variances stem from §365(n), one of several subject-specific provisions in the Bankruptcy Code that "embellis[h] on or twea[k]" the general rejection rule. *Ante,* at 13, n. 2. Section 365(n)-which applies to patents, copyrights, and four other types of intellectual property, but not to trademarks, §101(35A)-alters the general rejection rule in several respects. For example, a covered licensee that chooses to retain its rights postrejection must make all of its royalty payments; the licensee has no right to deduct damages from its payments even if it otherwise could have done so under nonbankruptcy law. §365(n)(2)(C)(i). This provision and others in §365(n) mean that the covered intellectual property types are governed by different rules than trademark licenses.

Although these differences may prove significant for individual licensors and licensees, they do not alter the outcome here. The Court rightly rejects Tempnology's argument that the presence of §365(n) changes what §365(g) says. As the Senate Report accompanying §365(n) explained, the bill did not "address or intend any inference to be drawn concerning the treatment of executory contracts" under §365's general rule. S. Rep. No. 100-505, p. 5 (1988); see *ante,* at 14. To the extent trademark licensees are treated differently from licensees of other forms of intellectual property, that outcome leaves Congress with the option to tailor a provision for trademark licenses, as it has repeatedly in other contexts. See *ante,* at 13-14.

With these observations, I join the Court's opinion.

Justice Gorsuch, dissenting.

This Court is not in the business of deciding abstract questions, no matter how interesting. Under the Constitution, our power extends only to deciding "Cases" and "Controversies" where the outcome matters to real parties in the real world. Art. III, §2. Because it's unclear whether we have anything like that here, I would dismiss the petition as improvidently granted.

This case began when Mission licensed the right to use certain of Tempnology's trademarks. After Tempnology entered bankruptcy, it sought and won from a bankruptcy court an order declaring that Mission could no longer use those trademarks. On appeal and now in this Court, Mission seeks a ruling that the bankruptcy court's declaration was wrong. But whoever is right about that, it isn't clear how it would make a difference: After the bankruptcy court ruled, the license agreement expired by its own terms, so nothing we might say here could restore Mission's ability to use

Tempnology's trademarks.

Recognizing that its original case seems to have become moot, Mission attempts an alternative theory in briefing before us. Now Mission says that if it prevails here it will, on remand, seek money damages from Tempnology's estate for the profits it lost when, out of respect for the bankruptcy court's order, it refrained from using the trademarks while its license still existed.

But it's far from clear whether even this theory can keep the case alive. A damages claim "suffices to avoid moot-ness only if viable," which means damages must at least be "legally available for [the alleged] wrong." 13C C. Wright, A. Miller, & E. Cooper, Federal Practice and Procedure §3533.3, p. 22 (3d ed. 2008). Yet, as far as Mission has told us, Tempnology did nothing that could lawfully give rise to a damages claim. After all, when Tempnology asked the bankruptcy court to issue a declaratory ruling on a question of law, it was exercising its protected "First Amendment right to petition the Government for redress of grievances." *Bill Johnson's Restaurants, Inc. v. NLRB,* 461 U.S. 731, 741 (1983). And petitioning a court normally isn't an actionable wrong that can give rise to a claim for damages. Absent a claim of malice (which Mission hasn't suggested would have any basis here), the ordinary rule is that "'no action lies against a party for resort to civil courts'" or for "the assertion of a legal argument." *Lucsik v. Board of Ed. of Brunswick City School Dist.,* 621 F.2d 841, 842 (CA6 1980) *(per curiam);* see, *e.g., W. R. Grace & Co. v. Rubber Workers,* 461 U.S. 757, 770, n. 14 (1983); *Russell v. Farley,* 105 U.S. 433, 437-438 (1882).

Maybe Mission's able lawyers will conjure something better on remand. But, so far at least, the company hasn't come close to articulating a viable legal theory on which a claim for damages could succeed. And where our jurisdiction is so much in doubt, I would decline to proceed to the merits. If the legal questions here are of sufficient importance, a live case presenting them will come along soon enough; there is no need to press the bounds of our constitutional authority to reach them today.

Notes:

[1] In its briefing before this Court, Mission contends that its exclusive distribution rights survived the licensing agreement's rejection for the same reason as its trademark rights did. See Brief for Petitioner 40- 44; *supra,* at 2. But the First Circuit held that Mission had waived that argument, see 879 F.3d, at 401, and we have no reason to doubt that conclusion. Our decision thus affects only Mission's trademark rights.

[2] At the same time, Congress took the opportunity when drafting those provisions to fill in certain details, generally left to state law, about the post-rejection relationship between the debtor and counterparty. See, *e.g.,* Andrew, Executory Contracts in Bankruptcy, 59 U. Colo. L. Rev. 845, 903, n. 200 (1988) (describing Congress's addition of subsidiary rules for real property leases in Section 365(h)); Brief for United States as *Amicus Curiae* 29 (noting that Congress similarly set out detailed rules for patent licenses in Section 365(n)). The provisions are therefore not redundant of Section 365(g): Each sets out a remedial scheme embellishing on or tweaking the general rejection-as-breach rule.

No. ______

In the
Supreme Court of the United States

LUCKY BRANDS DUNGAREES, INC., LUCKY BRAND DUNGAREES STORES, INC., LEONARD GREEN & PARTNERS, L.P., LUCKY BRAND DUNGAREES, LLC, LUCKY BRAND DUNGAREES STORES, LLC, KATE SPADE & CO.,

Petitioners,

v.

MARCEL FASHION GROUP, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Second Circuit

PETITION FOR WRIT OF CERTIORARI

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February 15, 2019

QUESTION PRESENTED

In serial litigation between two parties, time-tested principles of claim preclusion and issue preclusion govern when parties may—and may not—litigate issues that were, or could have been, litigated in a prior case. This Court has held that, in a subsequent case between the same parties involving *different claims* from those litigated in the earlier case, the defendant is free to raise defenses that were not litigated in the earlier case, even though they could have been. The Federal Circuit, Eleventh Circuit, and Ninth Circuit have all held the same in recent years. Their reasoning is straightforward: *Claim preclusion* does not bar such defenses, because the claims in the second case arise from different transactions and occurrences from the first case, and *issue preclusion* does not bar them either, because they were never actually litigated. The Second Circuit, however, has now held the opposite. Under the Second Circuit's "defense preclusion" rule, defendants are barred from raising such defenses even if the plaintiff's claims are distinct from those asserted in the prior case and the defenses were never actually litigated.

The question presented is:

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

PARTIES TO THE PROCEEDING

Petitioners, and defendants below, are Petitioners Lucky Brand Dungarees, Inc., Lucky Brand Dungarees Stores, Inc., Leonard Green & Partners, L.P., Lucky Brand Dungarees, LLC, Lucky Brand Dungarees Stores, LLC, and Kate Spade & Co.

Respondent, and plaintiff below, is Marcel Fashion Group, Inc.

CORPORATE DISCLOSURE STATEMENT

Petitioners Lucky Brand Dungarees, Inc., Lucky Brand Dungarees Stores, Inc., Leonard Green & Partners, L.P., Lucky Brand Dungarees, LLC, Lucky Brand Dungarees Stores, LLC, and Kate Spade & Co. hereby state:

1. Lucky Brand Dungarees, LLC, converted from a corporation to a Delaware LLC and concurrently changed its name from Lucky Brand Dungarees, Inc. Lucky Brand Dungarees, LLC, is a wholly owned subsidiary of LBD Intermediate Holdings, LLC, which is a wholly owned subsidiary of Lucky Brand Dungarees Parent Holdings, LLC, which is majority owned by Clover Holdings II LLC, which is wholly owned by investment funds managed by Leonard Green & Partners, L.P. No publicly held corporation owns 10% or more of its stock.

2. LGP Management, Inc., is the general partner of Leonard Green & Partners, L.P. LGP Management, Inc., has no parent corporation. No publicly held corporation owns 10% or more of Leonard Green & Partners, L.P.

3. Lucky Brand Dungarees Stores, LLC converted from a corporation to a Delaware LLC and concurrently changes its name from Lucky Brand Dungarees Stores, Inc. Lucky Brand Dungarees Stores, LLC, is a wholly owned subsidiary of Lucky Brand Dungarees, LLC. No publicly held corporation owns 10% or more of its stock.

4. Kate Spade & Company, a Delaware corporation, was converted on November 3, 2017, and became Kate Spade & Company LLC. Kate Spade & Company LLC is a limited liability corporation and a

wholly-owned subsidiary of Tapestry, Inc. Tapestry, Inc. is a publicly held corporation and has no parent corporation. Per Schedule 13 G/A filed on February 11, 2019, as of January 31, 2019, the following owned greater than 10% of Tapestry, Inc. stock: T Rowe Price Associates, Inc.

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Statute and Rules

Other Authorities

PETITION FOR WRIT OF CERTIORARI

Two distinct principles have long governed the law of preclusion: *claim preclusion* (once known as "merger and bar" or "res judicata") and *issue preclusion* ("collateral estoppel"). Claim preclusion bars "successive litigation of the very same claim" by the very same parties. *New Hampshire v. Maine*, 532 U.S. 742, 748 (2001). Issue preclusion, which applies "in the context of a *different* claim," "bars 'successive litigation of an issue of fact or law actually litigated and resolved in a valid court determination essential to the prior judgment.'" *Taylor v. Sturgell*, 553 U.S. 880, 892 (2008) (emphasis added) (quoting *New Hampshire*, 532 U.S. at 748-49). In this case, the court of appeals conflated these two principles and barred the defendants from litigating defenses that had never been adjudicated, in the context of claims that had never been litigated.

This is the third trademark case between the parties. The plaintiff here alleges infringement claims based on acts that postdate the prior cases, and the Second Circuit thus held that these new claims may proceed. So far, so good: A claim "predicated on events that postdate the filing of" a prior case is not "the very same" as any claim raised in the prior litigation, so a plaintiff is free to bring new claims based on new events without having to worry about claim preclusion. *Whole Woman's Health v. Hellerstedt*, 136 S. Ct. 2292, 2305 (2016). The defendants then raised a defense that had not been resolved in any prior case between the parties. Under basic principles of preclusion, they should have been free to do so: This case involves *different* claims than the ones previously litigated (which is why the claims are not precluded), and the defense is an issue of law that was not actually litigated and resolved in any prior case.

The Second Circuit, however, held that "defense preclusion" barred petitioners from raising any defense to these new claims that *could have also been adjudicated* in the earlier cases between the parties, whether or not it actually was. In other words, the Second Circuit held that the prior judgment between the parties did *not* preclude the plaintiff from raising new claims, but *did* preclude the defendants from raising a defense to those new claims that was never previously resolved. That "sounds absurd, because it is." *Sekhar v. United States*, 570 U.S. 729, 738 (2013).

It also creates a textbook circuit split. The Federal Circuit, Eleventh Circuit, and Ninth Circuit have all recently addressed successive-litigation situations mirroring this one. And they have all held that where a second case involves claims that postdate the first case between the parties, the defendant is not precluded from raising defenses that were not actually litigated and resolved in the first case. The decision below thus not only runs roughshod over basic preclusion principles and basic common sense, it is contrary to the law of three other circuits.

This recurring issue of federal procedure cries out for review. Under the Second Circuit's "defense preclusion" test, parties in successive-action situations will be able to select favored forums based on differing preclusion rules. The Second Circuit's decision thus invites the bizarre result of a court in a second case holding that a defense is precluded, even though the defense would *not* be precluded where the first suit was brought, if it was adjudicated in a different federal court. That is an untenable result leading to forum shopping. It is paramount that application of federal preclusion principles be uniform.

Finally, this an ideal case in which to settle the question, as it is squarely and cleanly presented, and the Second Circuit has refused to reconsider its novel position. The Court should grant the petition.

OPINIONS BELOW

The Second Circuit's opinion is reported at 898 F.3d 232 and reproduced at App.1-22. The district court's order granting petitioners' motion to dismiss, which the Second Circuit reversed, is available at 2016 WL 7413510 and reproduced at App.25-38. The Second Circuit's earlier opinion in this case is reported at 779 F.3d 102 and reproduced at App.39-57. The district court's earlier order granting petitioners' motion for summary judgment, which a different panel of the Second Circuit reversed, is available at 2012 WL 4450992 and reproduced at App.58-74.

JURISDICTION

The Second Circuit issued its opinion on August 2, 2018, and denied rehearing on September 19, 2018. Justice Ginsburg extended the time for filing a petition for certiorari until February 15, 2019. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

A. The 2001 Action and the May 2003 Settlement Agreement

Lucky[1] is a well-established apparel company that sells "jeans and other casual apparel" at major department stores and retail locations around the country. As part of its business, Lucky owns the trademark LUCKY BRAND "and other marks that include the word 'Lucky.'" However, respondent Marcel Fashion Group allegedly owns the trademark for GET LUCKY. App.40.

Marcel first sued Lucky for trademark infringement and unfair competition in 2001, for Lucky's use of the phrase "GET LUCKY." The 2001 action resulted in a settlement, which the parties signed in May 2003 (the "Settlement Agreement"). Lucky agreed to "desist henceforth from use of 'Get Lucky' as a trademark," and Marcel agreed to release "any and all claims arising out of or in any way relating to Lucky Brand's right to use, license and/or register the trademark LUCKY BRAND and/or any other trademarks … [owned,] registered and/or used by Lucky Brand … as of the date of this Agreement," in exchange for $650,000. App.32-33.

B. The 2005 Action and the Resulting Final Order and Judgment

Roughly a year after the May 2003 settlement, Ally Apparel Resources LLC and Key Apparel

[1] "Lucky" refers collectively to petitioners Lucky Brand Dungarees, Inc., Lucky Brand Dungarees Stores, Inc., Leonard Green & Partners, L.P., Lucky Brand Dungarees, LLC, Lucky Brand Dungarees Stores, LLC, and Kate Spade & Co.

Resources, Ltd. (collectively "Ally") "launched a 'Get Lucky' line of jeanswear and sportswear" under a license from Marcel. App.41. Lucky responded by suing Ally, Marcel, and Marcel's president in 2005 in the Southern District of New York. Lucky's suit ("the 2005 Action") alleged that the defendants "had engaged in unfair business practices" and that the new "Get Lucky" clothing line "infringed on Lucky Brand's trademarks." App.41.

Marcel counterclaimed, alleging trademark infringement and seeking to invalidate a range of Lucky marks, approximately 40% of which were registered after May 2003. *See Lucky Brand Dungarees Inc. v. Ally Apparel Res. LLC*, No. 05 Civ. 6757, 2006 LEXIS 91998, at *4-5 (S.D.N.Y. Dec. 19, 2006). Marcel also sought "to enjoin [Lucky] from using the 'Get Lucky' trademark or any other similar trademark." App.42.

Lucky moved to dismiss Marcel's counterclaims based on the Settlement Agreement. The district court denied Lucky's motion without prejudice because it could not say at that stage "that all of the relevant aspects of the disputed counterclaims were raised or could have been raised prior to" the Settlement Agreement, since some of the marks postdated May 2003 (when the settlement was finalized). App.28. The case "proceeded to a jury trial" without that defense ever being further litigated or actually adjudicated. App.29.

At trial, the jury found that Lucky had infringed Marcel's GET LUCKY mark after May 2003. App.42. Following trial, Marcel sought to enjoin Lucky not only "from further use of GET LUCKY," but also from further use of "the LUCKY BRAND trademarks and any other trademarks using the word 'Lucky.'" App.43. Lucky objected to that request, and Marcel ultimately dropped it. Pursuant to a joint submission, the 2005 Action resulted in a Final Order and Judgment, entered on June 1, 2010, under which Lucky was permanently enjoined from using the GET LUCKY mark, but nothing more. App.43; *see* App.71 (the injunction "does not apply to any marks beyond GET LUCKY"). Lucky also was required to pay damages for trademark infringement and breach of contract, though the Second Circuit later explained that it is far from clear whether the finding of trademark infringement was based on Lucky's use of GET LUCKY, LUCKY BRAND, other LUCKY-formative marks, or some combination of marks.

C. The Current Action, Part One

1. Marcel again sued Lucky for trademark infringement in 2011, this time in the Southern District of Florida. In the current action, Marcel does not allege that Lucky is continuing to use GET LUCKY. Instead, Marcel seeks *a new injunction* prohibiting Lucky from "'using the LUCKY BRAND marks,'" which Lucky has "'continued to use'" after the Final Order and Judgment was entered. App.65.

After the case was transferred to the Southern District of New York, Lucky moved for summary judgment on the ground that the Final Order and Judgment precluded Marcel's claims.[2] The district

[2] Marcel moved to hold Lucky "in contempt for violating the injunction issued in the 2005 Action by continuing to use the 'Lucky Brand' marks." App.45. The district court denied this motion, ruling that the Final Order and Judgment "do[es] not

court agreed with Lucky on all counts. It thus granted summary judgment, concluding that Marcel's claims were barred by "*res judicata*." App.67 ("The Final Order and Judgment was a final adjudication on the merits of the 2005 Action, which involved the same claims, trademarks and parties as the instant action.").[3]

2. The Second Circuit vacated and remanded. In an opinion by Judge Leval and joined by Judges Calabresi and Lynch, the Second Circuit held that the Final Order and Judgment that resolved the 2005 Action "did not bar [Marcel] from instituting a second suit seeking relief for alleged further infringements that occurred subsequent to the earlier judgment." App.40; *see also* App.50 ("[A] suit claiming damages for prior infringements does not bar a subsequent suit for damages for subsequent infringements."). The allegations in the 2005 Action were "for earlier infringements" than the claims alleged here, which allegedly postdate the Final Order and Judgment. App.52. The Second Circuit thus held "that the district court erred in ruling that Marcel's present suit [was] precluded." App.52.

prohibit use of the other Lucky Brand marks or the word Lucky." App.73-74. The Second Circuit affirmed on that issue. App.57.

[3] The district court's reasoning was similar to that of Magistrate Judge Rosenbaum in recommending that the case be transferred, where she concluded that "Marcel's current action asserts the same infringement claims that Marcel litigated for five years [in the 2005 Action] and eventually prevailed on before the New York federal court." App.65.

D. The Current Action, Part Two

1. On remand, "Marcel moved for and received leave to amend its complaint" after entry of the mandate. App.31. The new complaint clarified that although the alleged acts of infringement postdate the 2005 Action, the particular marks at issue do not. All twelve of the marks either "were registered prior to the 2003 Settlement Agreement" or were combinations "of the pre-2003 marks." App.32. Lucky thus moved to dismiss on the ground that the Settlement Agreement—in which Marcel released "any and all claims arising out of or in any way relating to Lucky Brand's right to use, license, and/or register the trademark LUCKY BRAND and/or any other trademarks … owned, registered and/or used by Lucky Brand … as of the date of th[e] Agreement'" (App.27)—barred Marcel's claims.

Marcel argued that "the res judicata or collateral estoppel effect of … the Final Order and Judgment" from the 2005 Action precluded Lucky from relying on the Settlement Agreement here, because Lucky could have raised the same defense to the earlier claims in the 2005 Action. App.33. The district court disagreed. "Issue preclusion does not apply because the applicability of the Settlement Agreement's release provision was not actually litigated and resolved in the 2005 Action." App.35. "Claim preclusion does not apply" either, because Lucky "is not asserting a claim against Marcel," and Marcel's claims against Lucky were *different claims* than those litigated in the 2005 Action, which is why the Second Circuit held claim preclusion did not apply against Marcel. App.35; *see* App.30 ("this action … concerns … 'infringements that occurred subsequent to the earlier judgment'"). The fact that Lucky did not raise the settlement defense at trial in the 2005 Action thus "does not vitiate it here." App.36. The district court accordingly granted Lucky's motion to dismiss.

2. A different Second Circuit panel (Judges Walker, Winter, and Pooler) heard Marcel's second appeal. The court again vacated and remanded. The court began by noting that the Second Circuit had long "assumed that claim preclusion may bar a litigation defense," but had "not had a case in which [the court] found a defense to be so precluded." App.10. The court recognized, however, that the "leading treatise" instructs exactly the opposite—*i.e.*, that a defendant "'may raise defenses in the second action that were not raised in the first, even though they were equally available and relevant in both actions.'" App.11 n.4 (quoting 18 Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 4414 (3d ed. 2018) ("Wright & Miller")).

The Second Circuit nonetheless held that a defendant may be precluded from raising defenses in a second action that he could have raised in the first case, but did not:

> In sum, we conclude that defense preclusion bars a party from raising a defense where: (i) a previous action involved an adjudication on the merits; (ii) the previous action involved the same parties or those in privity with them; (iii) the defense was either asserted *or could have been asserted*, in the prior action; and (iv) the district court, in its discretion, concludes that preclusion of the defense is

> appropriate because efficiency concerns outweigh any unfairness to the party whose defense would be precluded.

App.19 (emphasis added). The Second Circuit went on to explain that "the fairness of defense preclusion may depend on the nature of the action," so application of this rule could depend on the particulars of the given case. App.18. "[W]here sophisticated parties, armed with able counsel, litigate claims and counterclaims for nearly two decades," "applying defense preclusion" will "hardly ever be unfair[]." App.18.

The Second Circuit also recognized that defendants "should be given some room to make tactical choices." App.17. Nonetheless, it then went on to hold that "it would have been an abuse of discretion" for the district court *not* to conclude that defense preclusion was appropriate here, because Lucky ("a sophisticated party") could have argued in the 2005 Action that the Settlement Agreement barred the claims at issue there, but "decided to forego the [settlement] defense at summary judgment." App.20-21. The new panel did not explain how its holding could be reconciled with the initial Second Circuit decision, which held that the *claims* in the current lawsuit *were not the same* as (and thus not precluded by) the claims at issue in the 2005 Action. *See* App.40 (holding that the 2005 Action did not preclude Marcel from "seeking relief for alleged further infringements that occurred subsequent to" the judgment that resolved that case). Nor did it address any of this Court's cases squarely rejecting its approach.

REASONS FOR GRANTING THE PETITION

The decision below creates a textbook circuit split. Three circuits have held that defendants are not precluded from raising defenses in a second case between the parties merely because they could have been litigated in the first case, but were not. The decision below, which held exactly the opposite, is not only inconsistent with those circuits, but also irreconcilable with this Court's case law, with bedrock principles of res judicata, as well as with the Federal Rules of Civil Procedure. Perhaps worse still, the Second Circuit's "defense preclusion" principle creates perverse incentives that will both increase forum shopping and decrease uniformity. The Court should grant the petition, reverse the Second Circuit's judgment, and restore stability in this important area of law.

I. The Decision Below Creates A Circuit Split.

The Second Circuit's approach is fundamentally inconsistent with the decisions and reasoning of three other circuits. These courts all hold—in accordance with this Court's precedents—that a defendant cannot be barred from asserting a defense against a new claim unless that defense has been previously adjudicated against the defendant, in which case issue preclusion applies.

1. In the Federal Circuit, "the plaintiff and defendant" are "treated equally" when it comes "to res judicata." *Nasalok Coating Corp. v. Nylok Corp.*, 522 F.3d 1320, 1327 (Fed. Cir. 2008). "If the plaintiff would not be barred from bringing a second infringement suit" (*e.g.*, because its new claims arose from acts subsequent to those at issue in the first

case), then "the defendant" also will "not be precluded from" raising a defense that "could have been asserted" in the first case, but was not. *Id.* That is for a simple reason: "[I]n a second action 'upon a different cause or demand, the principle of res judicata is applied' … only as to 'matters which were actually litigated and determined in the first proceeding.'" *Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.*, 672 F.3d 1335, 1343-44 (Fed. Cir. 2012) (quoting *Commissioner v. Sunnen*, 333 U.S. 591, 597-98 (1948)); *see, e.g.*, *Ecolab, Inc. v. Paraclipse, Inc.*, 285 F.3d 1362, 1376-77 (Fed. Cir. 2002) (defendant not precluded from asserting invalidity defense in second case even though the defense could have been raised in prior litigation, but was not); *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 478-83 (Fed. Cir. 1991) (where second case involved "different cause of action" from first case, defendant not precluded from asserting invalidity defense equally available, but unraised, in first case).

Ecolab is particularly instructive. In the first case between the parties, the defendant "agreed" that the plaintiff's patent "is a valid patent." 285 F.3d at 1377. That case ultimately resulted in a consent judgment. Ecolab subsequently sued Paraclipse for patent infringement again. In the second case, Paraclipse asserted as a defense that the patent—which was the same patent at issue in the first case—was invalid. *Id.* at 1376. The district court ruled that Paraclipse was precluded from asserting an invalidity defense in the second case, but the Federal Circuit reversed. The devices that formed the basis of the claims in the second case were not "the same" as those in the first case, so claim preclusion did not apply. *Id.* at 1377.

Paraclipse was therefore free to argue that the patent was invalid, even though that argument was equally available in the first case.

Hallco Manufacturing Co. v. Foster, 256 F.3d 1290 (Fed. Cir. 2001), is similar. *Hallco* was the last of a long line of lawsuits involving reciprocating conveyers. In the first suit, the court granted summary judgment on Foster's claim that two Hallco devices infringed Foster's patent, which left Hallco "with only its invalidity defenses." *Id.* at 1292-93. Before Hallco could litigate those defenses, however, the parties settled, and the court dismissed with prejudice. *Id.* at 1293. Hallco then redesigned its devices and filed a declaratory judgment action alleging that its new devices did not infringe Foster's patent; Hallco alternatively alleged that Foster's patent was invalid. Foster counterclaimed, arguing, *inter alia*, that claim preclusion barred Hallco from arguing invalidity. *Id.* The Federal Circuit held that if the infringement claims stemmed from different transactions or occurrences than the infringement claims in the first suit, then claim preclusion would not apply. *Id.* at 1297-98. And if that were the case, then Hallco would be free to argue invalidity, even though that was an available (but not argued) defense in the first suit. *Id.* at 1298.[4]

That is exactly the opposite of what the Second Circuit held here. The plaintiff (Marcel) was not precluded from bringing a second infringement suit because its new claims did not arise from the same

[4] The record did not make clear whether the redesigned devices were really the same as the old ones, so the court vacated and remanded for that determination to be made. 256 F.3d at 1298.

transactions or occurrences as the claims in the previous case (because they arose after that case ended); but the defendants (Lucky) *were* precluded from raising a defense that could have been litigated and resolved in the first case, but was not.

2. The decision below is also in square conflict with the Eleventh Circuit. *McKinnon v. Blue Cross & Blue Shield of Alabama*, 935 F.2d 1187 (11th Cir. 1991), was the second in successive ERISA actions. In the first case, Blue Cross could have argued that McKinnon was not "a 'participant or beneficiary' under ERISA," but it did not. *Id.* at 1192. (Blue Cross did not take a position one way or another in the first case on whether "McKinnon, personally, is a participant or beneficiary" under ERISA. *Id* at 1192-93.) McKinnon accordingly argued in the second suit that claim preclusion barred Blue Cross "from asserting" as a defense that she is not a "participant or beneficiary" under ERISA, because Blue Cross did not raise that defense in the initial action. *Id.* at 1192.

The Eleventh Circuit disagreed. The first suit was dismissed on July 2, 1987; the "cause of action" in the second suit (wrongful dismissal) did not arise until July 14, 1987. *Id.* at 1190-92. "The cause of action" in the first suit was thus "clearly distinguishable from the cause of action asserted by McKinnon in the present case." *Id.* at 1192. Because McKinnon asserted a new, albeit related, claim, that doomed McKinnon's preclusion argument against Blue Cross's defense: "For *res judicata* to apply, the same cause of action must be involved in both cases (i.e., the cases must be based upon the same factual predicate)." *Id.* Because *McKinnon's claim* in the second suit could not have been litigated in the first case and was not barred, Blue Cross's *defense* was also not barred, even though the same defense was equally available, but not actually adjudicated, in the first suit.

By contrast, the Second Circuit held here that Marcel's claims were not precluded by the 2005 Action because they arose after that case closed, but Lucky's defense—which the court agreed was not actually adjudicated in the prior suit—*was* precluded simply because it *could have been* resolved in the prior suit.

3. The Ninth Circuit reached a similar conclusion to the Federal Circuit and the Eleventh Circuit in *Orff v. United States*, 358 F.3d 1137 (9th Cir. 2004), *aff'd on other grounds*, 545 U.S. 596 (2005). *Orff* came at the end of "a long line of cases involving the Central Valley Project (the 'CVP'), the nation's largest federal water management project." *Id.* at 1141. A water district receives water from the CVP pursuant to a contract with the United States. *Id.* In an earlier case, *Barcellos & Wolfsen, Inc. v. Westlands Water Dist.* (*Barcellos I*), No. CV 79-106-EDP (E.D. Cal. 1986), a federal court concluded that the United States had in fact waived sovereign immunity with respect to suits arising out of the contract. *See Orff*, 358 F.3d at 1141. Decades later, the United States reduced the district's allocation "to fifty percent of its contractual supply," which led to another suit, but the district court ruled there that the reduction did not violate the contract, and the Ninth Circuit affirmed. *Id.* Individuals in the district once again sued shortly thereafter on alternate grounds; this time, the United States argued that sovereign immunity barred the plaintiffs' claims. *Id.* at 1141-42.

On appeal, the plaintiffs argued that the "sovereign immunity defense is barred by issue and claim preclusion pursuant to" *Barcellos I*. *Id.* at 1142-43. The Ninth Circuit disagreed. Issue preclusion did not apply because "'the issues litigated'" in *Barcellos I* were not "'identical'" to the issues in the present case. *Id.* at 1143 (quoting *Cent. Delta Water Agency v. United States*, 306 F.3d 938, 953 (9th Cir. 2002)); *see id.* ("In *Barcellos I*, the district court rejected the government's sovereign immunity defense on two alternate grounds," but "[n]either ground applies in this case."). Claim preclusion did not apply either, because "this action arises out of the government's allocation of CVP water for 1993 based on designations of threatened species that occurred long after *Barcellos I* had been decided." *Id.* at 1144.

Because the plaintiffs' claims postdated that earlier decision, the United States was free to raise the defense, even though it could have made the same argument in *Barcellos I*, but did not. Again, that is exactly the opposite of what the Second Circuit held here. In short, the decision below squarely conflicts with the law of three other circuits.

II. The Decision Below Cannot Be Reconciled With This Court's Precedents.

A. Neither Claim Preclusion nor Issue Preclusion Bars Defenses that were Not Actually Resolved in any Prior Case.

1. Claim preclusion bars "successive litigation of the very same claim" by the very same parties. *New Hampshire*, 532 U.S. at 748. A claim is not "the very same" as one raised in an earlier case if it is "predicated on events that postdate the filing of" the

earlier case. *Hellerstedt*, 136 S. Ct. at 2305. As such, claim preclusion "'does not bar claims that are predicated on events that postdate the filing of the initial complaint.'" *Id.* (quoting *Morgan v. Covington*, 648 F.3d 172, 178 (3d Cir. 2011)). That rule is well settled. Equally settled are the contours of issue preclusion, which bars re-litigation of issues that were "actually litigated and resolved" in a prior case. *Sturgell*, 553 U.S. at 892. Those twin principles produce a "simple" rule in conjunction: "[I]n successive actions growing out of different transactions, the defendant is free to raise defenses that were equally available but omitted from the first action." Wright & Miller § 4414.

The view that the rule is "simple" (and contrary to what the Second Circuit held below) is not just one found in treatises. It is also the clear holding of this Court. Over 200 years ago, this Court explained that where a second suit is "upon distinct and different causes of action" from a prior case "against the [same] defendant," "the first cannot be pleaded in bar of the second." *Clark v. Young & Co.*, 5 U.S. (1 Cranch) 181, 181 (1803); *see id.* at 193 (Marshall, C.J.) ("a verdict in a prior suit may be given in evidence as a bar to another suit [only] for the same cause of action").

The Court subsequently reaffirmed that rule on various occasions, making clear that it applied to issues raised by defendants. *See, e.g.*, *Sunnen*, 333 U.S. at 598 ("Since the cause of action involved in the second proceeding is not swallowed by the judgment in the prior suit, the parties are free to litigate points which were not at issue in the first proceeding, even though such points might have been tendered and decided at that time."); *Balt. S.S. Co. v. Phillips*, 274 U.S. 316, 319 (1927) ("[I]f the second case be upon a different cause of action, the prior judgment or decree operates as an estoppel only as to matters actually in issue or points controverted, upon the determination of which the judgment or decree was rendered."); *Nesbit v. Indep. Dist. of Riverside*, 144 U.S. 610, 618 (1892) ("[W]hen the second suit is upon a different cause of action, though between the same parties, the judgment in the former action operates as an estoppel only as to the point or question actually litigated and determined, and not as to other matters which might have been litigated and determined."). In other words, where the claims asserted by the plaintiff are different than those asserted in an earlier case between the parties (as the initial Second Circuit opinion held was true in this case), then issues that could have been raised by the defendant in an earlier lawsuit are precluded only where the requirements for issue preclusion are satisfied.

That rule supplied the legal basis for the holding in *Davis v. Brown*, 94 U.S. (4 Otto) 423 (1876). *Davis* was the second suit between the same sets of parties. In the first suit, the plaintiff sued the "second indorsers" of two promissory notes. *Id.* at 427-28. In the second suit, the plaintiff sued the same "indorsers," but brought claims regarding ten *different* notes. *Id.* at 428. In that second suit, the indorser-defendants argued that they could not be held liable for their "indorsements" because of an agreement with the bank that allegedly shielded them from liability. *Id.* The plaintiff responded by arguing that res judicata barred the defendants from asserting their agreement with the bank as a defense, because they could have raised it in the first case, but did not. *Id.* at 428-29.

The Court in *Davis* rejected the plaintiff's position as "clearly untenable," because "[w]hen a judgment is offered in evidence in a subsequent action between the same parties upon a *different* demand,"[5] the judgment in first case "operates as an estoppel only upon [a] matter *actually at issue and determined in the original action*." *Id.* at 428-29 (emphases added). Because the agreement issue was not litigated and resolved in the first case, the Court held that the indorser-defendants were free to raise it against the different claims at issue in the second case, even though they could have done so in the first case too. *Id.* at 429.

The decision below cannot be reconciled with that binding precedent. Under the Second Circuit's self-styled "defense preclusion" test, defenses that *have not been* actually litigated and determined in any prior case may nonetheless be precluded in a later case *involving different claims*.

2. Respondent has previously argued that this Court's precedents distinguish between defenses that were "*not plead or raised* … in the prior action" (and so were "not addressed in the prior matter" *at all*), and defenses that were raised but "not pursue[d]" to judgment. Reply Br. for Plaintiff-Appellant 18-19, *Marcel Fashions Grp., Inc. v. Lucky Brand Dungarees, Inc.*, No. 17-0361 (2d Cir. July 24, 2017). That

[5] In this context, "demand" is synonymous with "claim" or "cause of action." Wright & Miller § 4406 ("Three different labels are used to describe the precluded area: 'claim,' 'demand,' and 'cause of action.'"); *see, e.g.*, *United States v. Tohono O'Odham Nation*, 563 U.S. 307, 313 (2011); *Cromwell*, 94 U.S. at 352-53.

argument misreads this Court's case law. *Davis* squarely rejected the position that a prior judgment precludes a defendant from an issue "as a defence in a subsequent action between the same parties upon other [claims]." 94 U.S. at 428. It mattered not that the "validity and efficacy" of that defense could have been "litigated and determined" in the prior case. *Id.* Any other position "confounded the operation of a judgment upon the demand involved in the action, in which the judgment was rendered, with its operation as an estoppel in another action between the parties upon a different demand." *Id.* In modern parlance, *Davis* rejected the plaintiff's position because it conflated claim and issue preclusion, just as respondent and the Second Circuit did below.

That could not be clearer in *Davis* and its companion case, *Cromwell v. County of Sac*, 94 U.S. (4 Otto) 351 (1876). At the time *Davis* and *Cromwell* were decided, judges used the term "estoppel" to refer to what "issue preclusion encompasses" today, and used the terms "'merger' and 'bar'" to refer to what we now call claim preclusion. *Sturgell*, 553 U.S. at 892 n.5; *see* Wright & Miller § 4402 ("The Terminology of Res Judicata"). *Cromwell* held that in a second case involving the *same* claim as a case previously litigated to judgment, "the judgment, if rendered upon the merits, constitutes an absolute *bar* to a subsequent action." 94 U.S. at 352 (emphasis added).[6] In other

[6] Lower courts have accordingly held that a defendant will be precluded from bringing new *claims* in a second suit that constitute "a collateral attack on the first judgment." *Nasalok*, 522 F.3d at 1324; *see, e.g.*, *U.S. for Use & Benefit of Treat Bros. Co. v. Fid. & Deposit Co. of Md.*, 986 F.2d 1110, 1115 (7th Cir. 1993) ("a later claim will be barred if successful prosecution

words, a prior judgment will have claim-preclusive effect only where the present suit involves "the same cause of action or claim" that "was decided on the merits" in the "prior suit." *Hellerstedt*, 136 S. Ct. at 2331. And *Davis*, which was decided the same Term as *Cromwell*, held that where a second case is "upon a *different* demand," the defendant is "estoppe[d]" (*i.e.*, issue precluded) *only* from raising defenses that were "actually at issue *and determined*" in the first case. 94 U.S. at 428 (emphasis added). In other words, a prior judgment has issue-preclusive effect only as to "issue[s] of fact or law raised *and necessarily resolved* by a prior judgment." *Bravo-Fernandez v. United States*, 137 S. Ct. 352, 358 (2016) (emphasis added); *see, e.g.*, *Sturgell*, 553 U.S. at 892 ("actually litigated and resolved"); *Nesbit*, 144 U.S. at 618 ("actually litigated and determined").

Here, by contrast, the issue of whether the Settlement Agreement released infringement claims that postdated May 2003 was *not* resolved in the 2005 Action. Indeed, the Second Circuit clearly and specifically noted "the omission of the defense in the

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would abrogate the prior judgment or impair rights established in the initial action"). That rule applied in *Nasalok*, where the defendant in the first suit was the plaintiff in the second suit, because granting Nasalok's invalidity claim in the second suit "would require modification of the injunction" Nylok obtained in the first suit. 522 F.3d at 1329. But that rule does not apply to *defenses* in situations where, as here, the parties are on the same sides of the "v." in both cases. *See* Wright & Miller § 4414 (distinguishing "[s]uccessive actions by the same plaintiff against the same defendant" from situations in which the defendant in first case is the plaintiff in the second). In such situations, claim preclusion ensures that crediting a defense (*i.e.*, denying a claim) will not alter the relief obtained on *different* claims in a prior suit.

earlier action." App.20; *see* App.20 ("the record evinces" that Lucky did not "fully litigate[] the release defense in the 2005 Action"). So although the court found no "justification" or "explanation" for that omission, that is entirely irrelevant. Claim preclusion applies *only* with respect to claims that are the very same as those previously litigated, and issue preclusion applies *only* to render a prior judgment "conclusive in another action" involving different claims where the issues were "*actually litigated and determined* in the original action, not what might have been thus litigated and determined." *Cromwell*, 94 U.S. at 353 (emphasis added). Here, as the initial opinion of the Second Circuit plainly held, the "claims" in the present case are not the same as those in the 2005 Action. *See supra* p.7. And as the opinion below rightly noted, the "issue" of release was not determined in the 2005 Action. Neither claim preclusion nor issue preclusion thus applies, and the decision below cannot be squared with this Court's case law.

B. The Second Circuit's Rule is Inconsistent with the Federal Rules of Civil Procedure.

The decision below also tramples on the clear distinction between compulsory and permissive counterclaims. Under the compulsory counterclaim rule, defendants "must state" all defenses that "arise[] out of the transaction or occurrence that is the subject matter of the [plaintiff's] claim." Fed. R. Civ. P. 13(a). If a compulsory counterclaim "is not brought" at the first opportunity, then the defendant is "barred" from raising it as either a claim or defense in any later proceeding. *Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974). Circuit courts have accordingly held that defendants *are* precluded from raising a defense in a second suit if the defense "was a compulsory counterclaim that the defendant failed to assert in the first action." *Nasalok*, 522 F.3d at 1324.

But that exception does not explain the decision below, for a simple reason: The argument that the Settlement Agreement bars Marcel's claims *was not a compulsory counterclaim*. A counterclaim is compulsory only if it "arises out of the transaction or occurrence that is the subject matter of the opposing party's claim." Fed. R. Civ. P. 13(a)(1). And here, Marcel's current claims do *not* arise out of the occurrences at issue in the 2001 case that resulted in the Settlement Agreement. Indeed, the Second Circuit expressly held in the first appeal in this case that the claims currently at issue are claims "for alleged further infringements that occurred *subsequent to* the earlier judgment." App.40.

Lucky's release defense was thus at most a *permissive* counterclaim in the 2005 Action (if it were a counterclaim at all).[7] *See* Fed. R. Civ. P. 13(b). And failure to litigate permissive counterclaims does *not* preclude raising them in subsequent proceedings. *See,*

[7] The distinction between permissive counterclaims and defenses is not always easy to draw. Indeed, as one of the architects of the Federal Rules once put it, "it is easy to make a slip on the unimportant matter of designation." Charles E. Clark, *Proceedings Before the Cleveland Institute on the Federal Rules* 231 (Am. Bar Ass'n 1938). That explains why "allegations that actually constitute a defense may be treated as such even though [they are] erroneously denominated as a counterclaim." Wright & Miller § 1275; *see* Fed. R. Civ. P. 8(c).

e.g., *Valley View Angus Ranch, Inc. v. Duke Energy Field Servs., Inc.*, 497 F.3d 1096, 1102 (10th Cir. 2007) (preclusion does not bar "defendants who elected not to assert a [permissive] counterclaim in [a] prior action" from raising it in a later action); *D-1 Enters., Inc. v. Commercial State Bank*, 864 F.2d 36, 39-40 (5th Cir. 1989) (rejecting as "odd indeed" the notion that a defense "that was not required as a compulsory counterclaim" in an earlier case could somehow be "barred by *res judicata*" in a later case).

That is clear from this Court's decision in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). In the first *Mercoid* case, the plaintiff's patent was held to be valid; in the second *Mercoid* case, the defendant raised a patent-misuse counterclaim that could have been litigated by privies in the first case, but was not. *Id.* at 662-64. The plaintiff argued that the defendant was precluded from raising that defense in the second case because its privies failed to raise it in the first case, but this Court disagreed. *Id.* at 670-71. The counterclaim was not compulsory, so the ordinary rule applied: The prior judgment was preclusive "only as to those matters in issue or points controverted." *Id.* at 671. Because misuse was not both litigated and actually adjudicated in the first case, the defendant was not precluded from raising the issue in the second case.[8] Again, that is exactly the opposite of what the decision below held.

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[8] The Court ultimately remanded for resolution of whether "the second cause of action between the parties is [actually] upon a different claim [as] the prior judgment." *Mercoid*, 320 U.S. at 670-71. If the second case did not involve different claims from the first, then the *plaintiff* would be claim precluded. *Id.* at 670.

C. The Second Circuit's Rule is Fundamentally Unfair to Defendants.

Under the Second Circuit's sweeping approach, any failure to assert a defense risks barring that defense for all time against all claims brought by the same plaintiff—just as the Second Circuit held with respect to Lucky's release defense here. Such a result is contrary to basic notions of fairness underlying the law of preclusion. *See* Wright & Miller § 4415 (preclusion "should not be applied … to deny justice").

To be sure, the Second Circuit paid lip service to considerations of fairness in the decision below. The court recognized that "[i]t might be unfair to bar a defendant from raising a defense that it elected not to bring in an earlier action because … the defense was somehow tangential to the matter," and instructed that considerations of fairness should be balanced against "efficiency concerns." App.17. But the court then went on to hold that the district court would have committed *abuse of discretion* if it had concluded that the unfairness to Lucky of being barred from raising a defense never previously resolved outweighed the "efficiency" of preclusion. App.19.

That is a remarkable conclusion. The district court denied Lucky's motion to dismiss in the 2005 Action on the specific ground that it was unclear whether the Settlement Agreement actually resolved all of Marcel's claims (because some of them involved marks registered after May 2003). App.28. Given that clear law of the case, a reasonable litigant may have chosen not to expend resources on a defense that would not have resolved every claim (and thus may still have resulted in trial). *See Cromwell*, 94 U.S. at

356 (defendant may have good reason not to raise defense in initial action, "such as the smallness of the amount or the value of the property in controversy, the difficulty of obtaining the necessary evidence, the expense of the litigation, and his own situation at the time"); *see also, e.g.*, *Otherson v. DOJ*, 711 F.2d 267, 273 (D.C. Cir. 1983). Yet the Second Circuit found "no conceivable justification" why Lucky did not "fully litigate[] the [Settlement Agreement] release defense in the 2005 Action." App.20. What is more, the Second Circuit refused to remand the case to allow the district court—the very judge that presided over the 2005 Action—to decide whether Lucky's decision not to pursue the release decision at trial was reasonable. In doing so, the Second Circuit revealed just how sweeping its "defense preclusion" test truly is, and how far afield it lies from the traditional concerns of fairness that underlie the law of preclusion.

III. This Is An Ideal Vehicle To Resolve A Question of Surpassing Importance.

The Second Circuit's decision is flatly contrary to ordinary principles of preclusion, the Federal Rules of Civil Procedure, two centuries of this Court's cases, and the decisions of three other circuits. That is more than enough to warrant this Court's review. That lower courts "have had difficulty in articulating the rules of defendant preclusion that have been developed to deal with" cases "in which the same defendant seeks to raise new matters" in a second case "by way of defense rather than claim," Wright & Miller § 4414, only serves to confirm the need for this Court's review.

The opinion below proves the point. The rules that apply to "successive actions by the plaintiff that legitimately grow out of the same basic transaction" are different from the rules that apply to "[s]uccessive actions growing out of *different* transactions." *Id.* (emphasis added). The latter describes the situation at issue here. (Again, the initial Second Circuit decision in this case held that the claims in the present case were *different claims* stemming from *different occurrences* than the claims in the 2005 Action. *See* App.40, 50-51.) Yet in holding that Lucky was categorically precluded from raising the Settlement Agreement as a defense, the Second Circuit relied on Wright & Miller's discussion of the *former* situation—which, again, *is not this case*. *See* App.11 n.4. And the Second Circuit left no room for district courts to consider whether it was reasonable for the defendant not to assert its defense in the earlier case, holding that it would be an *abuse of discretion* for a court to conclude that Lucky should not be barred here. This case thus provides an ideal vehicle to clarify the rules governing preclusion in successive actions involving different claims.

That is particularly true given that this is a trademark case. Trademark rights can grow or shrink over time, as can the likelihood of confusion between two marks. A "defense preclusion" rule like the one the Second Circuit applied below thus puts defendants at a significant disadvantage in situations such as this, where serial litigation is likely as the underlying facts change. And that is particularly worrisome given that successive litigation is particularly common in the intellectual property space. More worrisome still, while the Second Circuit claimed that its new rule promotes efficiency, the exact opposite is true. Had the Second Circuit followed traditional principles of preclusion (as the Federal Circuit, Eleventh Circuit, and Ninth Circuit all have done), the Settlement Agreement could have barred Marcel's claims, thus ending this litigation. Instead, this case will continue, thus depriving Lucky of the benefit of its bargain and undercutting the strong policy interest that all courts have in promoting settlement.

Finally, if the decision below is allowed to stand, then parties will be able to forum-shop based on preclusion rules. That is clear from this very case. The 2005 Action, which the Second Circuit held carried preclusive effect against Lucky in the present case, was filed and resolved in the Southern District of New York. But Marcel initially brought the present action in the Southern District *of Florida*. *See supra* pp.6-7. The perverse lesson of the decision below is that Lucky should have assented to the more inconvenient venue; after all, in the Eleventh Circuit a defendant is *not* precluded from raising defenses in a second suit unless they were actually litigated in the first suit. *See supra* pp.14-15 (discussing *McKinnon*, 935 F.2d at 1192). That is flatly contrary to the legislative "purpose" of venue provisions, which "is to protect the defendant against the risk that a plaintiff will select an unfair or inconvenient place of trial." *Leroy v. Great W. United Corp.*, 443 U.S. 173, 183-84 (1979) (emphasis omitted). Nor is it a small concern. Although individuals typically are not subject to suit in more than a small handful of jurisdictions, that is not true of corporate entities. *See* 28 U.S.C. § 1391(c). And it is a particular concern with respect to defendants: What a *defendant* may or may not raise in a second federal case should not depend on which federal court the plaintiff chooses to sue in. A rule that promotes selecting one federal forum in order to bar defenses that would not be precluded in another federal forum is a rule that cannot be sustained.

CONCLUSION

For the foregoing reasons, this Court should grant the petition for certiorari.

Respectfully submitted,

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February 15, 2019

Page __

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139 S.Ct. 2294, 204 L.Ed.2d 714, 27 Fla.L.Weekly Fed. S 1057

Andrei IANCU, Under Secretary of Commerce for Intellectual Property and Director, Patent and Trademark Office, Petitioner

v.

Erik BRUNETTI

No. 18-302

United States Supreme Court

June 24, 2019

Argued April 15, 2019

Syllabus [*]

Respondent Erik Brunetti sought federal registration of the trademark FUCT. The Patent and Trademark Office (PTO) denied his application under a provision of the Lanham Act that prohibits registration of trademarks that "[c]onsist[ ] of or comprise[ ] immoral[ ] or scandalous matter," 15 U.S.C. § 1052(a). Brunetti brought a First Amendment challenge to the "immoral or scandalous" bar in the Federal Circuit, which invalidated the provision.

Held : The Lanham Act's prohibition on registration of "immoral[ ] or scandalous" trademarks violates the First Amendment.

In *Matal v. Tam*, 582 U.S. __, 137 S.Ct. 1744, 198 L.Ed.2d 366, this Court declared unconstitutional the Lanham Act's ban on registering marks that "disparage" any "person[ ], living or dead." § 1052(a). A divided Court agreed on two propositions. First, if a trademark registration bar is viewpoint based, it is unconstitutional. And second, the disparagement bar was viewpoint based.

The "immoral or scandalous" bar similarly discriminates on the basis of viewpoint and so collides with this Court's First Amendment doctrine. Expressive material is "immoral" when it is "inconsistent with rectitude, purity, or good morals"; "wicked"; or "vicious." So the Lanham Act permits registration of marks that champion society's sense of rectitude and morality, but not marks that denigrate those concepts. And material is "scandalous" when it "giv[es] offense to the conscience or moral feelings"; "excite[s] reprobation"; or "call[s] out condemnation." So the Lanham Act allows registration of marks when their messages accord with, but not when their messages defy, society's sense of decency or propriety. The statute, on its face, distinguishes between two opposed sets of ideas: those aligned with conventional moral standards and those hostile to them; those inducing societal nods of approval and those provoking offense and condemnation. This facial viewpoint bias in the law results in viewpoint-discriminatory application. The PTO has refused to register marks communicating "immoral" or "scandalous" views about (among other things) drug use, religion, and terrorism. But all the while, it has approved registration of marks expressing more accepted views on the same topics.

The Government says the statute is susceptible of a limiting construction that would remove its viewpoint bias. The Government's idea is to narrow the statutory bar to "marks that are offensive [or] shocking[ ] because of their mode of expression, independent of any views that they may express," which would mostly restrict the PTO to refusing marks that are lewd, sexually explicit, or profane. But this Court cannot accept the Government's proposal, because the statute says something markedly different. The "immoral or scandalous" bar does not draw the line at lewd, sexually explicit, or profane marks. Nor does it refer only to marks whose "mode of expression," independent of viewpoint, is particularly offensive. To cut the statute off where the Government urges is not to interpret the statute Congress enacted, but to fashion a new one. And once the "immoral or scandalous" bar is interpreted fairly, it must be invalidated. Pp. 2298 - 2302.

877 F.3d 1330, affirmed.

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

[139 S.Ct. 2296] Malcolm L. Stewart, Washington, DC, for the petitioner.

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John R. Sommer, Megan E. Gray, Devon A. Beckwith, Irvine, CA, for respondent.

OPINION

KAGAN, Justice.

[139 S.Ct. 2297] Two Terms ago, in *Matal v. Tam,* 582 U.S. __, 137 S.Ct. 1744, 198 L.Ed.2d 366 (2017), this Court invalidated the Lanham Act's bar on the registration of "disparag[ing]" trademarks. 15 U.S.C. § 1052(a). Although split between two non-majority opinions, all Members of the Court agreed that the provision violated the First Amendment because it discriminated on the basis of viewpoint. Today we consider a First Amendment challenge to a neighboring provision of the Act, prohibiting the registration of "immoral[ ] or scandalous" trademarks. *Ibid.* We hold that this provision infringes the First Amendment for the same reason: It too disfavors certain ideas.

I

Respondent Erik Brunetti is an artist and entrepreneur who founded a clothing line that uses the trademark FUCT. According to Brunetti, the mark (which functions as the clothing's brand name) is pronounced as four letters, one after the other: F-U-C-T. See Brief for Respondent 1. But you might read it differently and, if so, you would hardly be alone. See Tr. of Oral Arg. 5 (describing the brand name as "the equivalent of [the] past participle form of a well-known word of profanity"). That common perception caused difficulties for Brunetti when he tried to register his mark with the U.S. Patent and Trademark Office (PTO).

Under the Lanham Act, the PTO administers a federal registration system for trademarks. See 15 U.S.C. § § 1051, 1052. Registration of a mark is not mandatory. The owner of an unregistered mark may still use it in commerce and enforce it against infringers. See *Tam*, 582 U.S. at __, 137 S.Ct., at 1752. But registration gives trademark owners valuable benefits. For example, registration constitutes "prima facie evidence" of the mark's validity. § 1115(a). And registration serves as "constructive notice of the registrant's claim of

[139 S.Ct. 2298] ownership," which forecloses some defenses in infringement actions. § 1072. Generally, a trademark is eligible for registration, and receipt of such benefits, if it is "used in commerce." § 1051(a)(1). But the Act directs the PTO to "refuse[ ] registration" of certain marks. § 1052. For instance, the PTO cannot register a mark that "so resembles" another mark as to create a likelihood of confusion. § 1052(d). It cannot register a mark that is "merely descriptive" of the goods on which it is used. § 1052(e). It cannot register a mark containing the flag or insignia of any nation or State. See § 1052(b). There are five or ten more (depending on how you count). And until we invalidated the criterion two years ago, the PTO could not register a mark that "disparage[d]" a "person[ ], living or dead." § 1052(a); see *Tam*, 582 U.S. __, 137 S.Ct. 1744, 198 L.Ed.2d 366.

This case involves another of the Lanham Act's prohibitions on registration— one applying to marks that "[c]onsist[ ] of or comprise[ ] immoral[ ] or scandalous matter." § 1052(a). The PTO applies that bar as a "unitary provision," rather than treating the two adjectives in it separately. *In re Brunetti*, 877 F.3d 1330, 1336 (C.A. Fed. 2017); Brief for Petitioner 6 (stating that the PTO "has long treated the two terms as composing a single category"). To determine whether a mark fits in the category, the PTO asks whether a "substantial composite of the general public" would find the mark "shocking to the sense of truth, decency, or propriety"; "giving offense to the conscience or moral feelings"; "calling out for condemnation"; "disgraceful"; "offensive"; "disreputable"; or "vulgar." 877 F.3d at 1336 (internal quotation marks omitted); see Brief for Petitioner 6 (agreeing that the PTO "generally defines" the category in that way).

Both a PTO examining attorney and the PTO's Trademark Trial and Appeal Board decided that Brunetti's mark flunked that test. The attorney determined that FUCT was "a total vulgar" and "therefore[ ] unregistrable." App. 27-28. On review, the Board stated that the mark was "highly offensive" and "vulgar," and that it had "decidedly negative sexual connotations." App. to Pet. for Cert. 59a, 64a-65a. As part of its review, the Board also considered evidence of how Brunetti used the mark. It found that Brunetti's website and products contained imagery, near the mark, of "extreme nihilism" and "anti-social" behavior. *Id.,* at 64a. In that context, the Board thought, the mark communicated "misogyny, depravity, [and] violence." *Ibid* . The Board concluded: "Whether one considers [the mark] as a sexual term, or finds that [Brunetti] has used [the mark] in the context of extreme misogyny, nihilism or violence, we have no question but that [the term is] extremely offensive." *Id.,* at 65a.

Brunetti then brought a facial challenge to the "immoral or scandalous" bar in the Court of Appeals for the Federal Circuit. That court found the prohibition to violate the First Amendment. As usual when a lower court has invalidated a federal statute, we granted certiorari. 586 U.S. __, 139 S.Ct. 782, 202 L.Ed.2d 510 (2019).

II

This Court first considered a First Amendment challenge to a trademark registration restriction in *Tam,* just two Terms ago. There, the Court declared unconstitutional the Lanham Act's ban on registering marks that "disparage" any "person[ ], living or dead." § 1052(a). The eight-Justice Court divided evenly between two opinions and could not agree on the overall framework for deciding the case. (In particular, no majority emerged to resolve

[139 S.Ct. 2299] whether a Lanham Act bar is a condition on a government benefit or a simple restriction on speech.) But all the Justices agreed on two propositions. First, if a trademark registration bar is viewpoint-based, it is unconstitutional. See 582 U.S. at __ - __, __ - __, 137 S.Ct., at 1751, 1762-1763 (opinion of ALITO, J.); *id.*, at __ - __, __, 137 S.Ct., at 1751, 1753 (opinion of Kennedy, J.). And second, the disparagement bar was viewpoint-based. See *id.*, at __ - __, __ - __, 137 S.Ct., at 1751, 1762-1763 (opinion of ALITO, J.); id., at __ - __, 137 S.Ct., at 1751-1753 (opinion of Kennedy, J.)

The Justices thus found common ground in a core postulate of free speech law: The government may not discriminate against speech based on the ideas or opinions it conveys. See *Rosenberger v. Rector and Visitors of Univ. of Va.,* 515 U.S. 819, 829-830, 115 S.Ct. 2510, 132 L.Ed.2d 700 (1995) (explaining that viewpoint discrimination is an "egregious form of content discrimination" and is "presumptively unconstitutional"). In Justice Kennedy's explanation, the disparagement bar allowed a trademark owner to register a mark if it was "positive" about a person, but not if it was "derogatory." *Tam*, 582 U.S. at __, 137 S.Ct., at 1750. That was the "essence of viewpoint discrimination," he continued, because "[t]he law thus reflects the Government's disapproval of a subset of messages it finds offensive." *Id.*, at __ - __, 137 S.Ct., at 1766. Justice ALITO emphasized that the statute "denie[d] registration to any mark" whose disparaging message was "offensive to a substantial percentage of the members of any group." *Id.,* at __, 137 S.Ct., at 1763. The bar thus violated the "bedrock First Amendment principle" that the government cannot discriminate against "ideas that offend." *Id.,* at __ - __, 137 S.Ct., at 1751. Slightly different explanations, then, but a shared conclusion: Viewpoint discrimination doomed the disparagement bar.

If the "immoral or scandalous" bar similarly discriminates on the basis of viewpoint, it must also collide with our First Amendment doctrine. The Government does not argue otherwise. In briefs and oral argument, the Government offers a theory for upholding the bar if it is viewpoint-neutral (essentially, that the bar would then be a reasonable condition on a government benefit). See Brief for Petitioner 14-26. But the Government agrees that under *Tam* it may not "deny registration based on the views expressed" by a mark. Tr. of Oral Arg. 24. "As the Court's *Tam* decision establishes," the Government says, "the criteria for federal trademark registration" must be "viewpoint-neutral to survive Free Speech Clause review." Pet. for Cert. 19. So the key question becomes: Is the "immoral or scandalous" criterion in the Lanham Act viewpoint-neutral or viewpoint-based?

It is viewpoint-based. The meanings of "immoral" and "scandalous" are not mysterious, but resort to some dictionaries still helps to lay bare the problem. When is expressive material "immoral"? According to a standard definition, when it is "inconsistent with rectitude, purity, or good morals"; "wicked"; or "vicious." Webster's New International Dictionary 1246 (2d ed. 1949). Or. again, when it is "opposed to or violating morality"; or "morally evil." Shorter Oxford English Dictionary 961 (3d ed. 1947). So the Lanham Act permits registration of marks that champion society's sense of rectitude and morality, but not marks that denigrate those concepts. And when is such material "scandalous"? Says a typical definition, when it "giv[es] offense to the conscience or moral feelings"; "excite[s] reprobation";

[139 S.Ct. 2300] or "call[s] out condemnation." Webster's New International Dictionary, at 2229. Or. again, when it is "shocking to the sense of truth, decency, or propriety"; "disgraceful"; "offensive"; or "disreputable." Funk & Wagnalls New Standard Dictionary 2186 (1944). So the Lanham Act allows registration of marks when their messages accord with, but not when their messages defy, society's sense of decency or propriety. Put the pair of overlapping terms together and the statute, on its face, distinguishes between two opposed sets of ideas: those aligned with conventional moral standards and those hostile to them; those inducing societal nods of approval and those provoking offense and condemnation. The statute favors the former, and disfavors the latter. "Love rules"? "Always be good"? Registration follows. "Hate rules"? "Always be cruel"? Not according to the Lanham Act's "immoral or scandalous" bar.

The facial viewpoint bias in the law results in viewpoint-discriminatory application. Recall that the PTO itself describes the "immoral or scandalous" criterion using much the same language as in the dictionary definitions recited above. See *supra,* at 2298. The PTO, for example, asks whether the public would view the mark as "shocking to the sense of truth, decency, or propriety"; "calling out for condemnation"; "offensive"; or "disreputable." Brief for Petitioner 6 (internal quotation marks omitted). Using those guideposts, the PTO has refused to register marks communicating "immoral" or "scandalous" views about (among other things) drug use, religion, and terrorism. But all the while, it has approved registration of marks expressing more accepted views on the same topics. See generally Gilson & LaLonde, *Trademarks Laid Bare*, 101 Trademark Reporter 1476, 1510-1513, 1518-1522 (2011); Brief for Barton Beebe et al. as *Amici Curiae* 28-29.

Here are some samples. The PTO rejected marks conveying approval of drug use (YOU CAN'T SPELL HEALTHCARE WITHOUT THC for pain-relief medication, MARIJUANA COLA and KO KANE for beverages) because it is scandalous to "inappropriately glamoriz[e] drug abuse." PTO, Office Action of Aug. 28, 2010, Serial No. 85038867; see Office Action of Dec. 24, 2009, Serial No. 77833964; Office Action of Nov. 17, 2009, Serial No. 77671304. But at the same time, the PTO registered marks with such sayings as D.A.R.E. TO RESIST DRUGS AND VIOLENCE and SAY NO TO DRUGS— REALITY IS THE BEST TRIP IN LIFE. See PTO, Reg. No. 2975163 (July 26, 2005); Reg. No. 2966019 (July 12, 2005). Similarly, the PTO disapproved registration for the mark BONG HITS 4 JESUS because it "suggests that people should engage in an illegal activity [in connection with] worship" and because "Christians would be morally outraged by a statement that connects Jesus Christ with illegal drug use." Office Action of Mar. 15, 2008, Serial No. 77305946. And the PTO refused to register trademarks associating religious references with products (AGNUS DEI for safes and MADONNA for wine) because they would be "offensive to most individuals of the Christian faith" and "shocking to the sense of propriety." *Ex parte Summit Brass & Bronze Works*, 59 U.S.P.Q. 22, 23 (Dec. Com. Pat. 1943); *In re Riverbank Canning Co.*, 95 F.2d 327, 329 (CCPA 1938). But once again, the PTO approved marks— PRAISE THE LORD for a game and JESUS DIED FOR YOU on clothing— whose message suggested religious faith rather than blasphemy or irreverence. See Reg. No. 5265121 (Aug. 15, 2017); Reg. No. 3187985 (Dec. 19, 2006). Finally, the PTO rejected marks reflecting support for al-Qaeda (BABY AL QAEDA and AL-QAEDA on t-shirts) "because the bombing of civilians [139 S.Ct. 2301] and other terrorist acts are shocking to the sense of decency and call out for condemnation." Office Action of Nov. 22, 2004, Serial No. 78444968; see Office Action of Feb. 23, 2005, Serial No. 78400213. Yet it approved registration of a mark with the words WAR ON TERROR MEMORIAL. Reg. No. 5495362 (Jun. 19, 2018). Of course, all these decisions are understandable. The rejected marks express opinions that are, at the least, offensive to many Americans. But as the Court made clear in *Tam*, a law disfavoring "ideas that offend" discriminates based on viewpoint, in violation of the First Amendment. 582 U.S. at __, 137 S.Ct., at 1751 (opinion of ALITO, J.); *see id.*, at __ - __, 137 S.Ct., at 1762-1763; *id*., at __ - __, 137 S.Ct., at 1765-1766 (opinion of Kennedy, J.)

How, then, can the Government claim that the "immoral or scandalous" bar is viewpoint-neutral? The Government basically asks us to treat decisions like those described above as PTO examiners' mistakes. See Brief for Petitioner 46. Still more, the Government tells us to ignore how the Lanham Act's language, on its face, disfavors some ideas. In urging that course, the Government does not dispute that the statutory language— and words used to define it— have just that effect. At oral argument, the Government conceded: "[I]f you just looked at the words like 'shocking' and 'offensive' on their face and gave them their ordinary meanings[,] they could easily encompass material that was shocking [or offensive] because it expressed an outrageous point of view or a point of view that most members" of society reject. Tr. of Oral Arg. 6. But no matter, says the Government, because the statute is "susceptible of" a limiting construction that would remove this viewpoint bias. *Id.*, at 7 (arguing that the Court should "attempt to construe [the] statute in a way that would render it constitutional"). The Government's idea, abstractly phrased, is to narrow the statutory bar to "marks that are offensive [or] shocking to a substantial segment of the public because of their *mode* of expression, independent of any views that they may express." *Id.*, at 11 (emphasis added); see Brief for Petitioner 27-28. More concretely, the Government explains that this reinterpretation would mostly restrict the PTO to refusing marks that are "vulgar"— meaning "lewd," "sexually explicit or profane." *Id.*, at 27, 30. Such a reconfigured bar, the Government says, would not turn on viewpoint, and so we could uphold it.

But we cannot accept the Government's proposal, because the statute says something markedly different. This Court, of course, may interpret "ambiguous statutory language" to "avoid serious constitutional doubts." *FCC v. Fox Television Stations, Inc.*, 556 U.S. 502, 516, 129 S.Ct. 1800, 173 L.Ed.2d 738 (2009). But that canon of construction applies only when ambiguity exists. "We will not rewrite a law to conform it to constitutional requirements." *United States v. Stevens*, 559 U.S. 460, 481, 130 S.Ct. 1577, 176 L.Ed.2d 435 (2010) (internal quotation marks and alteration omitted). So even assuming the Government's reading would eliminate First Amendment problems, we may adopt it only if we can see it in the statutory language. And we cannot. The "immoral or scandalous" bar stretches far beyond the Government's proposed construction. The statute as written does not draw the line at lewd, sexually explicit, or profane marks. Nor does it refer only to marks whose "mode of expression," independent of viewpoint, is particularly offensive. Brief for Petitioner 28 (internal quotation marks omitted). It covers the universe of immoral or scandalous— or (to use some PTO synonyms) offensive or disreputable— material. Whether or not lewd or profane. Whether the scandal and

[139 S.Ct. 2302] immorality comes from mode or instead from viewpoint. To cut the statute off where the

Government urges is not to interpret the statute Congress enacted, but to fashion a new one.[*]

And once the "immoral or scandalous" bar is interpreted fairly, it must be invalidated. The Government just barely argues otherwise. In the last paragraph of its brief, the Government gestures toward the idea that the provision is salvageable by virtue of its constitutionally permissible applications (in the Government's view, its applications to lewd, sexually explicit, or profane marks). See *id.*, at 47. In other words, the Government invokes our First Amendment overbreadth doctrine, and asks us to uphold the statute against facial attack because its unconstitutional applications are not "substantial" relative to "the statute's plainly legitimate sweep." *Stevens*, 559 U.S. at 473, 130 S.Ct. 1577 (internal quotation marks omitted). But to begin with, this Court has never applied that kind of analysis to a viewpoint-discriminatory law. In *Tam*, for example, we did not pause to consider whether the disparagement clause might admit some permissible applications (say, to certain libelous speech) before striking it down. The Court's finding of viewpoint bias ended the matter. And similarly, it seems unlikely we would compare permissible and impermissible applications if Congress outright banned "offensive" (or to use some other examples, "divisive" or "subversive") speech. Once we have found that a law "aim[s] at the suppression of " views, why would it matter that Congress could have captured some of the same speech through a viewpoint-neutral statute? *Tam*, 582 U.S. at __, 137 S.Ct., at 1761 (opinion of Kennedy, J.). But in any event, the "immoral or scandalous" bar is substantially overbroad. There are a great many immoral and scandalous ideas in the world (even more than there are swearwords), and the Lanham Act covers them all. It therefore violates the First Amendment.

We accordingly affirm the judgment of the Court of Appeals.

It is so ordered.

Justice ALITO, concurring.

For the reasons explained in the opinion of the Court, the provision of the Lanham Act at issue in this case violates the Free Speech Clause of the First Amendment because it discriminates on the basis of viewpoint and cannot be fixed without rewriting the statute. Viewpoint discrimination is poison to a free society. But in many countries with constitutions or legal traditions that claim to protect freedom of speech, serious viewpoint discrimination is now tolerated, and such discrimination has become increasingly prevalent in this country. At a time when free speech is under

[139 S.Ct. 2303] attack, it is especially important for this Court to remain firm on the principle that the First Amendment does not tolerate viewpoint discrimination. We reaffirm that principle today.

Our decision is not based on moral relativism but on the recognition that a law banning speech deemed by government officials to be "immoral" or "scandalous" can easily be exploited for illegitimate ends. Our decision does not prevent Congress from adopting a more carefully focused statute that precludes the registration of marks containing vulgar terms that play no real part in the expression of ideas. The particular mark in question in this case could be denied registration under such a statute. The term suggested by that mark is not needed to express any idea and, in fact, as commonly used today, generally signifies nothing except emotion and a severely limited vocabulary. The registration of such marks serves only to further coarsen our popular culture. But we are not legislators and cannot substitute a new statute for the one now in force.

Chief Justice ROBERTS, concurring in part and dissenting in part.

The Lanham Act directs the Patent and Trademark Office to refuse registration to marks that consist of or comprise "immoral, deceptive, or scandalous matter." 15 U.S.C. § 1052(a). Although the statute lists "immoral" and "scandalous" separately, the PTO has long read those terms together to constitute a unitary bar on "immoral or scandalous" marks.

The Government concedes that the provision so read is broad enough to reach not only marks that offend because of their mode of expression (such as vulgarity and profanity) but also marks that offend because of the ideas they convey. The Government urges, however, that the provision can be given a narrowing construction— it can be understood to cover only marks that offend because of their mode of expression.

The Court rejects that proposal on the ground that it would in effect rewrite the statute. I agree with the majority that the "immoral" portion of the provision is not susceptible of a narrowing construction that would eliminate its viewpoint bias. As Justice SOTOMAYOR explains, however, the "scandalous" portion of the provision is susceptible of such a narrowing construction. Standing alone, the term "scandalous" need not be understood to reach marks that offend because of the ideas they convey; it can be read more narrowly to bar only marks that offend because of their mode of expression— marks that are obscene, vulgar, or profane. That is how the PTO now understands the term, in light of our decision in *Matal v. Tam*, 582 U.S. __, 137 S.Ct. 1744, 198 L.Ed.2d 366 (2017). See Tr. of Oral Arg. 4-5. I agree with Justice SOTOMAYOR that such a narrowing construction is appropriate in this context.

I also agree that, regardless of how exactly the trademark registration system is best conceived under our precedents— a question we left open in *Tam* — refusing registration to obscene, vulgar, or profane marks does not offend the First Amendment. Whether such marks can be registered does not affect the extent to which their owners may use them in commerce to identify goods. No speech is being restricted; no one is being punished. The owners of such marks are merely denied certain additional benefits associated with federal trademark registration. The Government, meanwhile, has an interest in not associating itself with trademarks whose content is obscene, vulgar, or profane. The First Amendment protects the freedom of speech; it does not require the Government to give aid and comfort to those

[139 S.Ct. 2304] using obscene, vulgar, and profane modes of expression. For those reasons, I concur in part and dissent in part.

Justice BREYER, concurring in part and dissenting in part.

Our precedents warn us against interpreting statutes in ways that would likely render them unconstitutional. *Virginia v. American Booksellers Assn., Inc.,* 484 U.S. 383, 397, 108 S.Ct. 636, 98 L.Ed.2d 782 (1988) (noting that a law "will be upheld" if it is " 'readily susceptible' to a narrowing construction that would make it constitutional"); *United States v.* 12 200-ft. Reels of Super 8MM. Film, 413 U.S. 123, 130, n. 7, 93 S.Ct. 2665, 37 L.Ed.2d 500 (1973) (noting our "duty" to adopt a " 'fairly possible' " construction by which constitutional doubts " 'may be avoided' " (quoting *United States v. Thirty-Seven Photographs,* 402 U.S. 363, 369, 91 S.Ct. 1400, 28 L.Ed.2d 822 (1971))). Following these precedents, I agree with Justice SOTOMAYOR that, for the reasons she gives, we should interpret the word "scandalous" in the present statute to refer only to certain highly "vulgar" or "obscene" modes of expression. See *post,* at 2310 - 2312 (opinion concurring in part and dissenting in part).

The question, then, is whether the First Amendment permits the Government to rely on this statute, as narrowly construed, to deny the benefits of federal trademark registration to marks like the one at issue here, which involves the use of the term "FUCT" in connection with a clothing line that includes apparel for children and infants. Like Justice SOTOMAYOR, I believe the answer is "yes," though my reasons differ slightly from hers.

I

A

In my view, a category-based approach to the First Amendment cannot adequately resolve the problem before us. I would place less emphasis on trying to decide whether the statute at issue should be categorized as an example of "viewpoint discrimination," "content discrimination," "commercial speech," "government speech," or the like. Rather, as I have written before, I believe we would do better to treat this Court's speech-related categories not as outcome-determinative rules, but instead as rules of thumb. See *Reed v. Town of Gilbert,* 576 U.S. __, __, 135 S.Ct. 2218, 2235, 192 L.Ed.2d 236 (2015) (opinion concurring in judgment).

After all, these rules are not absolute. The First Amendment is not the Tax Code. Indeed, even when we consider a regulation that is ostensibly "viewpoint discriminatory" or that is subject to "strict scrutiny," we sometimes find the regulation to be constitutional after weighing the competing interests involved. See, *e.g., Morse v. Frederick,* 551 U.S. 393, 397, 127 S.Ct. 2618, 168 L.Ed.2d 290 (2007) ("[S]chools may take steps to safeguard those entrusted to their care from speech that can reasonably be regarded as encouraging illegal drug use"); *Williams-Yulee v. Florida Bar,* 575 U.S. 433, __, 135 S.Ct. 1656, 1665-1666, 191 L.Ed.2d 570 (2015) (explaining that although " 'it is the rare case' " when a statute satisfies strict scrutiny, "those cases do arise" (quoting *Burson v. Freeman,* 504 U.S. 191, 211, 112 S.Ct. 1846, 119 L.Ed.2d 5 (1992) (plurality opinion))).

Unfortunately, the Court has sometimes applied these rules— especially the category of "content discrimination"— too rigidly. In a number of cases, the Court has struck down what I believe are ordinary, valid regulations that pose little or no threat to the speech interests that the First Amendment protects. See

[139 S.Ct. 2305] *Janus v. State, County, and Municipal Employees,* 585 U.S. __, __ - __, 138 S.Ct. 2448, 2501-2502, 201 L.Ed.2d 924 (2018) (KAGAN, J., dissenting); *Sorrell v. IMS Health Inc.,* 564 U.S. 552, 589-592, 131 S.Ct. 2653, 180 L.Ed.2d 544 (2011) (BREYER, J., dissenting); see generally *Reed*, 576 U.S. at __ - __, 135 S.Ct., at 2234-2236 (opinion of BREYER, J.).

Rather than deducing the answers to First Amendment questions strictly from categories, as the Court often does, I would appeal more often and more directly to the values the First Amendment seeks to protect. As I have previously written, I would ask whether the regulation at issue "works speech-related harm that is out of proportion to its justifications." *United States v. Alvarez,* 567 U.S. 709, 730, 132 S.Ct. 2537, 183 L.Ed.2d 574 (2012) (opinion concurring in judgment); see *Reed*, 576 U.S. at __, 135 S.Ct., at 2235-2236 (opinion concurring in judgment) (discussing the matter further, particularly in respect to the category of content discrimination).

B

This case illustrates the limits of relying on rigid First Amendment categories, for the statute at issue does not fit easily into any of these categories.

The Court has not decided whether the trademark statute is simply a method of regulating pure "commercial speech." See *Matal v. Tam,* 582 U.S. __, __, 137 S.Ct. 1744, 1764, 198 L.Ed.2d 366 (2017) (opinion of ALITO, J.) (leaving open the question whether trademarks are commercial speech); id., at __, 137 S.Ct., at 1753 (opinion of Kennedy, J.)(same). There may be reasons for doubt on that score. Trademarks, after all, have an expressive component in addition to a commercial one, and the statute does not bar anyone from speaking. To be sure, the statute does regulate the commercial function of trademarks. But it does so in a limited way designed primarily to ensure that a mark identifies the product's source. See *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.,* 529 U.S. 205, 212, 120 S.Ct. 1339, 146 L.Ed.2d 182 (2000).

The trademark statute cannot easily be described as a regulation of "government speech," either. *Tam,* 582 U.S. at __ - __, 137 S.Ct., at 1757-1760. The Government, however, may be loosely associated with the mark because it registers the mark and confers certain benefits upon the owner.

What about the concept of a "public forum"? Trademark registration has little in common with a traditional public forum, as the register of trademarks is not a public park, a street, or a similar forum for public debate. See *Perry Ed. Assn. v. Perry Local Educators' Assn.,* 460 U.S. 37, 45, 103 S.Ct. 948, 74 L.Ed.2d 794 (1983). But one can find some vague resemblance between trademark registration and what this Court refers to as a "limited public forum" created by the government for private speech. See *post,* at 2316 (opinion of SOTOMAYOR, J.); *Christian Legal Soc. Chapter of Univ. of Cal., Hastings College of Law v. Martinez,* 561 U.S. 661, 679, n. 11, 130 S.Ct. 2971, 177 L.Ed.2d 838 (2010). The trademark registration system also bears some resemblance to cases involving government subsidies for private speech, as such programs— like trademark registration— may grant a benefit to some forms of speech without prohibiting other forms of speech. See *post,* at 2316 (opinion of SOTOMAYOR, J.); *Legal Services Corporation v. Velazquez,* 531 U.S. 533, 543-544, 121 S.Ct. 1043, 149 L.Ed.2d 63 (2001) (noting that the First Amendment rules applicable to limited public forums may be "instruc[tive]" "when the government establishes a subsidy for specified ends").

As for the concepts of "viewpoint discrimination" and "content discrimination,"

[139 S.Ct. 2306] I agree with Justice SOTOMAYOR that the boundaries between them may be difficult to discern. *Post,* at 2313; see *Rosenberger v. Rector and Visitors of Univ. of Va.,* 515 U.S. 819, 831, 115 S.Ct. 2510, 132 L.Ed.2d 700 (1995) ("[T]he distinction is not a precise one"). Even so, it is hard to see how a statute prohibiting the registration of only highly vulgar or obscene words discriminates based on "viewpoint." Of course, such words often evoke powerful emotions. Standing by themselves, however, these words do not typically convey any particular viewpoint. See *FCC v. Pacifica Foundation,* 438 U.S. 726, 746, n. 22, 98 S.Ct. 3026, 57 L.Ed.2d 1073 (1978) (noting that the Government's regulation of vulgar words was based not on "point of view," but on "the way in which [speech] is expressed"). Moreover, while a restriction on the registration of highly vulgar words arguably places a content-based limit on trademark registration, it is hard to see why that label should be outcome-determinative here, for regulations governing trademark registration "inevitably involve content discrimination." *Reed,* 576 U.S. at __, 135 S.Ct., at 2234-2235 (opinion of BREYER, J.); see *Tam,* 582 U.S. at __, 137 S.Ct., at 1768 (opinion of Kennedy, J.) (noting that the constitutionality of some content-based trademark restrictions is "well settled"); Katyal, *Trademark Intersectionality,* 57 UCLA L.Rev. 1601, 1602 (2010) (noting that trademark law is "indelibly rooted in content-based considerations").

In short, the trademark statute does not clearly fit within any of the existing outcome-determinative categories. Why, then, should we rigidly adhere to these categories? Rather than puzzling over categorization, I believe we should focus on the interests the First Amendment protects and ask a more basic proportionality question: Does "the regulation at issue wor[k] harm to First Amendment interests that is disproportionate in light of the relevant regulatory objectives"? *Reed,* 576 U.S. at __, 135 S.Ct., at 2235-2236 (opinion of BREYER, J.)

II

Based on this proportionality analysis, I would conclude that the statute at issue here, as interpreted by Justice SOTOMAYOR, does not violate the First Amendment.

How much harm to First Amendment interests does a bar on registering highly vulgar or obscene trademarks work? Not much. The statute leaves businesses free to use highly vulgar or obscene words on their products, and even to use such words directly next to other registered marks. Indeed, a business owner might even use a vulgar word as a trademark, provided that he or she is willing to forgo the benefits of registration. See *post,* at 2308 - 2309 (opinion of SOTOMAYOR, J.); *Tam,* 582 U.S. at __ - __, 137 S.Ct., at

1752-1753.

Moreover, the field at issue here, trademark law, is a highly regulated one with a specialized mission: to "hel[p] consumers identify goods and services that they wish to purchase, as well as those they want to avoid." *Id.,* at __, 137 S.Ct., at 1751. As I have noted, that mission, by its very nature, requires the Government to impose limitations on speech. *Supra,* at 2306. Trademark law therefore forbids the registration of certain types of words— for example, those that will likely "cause confusion," or those that are "merely descriptive." 15 U.S.C. § § 1052(d), (e). For that reason, an applicant who seeks to register a mark should not expect complete freedom to say what she wishes, but should instead expect linguistic regulation.

Now consider, by way of contrast, the Government's interests in barring the registration of highly vulgar or obscene trademarks.

[139 S.Ct. 2307] For one thing, when the Government registers a mark, it is necessarily "involv[ed] in promoting" that mark. *Post,* at 2317 - 2318 (opinion of SOTOMAYOR, J.). The Government has at least a reasonable interest in ensuring that it is not involved in promoting highly vulgar or obscene speech, and that it will not be associated with such speech.

For another, scientific evidence suggests that certain highly vulgar words have a physiological and emotional impact that makes them different in kind from most other words. See M. Mohr, Holy S***: A Brief History of Swearing 252 (2013) (Mohr) (noting the "emotional impact" of certain profane words that "excite the lower-brain circuitry responsible for emotion," resulting in "electrical impulses that can be measured in the skin"). These vulgar words originate in a different part of our brains than most other words. *Id.,* at 250. And these types of swear words tend to attract more attention and are harder to forget than other words. See Jay, Caldwell-Harris, & King, Recalling Taboo and Nontaboo Words, 121 Am. J. Psych. 83, 83-86 (2008) (collecting research). Notably, that has remained true even as the list of offensive swear words has changed over time: In the last few centuries, the list has evolved away from words of religious disrespect and toward words that are sexually explicit or that crudely describe bodily functions. Mohr 253. And the list of swear words may be evolving yet again, perhaps in the direction of including race-based epithets. *Id.,* at 254, 256.

These attention-grabbing words, though financially valuable to some businesses that seek to attract interest in their products, threaten to distract consumers and disrupt commerce. And they may lead to the creation of public spaces that many will find repellant, perhaps on occasion creating the risk of verbal altercations or even physical confrontations. (Just think about how you might react if you saw someone wearing a t-shirt or using a product emblazoned with an odious racial epithet.) The Government thus has an interest in seeking to disincentivize the use of such words in commerce by denying the benefit of trademark registration. Cf. *Brandenburg v. Ohio,* 395 U.S. 444, 447, 89 S.Ct. 1827, 23 L.Ed.2d 430 (1969) (*per curiam*) (permitting regulation of words "directed to inciting or producing imminent lawless action" and "likely to incite or produce such action").

Finally, although some consumers may be attracted to products labeled with highly vulgar or obscene words, others may believe that such words should not be displayed in public spaces where goods are sold and where children are likely to be present. They may believe that trademark registration of such words could make it more likely that children will be exposed to public displays involving such words. To that end, the Government may have an interest in protecting the sensibilities of children by barring the registration of such words. See *Denver Area Ed. Telecommunications Consortium, Inc. v. FCC,* 518 U.S. 727, 743, 116 S.Ct. 2374, 135 L.Ed.2d 888 (1996) (plurality opinion) (noting the Government's interest in "protec[ting] children from exposure to patently offensive sex-related material"); *Ginsberg v. New York,* 390 U.S. 629, 640, 88 S.Ct. 1274, 20 L.Ed.2d 195 (1968) (noting the government's "interest in the well-being of its youth").

The upshot of this analysis is that the narrowing construction articulated by Justice SOTOMAYOR risks some harm to First Amendment interests, but not very much. And applying that interpretation seems a reasonable way— perhaps the only way— to further legitimate government interests. Of course, there is a risk that the

[139 S.Ct. 2308] statute might be applied in a manner that stretches it beyond the few vulgar words that are encompassed by the narrow interpretation Justice SOTOMAYOR sets forth. That risk, however, could be mitigated by internal agency review to ensure that agency officials do not stray beyond their mandate. In any event, I do not believe that this risk alone warrants the facial invalidation of this statute.

I would conclude that the prohibition on registering "scandalous" marks does not "wor[k] harm to First Amendment interests that is disproportionate in light of the relevant regulatory objectives." *Reed,* 576 U.S. at __, 135 S.Ct., at 2235-2236 (opinion of BREYER, J.). I would therefore uphold this part of the statute. I agree with the Court, however, that the bar on registering "immoral" marks violates the First Amendment. Because Justice SOTOMAYOR reaches the same conclusions, using roughly similar reasoning, I join her opinion insofar as it is consistent with the views set forth here.

Justice SOTOMAYOR, with whom Justice BREYER joins, concurring in part and dissenting in part.

The Court's decision today will beget unfortunate results. With the Lanham Act's scandalous-marks provision, 15 U.S.C. § 1052(a), struck down as unconstitutional viewpoint discrimination, the Government will have no statutory basis to refuse (and thus no choice but to begin) registering marks containing the most vulgar, profane, or obscene words and images imaginable.

The coming rush to register such trademarks— and the Government's immediate powerlessness to say no— is eminently avoidable. Rather than read the relevant text as the majority does, it is equally possible to read that provision's bar on the registration of "scandalous" marks to address only obscenity, vulgarity, and profanity. Such a narrowing construction would save that duly enacted legislative text by rendering it a reasonable, viewpoint-neutral restriction on speech that is permissible in the context of a beneficial governmental initiative like the trademark-registration system. I would apply that narrowing construction to the term "scandalous" and accordingly reject petitioner Erik Brunetti's facial challenge.

I

Trademark registration, as the majority notes, is not required for using, owning, or suing others for infringing a trademark. Rather, the trademark-registration system is an ancillary system set up by the Government that confers a small number of noncash benefits on trademark-holders who register their marks. See *ante*, at 2297 - 2298.

The Government need not provide this largely commercial benefit at all. Once the Government does provide the benefit, however, it may not restrict access on the basis of the viewpoint expressed by the relevant mark. See *ante*, at 2305 - 2306. For that reason, the Court concluded in *Matal v. Tam*, 582 U.S. __, 137 S.Ct. 1744, 198 L.Ed.2d 366 (2017), that § 1052(a)'s provision directing the U.S. Patent and Trademark Office (PTO) to deny registration to "disparag[ing]" trademarks was unconstitutional. This case centers on a neighboring set of restrictions: § 1052(a)'s provision barring registration of marks featuring "immoral ... or scandalous matter."

The majority finds viewpoint discrimination here by treating the terms "scandalous" and "immoral" as comprising a unified standard that allows messages "aligned with conventional moral standards" but forbids messages "hostile to" such standards. See *ante,* at 2299 - 2300.

[139 S.Ct. 2309] While the majority's interpretation of the statute is a reasonable one, it is not the only reasonable one.

A

As the majority notes, there are dictionary definitions for both "immoral" and "scandalous" that do suggest a viewpoint-discriminatory meaning. See *ante*, at 2299 - 2300. And as for the word "immoral," I agree with the majority that there is no tenable way to read it that would ameliorate the problem. The word clearly connotes a preference for "rectitude and morality" over its opposite. See *ante*, at 2299.

It is with regard to the word "scandalous" that I part ways with the majority. Unquestionably, "scandalous" can mean something similar to "immoral" and thus favor some viewpoints over others. See *ante*, at 2300. But it does not have to be read that way. To say that a word or image is "scandalous" can instead mean that it is simply indecent, shocking, or generally offensive. See Funk & Wagnalls New Standard Dictionary 2186 (1944) (Funk & Wagnalls) ("shocking to the sense of truth, decency, *or* propriety; disgraceful, offensive" (emphasis added)); Webster's New International Dictionary 2229 (1942) ("exciting reprobation; calling out condemnation"); 9 Oxford English Dictionary 175 (1933) ("Of the nature of, or causing, a 'stumbling-block' or occasion of offence"); 8 Century Dictionary and Cyclopedia 5374 (1911) (Century Dictionary) ("Causing scandal or offense; exciting reproach or reprobation; extremely offensive to the sense of duty or propriety; shameful; shocking"); see also Webster's New College Dictionary 1008 (3d ed. 2005) ("shocking or offensive"). That offensiveness could result from the views expressed, but it could also result from the way in which those views are expressed: using a manner of expression that is "shocking to [one's] sense of ... decency," Funk & Wagnalls 2186, or "extremely offensive to the sense of ... propriety," 8 Century Dictionary 5374.

The word "scandalous" on its own, then, is ambiguous: It can be read broadly (to cover both offensive ideas and offensive manners of expressing ideas), or it can be read narrowly (to cover only offensive modes of expression). That alone raises the possibility that a limiting construction might be appropriate. But the broader text confirms the reasonableness of the narrower reading, because the word "scandalous" appears in the statute alongside other words that can, and should, be read to constrain its scope.

It is foundational "that a statute is to be read as a whole, since the meaning of statutory language, plain or not, depends on context." *King v. St. Vincent's Hospital,* 502 U.S. 215, 221, 112 S.Ct. 570, 116 L.Ed.2d 578 (1991) (citation omitted). " 'Words are not pebbles in alien juxtaposition; they have only a communal existence; and not only does the meaning of each interpenetrate the other, but all in their aggregate take their purport from the setting in which they are used.' " *Ibid.* (quoting *NLRB v. Federbush Co.*, 121 F.2d 954, 957 (C.A.2 1941) (L. Hand, J.)). Accordingly, and relatedly, courts should, to the extent possible, read statutes so that " 'no clause, sentence, or word shall be superfluous, void, or insignificant.' " *TRW Inc. v. Andrews*, 534 U.S. 19, 31, 122 S.Ct. 441, 151 L.Ed.2d 339 (2001).[1]

[139 S.Ct. 2310] Here, Congress used not only the word "scandalous," but also the words "immoral" and "disparage," in the same block of statutory text— each as a separate feature that could render a mark unregistrable. See § 1052(a). *Tam* already decided that "disparage" served to prohibit marks that were offensive because they derided a particular person or group. See 582 U.S. at __, 137 S.Ct., at 1749 (opinion of ALITO, J.) ("It denies registration to any mark that is offensive to a substantial percentage of the members of any group"); id., at __, 137 S.Ct., at 1750 (opinion of Kennedy, J.) ("[A]n applicant may register a positive or benign mark but not a derogatory one"). That defines one of the three words. Meanwhile, as the majority explains, the word "immoral" prohibits marks that are offensive because they transgress widely held moral beliefs. See *ante*, at 2299 - 2300. That defines a second of the three words.

With marks that are offensive because they are disparaging and marks that are offensive because they are immoral already covered, what work did Congress intend for "scandalous" to do? A logical answer is that Congress meant for "scandalous" to target a third and distinct type of offensiveness: offensiveness in the mode of communication rather than the idea. The other two words cover marks that are offensive because of the ideas they express; the "scandalous" clause covers marks that are offensive because of the mode of expression, apart from any particular message or idea.

To be sure, there are situations in which it makes sense to treat adjoining words as expressing the same or highly similar concepts (even at the risk of some redundancy). Cf. *Swearingen v. United States*, 161 U.S. 446, 450, 16 S.Ct. 562, 40 L.Ed. 765 (1896) (construing " 'obscene, lewd or lascivious' " to have a unified meaning). That is essentially the approach that the majority takes. See *ante*, at 2300.[2] But that is not the approach that Congress appears to have intended here. For example, "scandalous" does not serve as a broader catchall at the end of a list of similar words that all point in one direction. *E.g.,Washington State Dept. of Social and Health Servs. v. Guardianship Estate of Keffeler*, 537 U.S. 371, 384, 123 S.Ct. 1017, 154 L.Ed.2d 972 (2003). Nor is "scandalous" simply grouped among a number of closely related terms that help define its meaning. *E.g.,Gustafson v. Alloyd Co.*, 513 U.S. 561, 575, 115 S.Ct. 1061, 131 L.Ed.2d 1 (1995).

The text of § 1052, instead, is a grab bag: It bars the registration of marks featuring "immoral, deceptive, or scandalous matter," as well as, *inter alia*, disparaging marks, flags, insignias, mislabeled wines, and deceased Presidents. See § § 1052(a)-(e). This is not, in other words, a situation in which Congress was simply being "verbos[e] and proli[x]," *Bruesewitz v. Wyeth LLC*, 562 U.S. 223, 236, 131 S.Ct. 1068, 179 L.Ed.2d 1 (2011), using two synonyms in rapid-fire succession when one would have done fine. Instead, "scandalous" and "immoral" are separated by an unrelated word ("deceptive") and mixed in with a lengthy series of other, unrelated concepts. The

[139 S.Ct. 2311] two therefore need not be interpreted as mutually reinforcing under the Court's precedents. See *Graham County Soil and Water Conservation Dist. v. United States ex rel. Wilson*, 559 U.S. 280, 288, 130 S.Ct. 1396, 176 L.Ed.2d 225 (2010).

For that reason, while the majority offers a reasonable reading of "scandalous," it also unnecessarily and ill-advisedly collapses the words "scandalous" and "immoral." Instead, it should treat them as each holding a distinct, nonredundant meaning, with "immoral" covering marks that are offensive because they transgress social norms, and "scandalous" covering marks that are offensive because of the mode in which they are expressed.

What would it mean for "scandalous" in § 1052(a) to cover only offensive modes of expression? The most obvious ways— indeed, perhaps the only conceivable ways— in which a trademark can be expressed in a shocking or offensive manner are when the speaker employs obscenity, vulgarity, or profanity.[3] Obscenity has long been defined by this Court's decision in *Miller v. California*, 413 U.S. 15, 93 S.Ct. 2607, 37 L.Ed.2d 419 (1973). See *id.*, at 24-26, 93 S.Ct. 2607. As for what constitutes "scandalous" vulgarity or profanity, I do not offer a list, but I do interpret the term to allow the PTO to restrict (and potentially promulgate guidance to clarify) the small group of lewd words or "swear" words that cause a visceral reaction, that are not commonly used around children, and that are prohibited in comparable settings.[4] Cf. 18 U.S.C. § 1464 (prohibiting "obscene, indecent, or profane language" in radio communications); *FCC v. Pacifica Foundation*, 438 U.S. 726, 746, and n. 22, 98 S.Ct. 3026, 57 L.Ed.2d 1073 (1978) (opinion of Stevens, J.) (regulator's objection to a monologue containing various "four-letter words" was not to its "point of view, but to the way in which it [wa]s expressed"); 46 C.F.R. § 67.117(b)(3) (2018) (Coast Guard regulation prohibiting vessel names that "contain" or are "phonetically identical to obscene, indecent, or profane language, or to racial or ethnic epithets"); see also Jacobs, *The Public Sensibilities Forum*, 95 Nw. U. L.Rev. 1357, 1416-1417, and n. 432 (2001) (noting that "swear words" are "perhaps more than any other categor[y] capable of specific articulation" and citing one state agency's list). Of course, "scandalous" offers its own limiting principle: if a word, though not exactly polite, cannot be said to be "scandalous"— *e.g.,* "shocking" or "extremely offensive," 8 Century Dictionary 5374— it is clearly not the kind of vulgarity or profanity that Congress intended to target. Everyone can think of a small number of words (including the apparent homonym of Brunetti's mark) that would, however, plainly qualify.[5]

[139 S.Ct. 2312] B

A limiting construction like the one just discussed is both appropriate in this context and consistent with past precedent. First, while a limiting construction must always be at least reasonable, there are contexts in which imposing such a construction is more appropriate than others. The most obvious example of a setting where more caution is required is in the realm of criminal statutes, where considerations such as the prohibition against vagueness and the rule of lenity come into play. See *Reno v. American Civil Liberties Union,* 521 U.S. 844, 872, 117 S.Ct. 2329, 138 L.Ed.2d 874 (1997) (noting that "[t]he severity of criminal sanctions" can increase First Amendment concerns); *Board of Airport Comm'rs of Los Angeles v. Jews for Jesus, Inc.,* 482 U.S. 569, 575-576, 107 S.Ct. 2568, 96 L.Ed.2d 500 (1987) (declining to apply a limiting construction to a provision that banned " 'First Amendment activities' " from an airport and noting that the limiting construction proposed would " 'confe[r] on police a virtually unrestrained power to arrest and charge persons with a violation,' " leading to " 'self-evident' " " 'opportunity for abuse' "). Here, however, the question is only whether the Government must be forced to provide the ancillary benefit of trademark registration to pre-existing trademarks that use even the most extreme obscenity, vulgarity, or profanity. The stakes are far removed from a situation in which, say, Brunetti was facing a threat to his liberty, or even his right to use and enforce his trademark in commerce.

Second, the Court has in the past accepted or applied similarly narrow constructions to avoid constitutional infirmities. In *Chaplinsky v. New Hampshire,* 315 U.S. 568, 62 S.Ct. 766, 86 L.Ed. 1031 (1942), for example, the Court accepted the New Hampshire Supreme Court's narrowing of a state statute covering " 'any offensive, derisive or annoying word,' " *id.,* at 569, 62 S.Ct. 766, to reach only those words that would strike the average person as being "plainly likely to cause a breach of the peace by the addressee," *id.,* at 573, 62 S.Ct. 766. "[T]hus construed," this Court decided, the statute did not violate the right to free speech. *Ibid.* ; see also *Boos v. Barry,* 485 U.S. 312, 329-330, 108 S.Ct. 1157, 99 L.Ed.2d 333 (1988) (accepting Court of Appeals' construction of a statute making it illegal " 'to congregate within 500 feet of any [embassy, legation, or consulate] and refuse to disperse after having been ordered so to do by the police' " to reach only "congregations that are directed at an embassy" and " 'only when the police reasonably believe that a threat to the security or peace of the embassy is present' ").

In *Frisby v. Schultz,* 487 U.S. 474, 108 S.Ct. 2495, 101 L.Ed.2d 420 (1988), the Court addressed an ordinance that prohibited " 'picketing before or about the residence or dwelling of any individual.' " *Id.,* at 477, 108 S.Ct. 2495. The Court construed the statute to reach only "focused picketing taking place solely in front of a particular residence." *Id.,* at 483, 108 S.Ct. 2495. Given that "narrow scope," the statute [139 S.Ct. 2313] was not facially unconstitutional. *Id.,* at 488, 108 S.Ct. 2495; see also *In re Brunetti,* 877 F.3d 1330, 1358 (C.A. Fed. 2017) (Dyk, J., concurring in judgment) (noting this Court's narrow constructions of federal obscenity statutes).

Taking the word "scandalous" to target only those marks that employ an offensive mode of expression follows a similar practice. To be sure, the word could be read more broadly, thereby sweeping unconstitutionally into viewpoint discrimination. And imposing a limiting construction is, of course, "not a license for the judiciary to rewrite language enacted by the legislature." *United States v. Albertini,* 472 U.S. 675, 680, 105 S.Ct. 2897, 86 L.Ed.2d 536 (1985). But where the Court can reasonably read a statute like this one to save it, the Court should do so. See *Stern v. Marshall,* 564 U.S. 462, 477-478, 131 S.Ct. 2594, 180 L.Ed.2d 475 (2011); *NLRB v. Jones & Laughlin Steel Corp.,* 301 U.S. 1, 30, 57 S.Ct. 615, 81 L.Ed. 893 (1937).

II

Adopting a narrow construction for the word "scandalous"— interpreting it to regulate only obscenity, vulgarity, and profanity— would save it from unconstitutionality. Properly narrowed, "scandalous" is a viewpoint-neutral form of content discrimination that is permissible in the kind of discretionary governmental program or limited forum typified by the trademark-registration system.

A

Content discrimination occurs whenever a government regulates "particular speech because of the topic discussed or the idea or message expressed." *Reed v. Town of Gilbert,* 576 U.S. __, __, 135 S.Ct. 2218, 2227, 192 L.Ed.2d 236 (2015); see also *Ward v. Rock Against Racism,* 491 U.S. 781, 791, 109 S.Ct. 2746, 105 L.Ed.2d 661 (1989) ("Government regulation of expressive activity is content neutral so long as it is '*justified* without reference to the content of the regulated speech' "). Viewpoint discrimination is "an egregious form of content discrimination" in which "the government targets not subject matter, but particular views taken by speakers on a subject." *Rosenberger v. Rector and Visitors of Univ. of Va.,* 515 U.S. 819, 829, 115 S.Ct. 2510, 132 L.Ed.2d 700 (1995).

While the line between viewpoint-based and viewpoint-neutral content discrimination can be "slippery," see Corbin, *Mixed Speech: When Speech Is Both Private and Governmental*, 83 N.Y. U. L.Rev. 605, 651 (2008), it is in any event clear that a regulation is not viewpoint discriminatory (or even content discriminatory) simply because it has an "incidental effect" on a certain subset of views. *Ward*, 491 U.S. at 791, 109 S.Ct. 2746. Some people, for example, may have the viewpoint that society should be more sexually liberated and feel that they cannot express that view sufficiently without the use of pornographic words or images. That does not automatically make a restriction on pornography into viewpoint discrimination, despite the fact that such a restriction limits communicating one's views on sexual liberation in that way. See *ibid.* ; *Renton v. Playtime Theatres, Inc.,* 475 U.S. 41, 48, 106 S.Ct. 925, 89 L.Ed.2d 29 (1986).

Restrictions on particular modes of expression do not inherently qualify as viewpoint discrimination; they are not by nature examples of "the government target[ing] ... particular views taken by speakers on a subject." *Rosenberger*, 515 U.S. at 829, 115 S.Ct. 2510. For example, a ban on lighting fires in the town square does not facially violate the First Amendment simply because it makes it marginally harder for would-be flag-burners to

[139 S.Ct. 2314] express their views in that place. See *R. A. V. v. St. Paul,* 505 U.S. 377, 385, 112 S.Ct. 2538, 120 L.Ed.2d 305 (1992). By the same token, "fighting words are categorically excluded from the protection of the First Amendment" not because they have no content or express no viewpoint (often quite the opposite), but because "their content embodies a particularly intolerable (and socially unnecessary) *mode* of expressing *whatever* idea the speaker wishes to convey." *Id.,* at 393, 112 S.Ct. 2538; see *id.,* at 385-386, 112 S.Ct. 2538; cf. *Bolger v. Youngs Drug Products Corp.,* 463 U.S. 60, 84, 103 S.Ct. 2875, 77 L.Ed.2d 469 (1983) (Stevens, J., concurring in judgment) ("It matters whether a law regulates communications for their ideas or for their style").

A restriction on trademarks featuring obscenity, vulgarity, or profanity is similarly viewpoint neutral, though it is naturally content-based.[6] See R. A. V., 505 U.S. at 383, 112 S.Ct. 2538 (kinds of speech like "obscenity, defamation, etc." may "be regulated because of their constitutionally proscribable content" (emphasis deleted)); see also Bethel School Dist. No. 403 v. Fraser, 478 U.S. 675, 685, 106 S.Ct. 3159, 92 L.Ed.2d 549 (1986) (treating punishment of "offensively lewd and indecent speech" as viewpoint neutral); *Pacifica,* 438 U.S. at 745-746, and n. 22, 98 S.Ct. 3026 (treating regulation of profane monologue as viewpoint neutral). Indeed, the statute that the Court upheld in *Chaplinsky* itself had been construed to cover, among other kinds of "disorderly words," "profanity, obscenity and threats," 315 U.S. at 573, 62 S.Ct. 766, despite the fact that such words had been used in that case to communicate an expressive message, *id.,* at 574, 62 S.Ct. 766. To treat a restriction on vulgarity, profanity, or obscenity as viewpoint discrimination would upend decades of precedent.[7]

Brunetti invokes *Cohen v. California,* 403 U.S. 15, 91 S.Ct. 1780, 29 L.Ed.2d 284 (1971), to argue that the restriction at issue here is viewpoint discriminatory. But *Cohen* — which did not employ the precise taxonomy that is more common today— does not reach as far as Brunetti wants. *Cohen* arose in the criminal context: Cohen had been arrested and imprisoned under a California criminal statute targeting disturbances of the peace because he was "wearing a jacket bearing the words 'F[***] the Draft.' " *Id.,* at 16, 91 S.Ct. 1780. The Court held that applying that statute to Cohen because of his jacket violated the First Amendment. *Id.,* at 26, 91 S.Ct. 1780. But the Court did not suggest that the State had targeted Cohen to suppress his view itself (*i.e.,* his sharp distaste for the draft), such that it would [139 S.Ct. 2315] have accepted an equally colorful statement of praise for the draft (or hostility toward war protesters). Rather, the Court suggested that the State had simply engaged in what later courts would more precisely call viewpoint-neutral content discrimination— it had regulated "the form or content of individual expression." *Id.,* at 24, 91 S.Ct. 1780; see *id.,* at 25-26, 91 S.Ct. 1780.

Cohen also famously recognized that "words are often chosen as much for their emotive as their cognitive force," *id.,* at 26, 91 S.Ct. 1780, and that "one man's vulgarity is another's lyric," *id.,* at 25, 91 S.Ct. 1780. That is all consistent with observing that a plain, blanket restriction on profanity (regardless of the idea to which it is attached) is a viewpoint-neutral form of content discrimination. The essence of *Cohen's* discussion is that profanity can serve to tweak (or amplify) the viewpoint that a message expresses, such that it can be hard to disentangle the profanity from the underlying message— without the profanity, the message is not quite the same. See *id.,* at 25-26, 91 S.Ct. 1780. But those statements merely reinforce that profanity is still properly understood as protected First Amendment content. See also R. A. V., 505 U.S. at 384-385, 112 S.Ct. 2538. *Cohen's* discussion does not also go further to declare, as Brunetti suggests, that a provision that treats all instances of profanity equally is nevertheless by nature an instance of "the government target[ing] ... particular views taken by speakers on a subject." *Rosenberger*, 515 U.S. at 829, 115 S.Ct. 2510. To be sure, such a restriction could have the incidental effect of tamping down the overall volume of debate on all sides. But differential effects alone, as explained above, do not render a restriction viewpoint (or even content) discriminatory. See *Ward*, 491 U.S. at 791-792, 109 S.Ct. 2746.[8]

Cohen therefore does not resolve this case in Brunetti's favor. Yes, Brunetti has been, as Cohen was, subject to content discrimination, but that content discrimination is properly understood as viewpoint neutral. And whereas even viewpoint-neutral content discrimination is (in all but the most compelling cases, such as threats) impermissible in the context of a criminal prosecution like the one that Cohen faced, Brunetti is subject to such regulation only in the context of the federal trademark-registration system. I discuss next why that distinction matters.

B

While the Court has often subjected even viewpoint-neutral content discrimination to strict constitutional scrutiny, see, *e.g.,Reed*, 576 U.S. at __, 135 S.Ct., at 2227, there are contexts in which it does not, see, *e.g.,Rosenberger*, 515 U.S. at 829-830, 115 S.Ct. 2510. When that is the case, the difference between viewpoint-based and viewpoint-neutral content discrimination can be decisive. The federal

[139 S.Ct. 2316] trademark-registration system is such a context.

Rights to a trademark itself arise through use, not registration. Regardless of whether a trademark is registered, it can be used, owned, and enforced against would-be infringers. See *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 575 U.S. __, __, __, 135 S.Ct. 1293, 1299-1300, 1300-1301, 191 L.Ed.2d 222 (2015). Trademark registration, meanwhile, confers several ancillary benefits on trademark-holders who meet Congress' specifications, including for example, additional protections against infringers. See *ante*, at 2297 - 2298; *Tam*, 582 U.S. at __, 137 S.Ct., at 1753. Registering a mark in the Government's searchable register puts the world on notice (whether actual or constructive) that a party is asserting ownership of that mark.[9] Registration, in short, is a helpful system, but it is one that the Government is under no obligation to establish and that is collateral to the existence and use of trademarks themselves. There is no evidence that speech or commerce would be endangered if the Government were not to provide it at all.

When the Court has talked about governmental initiatives like this one before, it has usually used one of two general labels. In several cases, the Court has treated such initiatives as a limited public (or nonpublic) forum. See, *e.g.,Christian Legal Soc. Chapter of Univ. of Cal., Hastings College of Law v. Martinez,* 561 U.S. 661, 669-670, 682, 130 S.Ct. 2971, 177 L.Ed.2d 838 (2010) (" 'Registered Student Organization' " program providing various financial and nonfinancial benefits to recognized law-school student groups); *Rosenberger*, 515 U.S. at 823-824, 829-830, 115 S.Ct. 2510 ("Student Activities Fund" for registered campus student groups); *Cornelius v. NAACP Legal Defense & Ed. Fund, Inc.*, 473 U.S. 788, 790-791, 799-801, 806, 105 S.Ct. 3439, 87 L.Ed.2d 567 (1985) ("Combined Federal Campaign" literature enabling approved charitable organizations to solicit donations from federal employees). In other situations, the Court has discussed similar initiatives as government programs or subsidies. See, *e.g.,Legal Services Corporation v. Velazquez,* 531 U.S. 533, 536, 543-544, 121 S.Ct. 1043, 149 L.Ed.2d 63 (2001) (government program distributing funds to legal-services organizations); *National Endowment for Arts v. Finley,* 524 U.S. 569, 573, 585-587, 118 S.Ct. 2168, 141 L.Ed.2d 500 (1998) (competitive government grant-making program to support the arts).[10] In each of these situations, a governmental body established an initiative that supported some forms of expression without restricting others. Some speakers were better off, but no speakers were worse off.

Regardless of the finer distinctions between these labels, reasonable, viewpoint-neutral

[139 S.Ct. 2317] content discrimination is generally permissible under either framework. See *Christian Legal Soc.*, 561 U.S. at 679, 130 S.Ct. 2971 ("Any access barrier must be reasonable and viewpoint neutral"); *Velazquez,* 531 U.S. at 543-544, 548-549, 121 S.Ct. 1043 (analogizing to limited-forum cases and explaining that "[w]here private speech is involved, even Congress' antecedent funding decision cannot be aimed at the suppression of ideas thought inimical to the Government's own interest"); see also *Ysursa v. Pocatello Ed. Assn.*, 555 U.S. 353, 355, 129 S.Ct. 1093, 172 L.Ed.2d 770 (2009) (finding government conduct that did not restrict speech but simply "decline[d] to promote" it valid where it was "reasonable in light of the State's interest"). Perhaps for that reason, the Court has often discussed the two frameworks as at least closely related. See, *e.g.,Christian Legal Society*, 561 U.S. at 682, 130 S.Ct. 2971 ("[T]his case fits comfortably within the limited-public forum category, for [the plaintiff], in seeking what is effectively a state subsidy, faces only indirect pressure ... "); *Velazquez*, 531 U.S. at 544, 121 S.Ct. 1043 ("As this suit involves a subsidy, limited forum cases ... may not be controlling in a strict sense, yet they do provide some instruction").

Whichever label one chooses here, the federal system of trademark registration fits: It is, in essence, an opportunity to include one's trademark on a list and thereby secure the ancillary benefits that come with registration.[11] Just as in the limited-forum and government-program cases, some speakers benefit, but no speakers are harmed. Brunetti, for example, can use, own, and enforce his mark regardless of whether it has been registered. Whether he may register his mark can therefore turn on reasonable, viewpoint-neutral content regulations.[12]

C

Prohibiting the registration of obscene, profane, or vulgar marks qualifies as reasonable, viewpoint-neutral, content-based regulation. Apart from any interest in regulating commerce itself, the Government has an interest in not promoting certain kinds of speech, whether because such speech could be perceived as suggesting governmental favoritism or simply because the Government does not wish to involve itself with that kind of speech. See, *e.g.,Ysursa*, 555 U.S. at 359-360, 129 S.Ct. 1093; *Cornelius,* 473 U.S. at 809, 105 S.Ct. 3439. While "there is no evidence that the public associates the contents of trademarks with the Federal Government," *Tam*, 582 U.S. at __, 137 S.Ct., at 1760, registration nevertheless entails Government involvement in promoting a particular mark. Registration requires the Government to publish the mark, as well as to take steps to combat international infringement. See 15 U.S.C. § § 1062, 1124; see also Brief for United States 35. The Government has a reasonable interest in refraining from lending its ancillary support to marks that are obscene, vulgar, or profane. Cf. *Hustler Magazine, Inc. v. Falwell,* 485 U.S. 46, 56, 108 S.Ct. 876, 99 L.Ed.2d 41 (1988) ("[S]peech that is vulgar,

[139 S.Ct. 2318] offensive, and shocking is not entitled to absolute constitutional protection under all circumstances" (internal quotation marks omitted)).

III

"The cardinal principle of statutory construction is to save and not to destroy." *Jones & Laughlin Steel Corp.*, 301 U.S. at 30, 57 S.Ct. 615; see also *Hooper v. California,* 155 U.S. 648, 657, 15 S.Ct. 207, 39 L.Ed. 297 (1895) ("The elementary rule is that every reasonable construction must be resorted to, in order to save a statute from unconstitutionality"). In directing the PTO to deny the ancillary benefit of registration to trademarks featuring "scandalous" content, Congress used a word that is susceptible of different meanings. The majority's reading would render the provision unconstitutional; mine would save it. Under these circumstances, the Court ought to adopt the narrower construction, rather than permit a rush to register trademarks for even the most viscerally offensive words and images that one can imagine.[13]

That said, I emphasize that Brunetti's challenge is a facial one. That means that he must show that " 'a substantial number of [the scandalous-marks provision's] applications are unconstitutional, judged in relation to the [provision's] plainly legitimate sweep.' " *United States v. Stevens,* 559 U.S. 460, 473, 130 S.Ct. 1577, 176 L.Ed.2d 435 (2010). With "scandalous" narrowed to reach only obscene, profane, and vulgar content, the provision would not be overly broad. Cf. *Frisby*, 487 U.S. at 488, 108 S.Ct. 2495 (rejecting a facial challenge after adopting a limiting construction); *Boos*, 485 U.S. at 331, 108 S.Ct. 1157 (same). Even so, hard cases would remain, and I would expect courts to take seriously as-applied challenges demonstrating a danger that the provision had been used to restrict speech based on the views expressed rather than the mode of expression.[14] Cf. *Finley*, 524 U.S. at 587, 118 S.Ct. 2168 (reserving the possibility of as-applied challenges).

Freedom of speech is a cornerstone of our society, and the First Amendment protects Brunetti's right to use words like the one at issue here. The Government need not, however, be forced to confer on Brunetti's trademark (and some more extreme) the ancillary benefit of trademark registration, when "scandalous" in § 1052(a) can reasonably be read to bar the registration of only those marks that are obscene, vulgar, or profane. Though I concur as to the unconstitutionality of the term "immoral" in § 1052(a), I respectfully dissent as to the term "scandalous" in the same statute and would instead uphold it under the narrow construction discussed here.

Notes:

[*] 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, 26 S.Ct. 282, 50 L.Ed. 499.

[*] We reject the dissent's statutory surgery for the same reason. Although conceding that the term "immoral" cannot be saved, the dissent thinks that the term "scandalous" can be read as the Government proposes. See *post,* at 2308 - 2309 (SOTOMAYOR, J., concurring in part and dissenting in part). But that term is not "ambiguous," as the dissent argues, *post,* at 2309; it is just broad. Remember that the dictionaries define it to mean offensive, disreputable, exciting reprobation, and so forth. See *supra,* at 2299 - 2300; *post,* at 2309 (accepting those definitions). Even if hived off from "immoral" marks, the category of scandalous marks thus includes *both* marks that offend by the ideas they convey *and* marks that offend by their mode of expression. And its coverage of the former means that it discriminates based on viewpoint. We say nothing at all about a statute that covers only the latter— or, in the

Government's more concrete description, a statute limited to lewd, sexually explicit, and profane marks. Nor do we say anything about how to evaluate viewpoint-neutral restrictions on trademark registration, see *post,* at 2315 - 2317— because the "scandalous" bar (whether or not attached to the "immoral" bar) is not one.

[1] *For example, McDonnell v. United States,* 579 U.S. __, 136 S.Ct. 2355, 195 L.Ed.2d 639 (2016), involved a statute that defined an " 'official act' " as " 'any decision or action on any question, matter, cause, suit, proceeding or controversy.' " *Id.,* at __, 136 S.Ct., at 2367. The Court declined to read " 'question' " and " 'matter' " as covering "a typical meeting, call, or event arranged by a public official" because doing so would deprive the words " 'cause, suit, proceeding or controversy' " of meaning. *Id.,* at __, 136 S.Ct., at 2369

[2] That interpretive move appears to accord with the Federal Circuit and the PTO's past practice. *Ante,* at 2297 - 2298. Nevertheless, it is by no means the only reasonable way to read this text, and indeed some courts have suggested that "scandalous" can and should be applied independently of "immoral," see, *e.g.,In re McGinley*, 660 F.2d 481, 485, n. 6 (CCPA 1981).

[3] Other modes of expression, such as fighting words or extremely loud noises, could also be called shocking or offensive in certain contexts, see *R. A. V. v. St. Paul,* 505 U.S. 377, 386, 112 S.Ct. 2538, 120 L.Ed.2d 305 (1992), but it is hard to see how they would apply in the context of a trademark.

[4] Although the Government represents, and case law and scholarship appear to confirm, that "scandalous" in § 1052(a) has often been applied to cover this kind of content, see Brief for United States 27; *In re Boulevard Entertainment, Inc.,* 334 F.3d 1336, 1340 (C.A. Fed. 2003); Snow, Denying Trademark for Scandalous Speech, 51 U. C. D. L.Rev. 2331, 2339 (2018) (Snow), the majority notes that the PTO has hardly amassed a perfect track record of consistency, see *ante*, at 2299 - 2301. Be that as it may, the Government undeniably receives a large volume of trademark applications that easily would fit under this rubric (examples of which I will spare the reader). See *In re Brunetti,* 877 F.3d 1330, 1355 (C.A. Fed. 2017) (noting an appendix containing marks denied registration "whose offensiveness cannot be reasonably questioned"). As a result of today's ruling, all of those marks will now presumably have to be registered.

[5] There is at least one particularly egregious racial epithet that would fit this description as well. *While Matal v. Tam,* 582 U.S. __, 137 S.Ct. 1744, 198 L.Ed.2d 366 (2017), removed a statutory basis to deny the registration of racial epithets in general, the Government represented at oral argument that it is holding in abeyance trademark applications that use that particular epithet. See Tr. of Oral Arg. 61. As a result of today's ruling, the Government will now presumably be compelled to register marks containing that epithet as well rather than treating it as a "scandalous" form of profanity under § 1052(a).

[6] Of course, obscenity itself is subject to a longstanding exception to First Amendment protection, see *Brown v. Entertainment Merchants Assn.,* 564 U.S. 786, 791, 131 S.Ct. 2729, 180 L.Ed.2d 708 (2011), so it is proscribable in any event. As for vulgarity and profanity, however, they are not subject to any such exception, and a regulation like § 1052(a)'s ban on the registration of scandalous marks is not " 'justified without reference to the content of the regulated speech' " in the way that a simple regulation of time, place, or manner *is. Ward v. Rock Against Racism,* 491 U.S. 781, 791, 109 S.Ct. 2746, 105 L.Ed.2d 661 (1989) (emphasis deleted).

[7] It would also risk destabilizing government practice in a number of other contexts. Governments regulate vulgarity and profanity, for example, on city-owned buses and billboards, *e.g.,American Freedom Defense Initiative v. Massachusetts Bay Transp. Auth.,* 989 F.Supp.2d 182, 183 (D. Mass. 2013) (noting such a prohibition), on registered vessels, 46 C.F.R. § 67.117(b)(3) (Coast Guard regulations), and at school events, *e.g.,* Bethel School Dist. No. 403 v. Fraser, 478 U.S. 675, 677-678, 685, 106 S.Ct. 3159, 92 L.Ed.2d 549 (1986) (upholding discipline of high school student).

[8] That does not mean, of course, that a government may elude harsher scrutiny or invalidation of a regulation by simply claiming disinterest in a speaker's message, see *United States v. Eichman,* 496 U.S. 310, 315-317, 110 S.Ct. 2404, 110 L.Ed.2d 287 (1990), or by concealing an attempt to favor some views over others in superficially neutral garb, see *Renton v. Playtime Theatres, Inc.,* 475 U.S. 41, 46-49, 106 S.Ct. 925, 89 L.Ed.2d 29 (1986); *cf. Church of Lukumi Babalu Aye, Inc. v. Hialeah,* 508 U.S. 520, 533-534, 113 S.Ct. 2217, 124 L.Ed.2d 472 (1993). But there is no evidence in the record from which to conclude that Congress enacted the scandalous-marks provision in order to advantage certain views over others. And where a denial of trademark registration by the PTO raises such a concern, it would be proper for an applicant to bring an as-applied challenge. See *infra,* at 2317 - 2318.

[9] See 15 U.S.C. § 1072; U.S. Patent & Trademark Office, Search Trademark Database, https://www.uspto.gov/trademarks-application-process/search-trademark-database (as last visited June 20, 2019).

[10] In *Tam,* four Justices concluded that cash-subsidy programs like the one in *Finley* were "not instructive in

analyzing" trademark registration. 582 U. S., at __, 137 S.Ct., at 1761 (opinion of ALITO, J.). Trademark registration differs, of course, because any "subsidy" comes in the form of a noncash benefit, but that difference does not foreclose understanding the registration system as a beneficial, noncash governmental program. No Justice, meanwhile, rejected the limited-public-forum analogy, see *id.*, at __ - __, and n . 16, 137 S.Ct., at 1763, and n. 16 (calling such cases "[p]otentially more analogous" and reserving the question), and scholars have noted arguments for adopting it. See Snow 2364-2366; Katyal, *Trademark Intersectionality*, 57 UCLA L.Rev. 1601, 1676-1681 (2010); Lefstin, Note, *Does the First Amendment Bar Cancellation of REDSKINS? 52 Stan. L. Rev* . 665, 706-707 (2000).

[11] Not every registration system would necessarily fit the same bill, whether because not every such system invites expressive content like trademarks or simply because other forms of registration may not be so ancillary as to qualify solely as a "benefit."

[12] Though I do not address the constitutionality of provisions not before the Court, I note as well that the "scandalous" bar in § 1052(a) is hardly the only provision in § 1052 that could be characterized as content discriminatory. See, *e.g.,* § 1052(b) (no flags or insignias); § 1052(c) (no unapproved markers of deceased U.S. Presidents during the lives of their spouses).

[13] As noted above, I agree with the majority that § 1052(a)'s bar on the registration of "immoral" marks is unconstitutional viewpoint discrimination. See *supra,* at 2308 - 2309. I would simply sever that provision and uphold the bar on "scandalous" marks. See *Reno v. American Civil Liberties Union,* 521 U.S. 844, 882-883, 117 S.Ct. 2329, 138 L.Ed.2d 874 (1997); *Brockett v. Spokane Arcades, Inc.,* 472 U.S. 491, 504-507, 105 S.Ct. 2794, 86 L.Ed.2d 394 (1985); see also *Tam*, 582 U.S. at __, 137 S.Ct., at 1765 (striking down only the disparagement clause).

[14] The majority adverts to details in the record that could call into question whether the PTO engaged in viewpoint discrimination in this very case. See *ante,* at 2298. Because a facial challenge is the only challenge before the Court, I do not address whether an as-applied challenge could have merit here.

Page 171

915 F.3d 171 (4th Cir. 2019)

BOOKING.COM B.V., Plaintiff-Appellee,

v.

The UNITED STATES PATENT AND TRADEMARK OFFICE; Andrei Iancu, in His Official Capacity as Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, Defendants-Appellants.

American Intellectual Property Law Association, Amicus Curiae.

Booking.com B.V., Plaintiff-Appellant,

v.

The United States Patent and Trademark Office; Andrei Iancu, in His Official Capacity as Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, Defendants-Appellees.

American Intellectual Property Law Association, Amicus Curiae.

Nos. 17-2458, 17-2459

United States Court of Appeals, Fourth Circuit

February 4, 2019

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Page 172

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Page 173

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Page 174

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Page 175

Appeals from the United States District Court for the Eastern District of Virginia, at Alexandria. Leonie M. Brinkema, District Judge. (1:16-cv-425-LMB-IDD)

ARGUED:

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ON BRIEF:

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Myra H. McCormack, President, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, Arlington, Virginia; Theodore H. Davis, Jr., Jennifer R. Findley, Alexandra N. Martinez, KILPATRICK TOWNSEND & STOCKTON LLP, Atlanta, Georgia, for Amicus Curiae.

Before KING, DUNCAN, and WYNN, Circuit Judges.

Affirmed by published opinion. Judge Duncan wrote the opinion, in which Judge King concurred. Judge Wynn wrote a separate opinion concurring in part and dissenting in part.

OPINION

DUNCAN, Circuit Judge:

The United States Patent and Trademark Office (the "USPTO") and Booking.com ("Booking.com") both appeal the district court's summary judgment ruling regarding the protectability of the proposed trademark BOOKING.COM.[1] The USPTO appeals on the ground that the district court erred in concluding that BOOKING.COM is a protectable mark. Booking.com cross appeals, arguing that it should not be required to pay the

USPTO's attorneys fees under 15 U.S.C. § 1071(b)(3). For the reasons that follow we affirm as to both the appeal and the cross-appeal.

I.

Before we recount the facts of this case, we briefly discuss the legal trademark context in which it arises. Trademark law protects the goodwill represented by particular marks and serves the twin objectives of preventing consumer confusion between products and the sources of those products, on the one hand, and protecting the linguistic commons by preventing exclusive use of terms that represent their common meaning, on the other. *OBX-Stock, Inc. v. Bicast, Inc.,* 558 F.3d 334, 339-40 (4th Cir. 2009).

In order to be protectable, marks must be "distinctive." To determine whether a proposed mark is protectable, courts ascertain the strength of the mark by placing it into one of four categories of distinctiveness, in ascending order: (1) generic,

Page 177

(2) descriptive, (3) suggestive, or (4) arbitrary or fanciful. *George & Co. v. Imagination Entm't Ltd.,* 575 F.3d 383, 393-94 (4th Cir. 2009). Marks falling into the latter two categories are deemed inherently distinctive and are entitled to protection because their intrinsic nature serves to identify the particular source of a product. In contrast, descriptive terms may be distinctive only upon certain showings, and generic terms are never distinctive. This dispute concerns only the first two of these four categories, with Booking.com arguing the mark is descriptive and the USPTO arguing it is generic.

A term is generic if it is the "common name of a product" or "the genus of which the particular product is a species," such as LITE BEER for light beer, or CONVENIENT STORE for convenience stores. *OBX-Stock, Inc*., 558 F.3d at 340. Generic terms do not contain source-identifying significance— they do not distinguish the particular product or service from other products or services on the market. George & Co., 575 F.3d at 394. Accordingly, generic terms can never obtain trademark protection, as trademarking a generic term effectively grants the owner a monopoly over a term in common coinage. If protection were allowed, a competitor could not describe his goods or services as what they are. *CES Publ'g Corp. v. St. Regis Publ'ns, Inc.,* 531 F.2d 11, 13 (2d Cir. 1975).

In contrast, descriptive terms, which may be protectable, describe a "function, use, characteristic, size, or intended purpose of the product," such as 5 MINUTE GLUE or KING SIZE MEN'S CLOTHING. *Sara Lee Corp. v. Kayser-Roth Corp.,* 81 F.3d 455, 464 (4th Cir. 1996). In order to be protected, a descriptive term must have acquired secondary meaning. *Hunt Masters, Inc. v. Landry's Seafood Rest., Inc.,* 240 F.3d 251, 254 (4th Cir. 2001). Secondary meaning indicates that a term has become sufficiently distinctive to establish a mental association in the relevant public's minds between the proposed mark and the source of the product or service. *George & Co.,* 575 F.3d at 394.

Against this background, we consider the facts before us.

II.

Booking.com operates a website on which customers can book travel and hotel accommodations. It has used the name BOOKING.COM since at least 2006. In 2011 and 2012, Booking.com filed four trademark applications for the use of BOOKING.COM as a word mark and for stylized versions of the mark with the USPTO. Booking.com sought registration for, inter alia, Class 43 services, which include online hotel reservation services.[2]

The USPTO examiner rejected Booking.com's applications, finding that the marks were not protectable because BOOKING.COM was generic as applied to the relevant services. In the alternative, the USPTO concluded that the marks were merely descriptive and that Booking.com had failed to establish that they had acquired secondary meaning as required for trademark protection. After the examiner denied Booking.com's motion for reconsideration, Booking.com appealed to

Page 178

the Trademark Trial and Appeal Board (the "TTAB").

The TTAB affirmed the USPTO's four refusals of registration in three separate opinions. These opinions all concluded that BOOKING.COM was a generic term for the services offered, and therefore ineligible for trademark protection, because "booking" generically refers to "a reservation or arrangement to buy a travel ticket or stay in a hotel room" or "the act of reserving such travel or accommodation"; ".com" indicates a commercial website; and consumers would understand the resulting composite BOOKING.COM to primarily refer to an online reservation service for travel, tours, and lodging, which are the services proposed in Booking.com's applications. *Booking.com B.V. v. Matal,* 278 F.Supp.3d 891, 896 (E.D. Va. 2017) (summarizing the TTAB's findings). In the alternative, the TTAB concluded that BOOKING.COM is merely descriptive of Booking.com's services and that Booking.com had failed to demonstrate that the mark had acquired secondary meaning, as required for trademark protection.

Booking.com appealed the TTAB's decisions by filing this civil action under 15 U.S.C. § 1071(b) against the USPTO and the USPTO's director in the Eastern District of Virginia in April 2016.[3] It argued that BOOKING.COM was a descriptive or suggestive mark eligible for protection. In support of its argument, Booking.com submitted new evidence to the district court. This evidence included a "Teflon survey,"[4] indicating that 74.8% of consumers recognized BOOKING.COM as a brand rather than a generic service.

The district court held that although "booking" was a generic term for the services identified, BOOKING.COM *as a whole* was nevertheless a descriptive mark. The district court further determined that Booking.com had met its burden of demonstrating that the proposed mark had acquired secondary meaning, and therefore was protectable, as to the hotel reservation services described in Class 43. The court therefore partially granted Booking.com's motion for summary judgment, ordering the USPTO to register two of the marks and remanded for further administrative proceedings as to the other two.

The USPTO subsequently filed two motions. Pursuant to Federal Rule of Civil Procedure 59(e), the USPTO sought to amend the court's order requiring the USPTO to register the two trademarks, requesting instead that the court remand for further administrative proceedings. It also filed a motion for expenses pursuant to 15 U.S.C. § 1071(b)(3), which would require Booking.com to pay $76,873.61 of the USPTO's expenses under 15 U.S.C. § 1071(b)(3). These expenses included the salaries of the PTO's attorneys and paralegals that worked on the defense action. The district court denied the USPTO's motion to amend as to the two marks, reasoning that they were registerable as trademarks and that no further administrative proceedings were necessary. However, the district court granted the USPTO's motion for expenses. Both the USPTO and Booking.com appealed. The USPTO and Booking.com challenge, respectively, whether BOOKING.COM is protectable, and

Page 179

whether Booking.com must pay the USPTO's attorneys fees.

III.

We turn first to the USPTO's contention that the district court erred in concluding that BOOKING.COM is a protectable trademark. According to the USPTO, BOOKING.COM is a generic, not a descriptive, term that can never be protected.

We review a district court's grant of summary judgment based on the conclusion that a mark is sufficiently distinctive to warrant trademark protection de novo. *Retail Servs. Inc. v. Freebies Publ'g,* 364 F.3d 535, 541-42 (4th Cir. 2004). The question of whether a proposed mark is generic is a question of fact that is subject to deferential review. *SeeSwatch AG v. Beehive Wholesale, LLC,* 739 F.3d 150, 155 (4th Cir. 2014) (citing *Pizzeria Uno Corp. v. Temple,* 747 F.2d 1522, 1533 (4th Cir. 1984)).

Critically to our analysis, the USPTO concedes that if BOOKING.COM may properly be deemed descriptive, the district court's finding that it has acquired secondary meaning was warranted. Rather, the USPTO only challenges the district court's determination that BOOKING.COM is not generic. Therefore, the limited question on appeal is whether the district court erred in finding that BOOKING.COM is not generic. For the reasons that follow, we conclude that the district court did not err in finding that there was no genuine issue of material fact on the issue of genericness and that, on these facts, BOOKING.COM is a protectable trademark.

Before undertaking our analysis, two issues pertinent to the genericness inquiry bear further elaboration: first, who bears the burden of proving genericness, and second, the framework for determining whether a proposed mark is generic.

A.

We have never directly addressed the issue of which party bears the burden of proving genericness on appeal when registration of a mark is denied.[5] However, the Federal Circuit has long held, and we agree, that in registration proceedings, the USPTO "always bears the burden" of establishing that a proposed mark is generic. *In re Cordua Rests., Inc.*, 823 F.3d 594, 600 (Fed. Cir. 2016); *seeIn re Merrill Lynch, Pierce, Fenner, and Smith, Inc.*, 828 F.2d 1567, 1571 (Fed. Cir. 1987) (explaining that the burden of proving genericness "*remains* with" the PTO) (emphasis added). This is so because finding a mark to be generic carries significant consequence, as it forecloses an applicant from any rights over the mark— once a mark is determined to be generic, it can never receive trademark protection. *See* 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 12:12 (5th ed. 2018) (explaining that finding a mark to be generic is a "fateful step" as it may result in the "loss of rights which could be valuable intellectual property").

We therefore hold here that the USPTO bears the burden of proving that

Page 180

BOOKING.COM is generic in the instant case.

B.

We next discuss the framework for determining whether a mark is generic. As we have discussed, generic terms are the "common name of a product or service itself." *Sara Lee*, 81 F.3d at 464. To determine whether a term is generic, we follow a three-step test: (1) identify the class of product or service to which use of the mark is relevant; (2) identify the relevant consuming public; and (3) determine whether the primary significance of the mark to the relevant public is as an indication of the nature of the class of the product or services to which the mark relates, which suggests that it is generic, or an indication of the source or brand, which suggests that it is not generic.[6] *Glover v. Ampak, Inc.*, 74 F.3d 57, 59 (4th Cir. 1996).

Once a term is deemed generic, it cannot subsequently become non-generic. A term may be generic if, for example, it was previously determined to be generic by a court. *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 117, 59 S.Ct. 109, 83 L.Ed. 73 (1938) (finding that "shredded wheat" was generic because a court had already deemed it to be so). A term may also be deemed generic where evidence suggests that a term was "commonly used prior to its association with the products [or services] at issue." *Hunt Masters*, 240 F.3d at 254-55. In such cases of common usage, a court may find that a term is generic even without looking to evidence of consumer recognition. *Id.* For example, in *Hunt Masters*, we found that the term "crab house" was commonly used, as there were many restaurants called "crab houses" across the country, *id*. at 254 n.1, and concluded, therefore, that the district court did not err in declining to consider consumer survey evidence.

If a term is deemed generic, subsequent consumer recognition of the term as brand-specific cannot change that determination. *See Retail Servs., Inc.,* 364 F.3d at 547. Indeed, courts have explained that "no matter how much money and effort the user of a generic term has poured into promoting the sale of its merchandise and what success it has achieved in securing public identification," that user cannot claim the exclusive right through trademark protection to call the product or service by its common name. *Abercrombie & Fitch Co. v. Hunting World, Inc.,* 537 F.2d 4, 9 (2d Cir. 1976).

In this case, neither party disputes the district court's finding at the first step: that the mark is used to identify the class or product to which it belongs— here, making hotel reservations for others. Nor do

Page 181

they disagree as to step two: that the relevant purchasing public consists of consumers who use hotel reservation services offered via the internet or in person. Instead, the dispute arises at the third step: the public's understanding of what the term BOOKING.COM primarily refers to.

To ascertain the public's understanding of a term, courts may look to "purchaser testimony, consumer surveys, listings and dictionaries, trade journals, newspapers, and other publications." *Glover*, 74 F.3d at 59. For example, in determining that the term "ale house" was generic for a facility that serves both food and beer, we considered newspaper articles and restaurant reviews that referred to such facilities as "ale houses," as well as the lack of evidence suggesting that it was not a generic term for such institutions. *Ale House Mgmt., Inc. v. Raleigh Ale House, Inc.,* 205 F.3d 137, 140-41 (4th Cir. 2000).

In assessing whether a term is understood by the relevant public to primarily refer to the service or the source, we look to the proposed mark *as a whole, seeHunt Masters*, 240 F.3d at 254 ("[A] mark must be considered as a whole to determine its validity."). Even where a proposed mark is a phrase or a compound term, such as "crab house" or "ale house," the relevant inquiry is the public's understanding of the entire mark, not its understanding of the mark's separate components independently. *Estate of P.D. Beckwith, Inc. v. Comm'r of Patents,* 252 U.S. 538, 545-46, 40 S.Ct. 414, 64 L.Ed. 705 (1920).

With this framework for genericness in mind, we turn to the USPTO's contention on appeal that the district court erred in finding that BOOKING.COM is a descriptive, rather than a generic, mark.

C.

We hold that the district court, in weighing the evidence before it, did not err in finding that the USPTO failed to satisfy its burden of proving that the relevant public understood BOOKING.COM, taken *as a whole*, to refer to general online hotel reservation services rather than Booking.com the company. Because the USPTO concedes that, if the mark is descriptive, it is protectable, this ends our inquiry. In affirming the district court's finding, we reject the USPTO's contention that adding the top-level domain (a "TLD") .com to a generic second-level domain (an "SLD") like booking can never yield a non-generic mark. We turn first to the district court's finding on genericness before addressing the USPTO's proposed rule.

i.

Genericness is a question of fact to which the district court, as the trier of fact, is accorded great deference.[7] *SeeSwatch AG,* 739 F.3d at 155. Here, in finding that the public's understanding of BOOKING.COM, taken as a whole, establishes it as a descriptive mark rather than a generic term, the district court relied on two main factors: the USPTO's lack of evidence demonstrating that the public uses "booking.com" generically, and Booking.com's Teflon survey. We conclude that

Page 182

the district court did not err in finding that the evidence weighed in favor of finding BOOKING.COM to be non-generic.

First, the district court found "highly relevant" the absence of evidence by the USPTO that consumers commonly refer to online hotel reservation services as "bookings.com." *Booking.com B.V.,* 278 F.Supp.3d at 914. Instead, the court determined that the USPTO's evidence demonstrated that such services are referred to as "booking website(s)," or "booking site(s)." *Id.*

While the USPTO identified other domain names that contain "booking.com"— such as "hotelbooking.com" and "ebooking.com"— to support its argument that the relevant public understands BOOKING.COM to refer to online hotel booking services, the district court did not err in finding this evidence less probative of common usage. It is true that some courts have found the use of a proposed mark in longer domain names to be evidence in support of finding that term generic. *See, e.g., Advertise.com, Inc. v. AOL Advertising, Inc.,* 616 F.3d 974, 980-81 (9th Cir. 2010) (finding that the way in which ADVERTISING.COM was used in other domain names was evidence of genericness); *In re Hotels.com, L.P.*, 573 F.3d 1300, 1304 (Fed. Cir. 2009) (same for HOTELS.COM); *In re Reed Elsevier Props., Inc.*, 482 F.3d 1376, 1380 (Fed. Cir. 2007) (same for LAWYERS.COM). We note, however, that although those courts recognized that the inclusion of the proposed mark in longer domain names was strong evidence of genericness, they nonetheless remained open to considering consumer surveys to determine the public's understanding of the proposed mark. *See, e.g., In re Hotels.com*, 573 F.3d at 1304-05 (finding that the TTAB did not err in determining that the term was generic, citing in part concerns arising from the methodology of the applicant's consumer survey). Moreover, using the characters "booking.com" or "bookings.com" in a longer domain name does not necessarily mean that BOOKING.COM is generic. Unlike "hotels" or "lawyers," "booking" is used to describe a plethora of reservation services, including, for example, theatrical or musical engagements. *See Booking.com B.V.,* 278 F.Supp.3d at 904 (quoting Random House: Unabridged Dictionary (2d ed. 1993)). Including booking.com in a longer domain name therefore does not necessarily demonstrate that consumers would understand BOOKING.COM to identify any website that provides hotel reservation services. In fact, the record evidence demonstrates the opposite.

The USPTO challenges the court's weighing of this evidence, contending that the district court erred in emphasizing that the public does not *use* "booking.com" to refer to the relevant services, and instead should have evaluated whether the public would *understand* the term to refer to those services. We agree with the USPTO that the ultimate inquiry in determining whether a term is generic is what the public *understands* the proposed mark to mean. *Glover*, 74 F.3d at 59. Nonetheless, courts have considered usage to be probative of the public's understanding. *CompareIn re Dial-A-Mattress*, 240 F.3d 1341, 1346 (Fed. Cir. 2001) (finding that a mark was not generic where there was no evidence that the relevant public referred to the class of shop-at-home mattress retailers as "1-888-M-A-T-R-E-S-S"), *withFrito-Lay N. Am. Inc. v. Princeton Vanguard, LLC,* 124 U.S.P.Q.2d 1184 at *6-10 (TTAB 2017) (finding "pretzel crisp" to be generic where the record evidence, including newspaper articles and food blogs, used the term to refer to the genus of snack products rather than a particular brand), and

Page 183

Ale House Mgmt., 205 F.3d at 140-41 (finding "ale house" to be generic for facilities that serve food and beer where newspaper articles and restaurant reviews referred to such facilities as "ale houses"). It is therefore not error for a court to consider, as the court did here, evidence of the public's use of a term in evaluating its primary significance to the public.[8] And in any event, as we will discuss, the consumer surveys in this record suggest that the public primarily *understands* BOOKING.COM to indicate the company rather than the service.

Second, the district court also considered Booking.com's Teflon survey, which demonstrates that 74.8% of respondents identified BOOKING.COM as a brand name, rather than as a general reference to hotel reservation websites. Such consumer surveys are the "preferred method of proving genericness." *Princeton Vanguard, LLC v. Frito-Lay N. Am., Inc.,* 786 F.3d 960, 970 (Fed. Cir. 2015) (citation omitted). Indeed, courts have recognized that "[c]onsumer surveys have become almost de rigueur in litigation over genericness." *Berner Int'l Corp. v. Mars Sales Co.,* 987 F.2d 975, 982-83 (3d Cir. 1993) (internal quotation marks and citation omitted). Accordingly, where, as here, the district court found that the survey was methodologically sound, the survey is strong evidence that the public does not understand BOOKING.COM to refer to the proposed mark's generic meaning.

On appeal, the USPTO does not contest the validity of the survey or its methodology. Instead, it relies on dicta in *Hunt Masters* to argue that the district court erred in considering the survey at all. 240 F.3d at 254-55. Its reliance is misplaced; our reasoning in that case does not apply here. In *Hunt Masters*, we considered whether the owners of "the Charleston Crab House," who sought to enjoin a competitor from using the name "The Crab House," had a protected proprietary interest in the term "crab house." We declined to find such an interest because we determined that "crab house" was a generic term referring to a class of restaurants that serve crabs. *Id*. at 254. In so determining, we held that the district court did not err in declining to consider the plaintiff's consumer survey. We explained that there are two ways in which terms may be classified as generic— "(1) where the term began life as a 'coined term' " that had become generic through common usage, and "(2) where the term was commonly used prior to its association with the products at issue"— and that while consumer surveys are relevant to determining whether a term is generic in the former scenario, they are not in the latter. *Id*. at 254-55. Contrary to the USPTO's contention, *Hunt Masters* does not control where, as here, the district court determined based on the dearth of evidence in the record that the proposed mark was not commonly used. As such, the proposed mark does not fall within the category of terms for which survey evidence is irrelevant.

Weighing the evidence before it, the district court did not err in finding that the USPTO did not satisfy its burden of showing that BOOKING.COM is generic. It is axiomatic that determinations regarding the relative weight of evidence are left for the trier of fact. *SeeIn re Hotels.com*, 573 F.3d at 1305-06 (finding that the trier of fact, the TTAB, could reasonably have given controlling weight to dictionary definitions

Page 184

and similar uses of "hotels" with a .com suffix over a consumer survey with questionable methodology). Here, the district court, acting as the trier of fact in reviewing Booking.com's trademark application de novo, did not err in placing greater weight on the consumer survey over other evidence, like dictionary definitions, in assessing the primary significance to the public. *See Mars Sales Co.,* 987 F.2d at 982-83 (explaining that direct consumer evidence, e.g., consumer surveys and testimony, "is preferable to indirect forms of evidence" like dictionaries and trade journals).

We therefore conclude that the district court did not err in finding that BOOKING.COM is a descriptive, rather than generic, mark.

ii.

The USPTO nevertheless contends that adding the top-level domain ".com" to a generic second-level domain like "booking" is *necessarily* generic, and that the district court therefore erred in finding that BOOKING.COM was non-generic. The USPTO advances two theories as reasons for adopting a per se rule against protecting terms like BOOKING.COM. For the reasons that follow, we decline to adopt such an approach under either theory.

First, the USPTO relies on an 1888 Supreme Court case to argue that, as a matter of law, adding .com to a generic SLD like booking can never be nongeneric. In *Goodyear's Rubber Mfg. Co. v. Goodyear Rubber Co.,* 128 U.S. 598, 602-03, 9 S.Ct. 166, 32 L.Ed. 535 (1888), the Court held that the addition of commercial indicators such as "Company" to terms that merely describe classes of goods could not be trademarked, like "Grain Company" or, as the Dissent provides, "The Grocery Store." According to the USPTO, ".com" is analytically indistinct from "company," as it is a generic identifier for an entity operating a commercial website, and therefore its addition to a generic term can never be protected. However, *Goodyear* was decided almost sixty years before the Lanham Act and, crucially, did not apply the primary significance test. No circuit has adopted the bright line rule for which the USPTO advocates— indeed, sister circuits have found that when ".com" is added to a generic TLD, the mark may be protectable upon a sufficient showing of the public's understanding through consumer surveys or other evidence. *See, e.g., Advertise.com, Inc.,* 616 F.3d at 982; *In re Hotels.com*, 573 F.3d at 1304-05. We similarly decline to do so here.

Second, the USPTO argues that the proposed mark is per se generic because it is nothing more than the sum of its component parts. It contends that "booking" is a generic term for hotel reservation services, that ".com" is generic for an online company, and that when combined the resulting composite is generic for the online booking services at issue here because a member of the relevant public would understand BOOKING.COM to name an online booking website. Therefore, the USPTO contends, BOOKING.COM is generic. We disagree that it is necessarily so.

We begin by discussing the genericness inquiry as it applies to compound terms. When confronted with a compound term like PRETZEL CRISPS, courts may consider as a first step the meaning of each of the term's component marks; but as we explained in *Hunt Masters*, the ultimate inquiry examines what the public primarily perceives the term *as a whole* to refer to. 240 F.3d at 254. For example, in determining whether PRETZEL CRISPS is generic, a court may first determine based on dictionary definitions and other competent sources that PRETZEL is primarily understood to refer to the genus of

Page 185

pretzels, and that CRISPS would be understood as primarily referring to crackers. *Frito-Lay N. Am., Inc.*, 124 U.S.P.Q.2d 1184 at *4, 21. But the court must also consider evidence— such as use in newspaper articles or food blogs— to determine whether the term PRETZEL CRISPS is perceived primarily to refer to a crispy pretzel or to a particular source. *Id*. at *22.

Where the proposed mark is a composite that includes .com, we clarify that, contrary to the district court's suggestion, .com does not itself have source-identifying significance when added to an SLD like booking.[9] *See, e.g., In re Hotels.com*, 573 F.3d at 1304 (explaining that the generic term "hotels" did not lose its generic character by placement in the domain name HOTELS.COM); McCarthy on Trademarks, § 7:17.50 (explaining that a TLD like .com "has no source indicating significance and cannot serve any trademark purpose"). Merely appending .com to an SLD does not render the resulting domain name non-generic because the inquiry is whether the public primarily understands the term *as a whole* to refer to the source or the proffered service.[10]

For the same reason, neither is it the case, as the USPTO would have it, that assuming booking and .com are each generic terms according to their respective dictionary definitions, and that together they describe the service provided, this necessarily ends the genericness inquiry. Within this inquiry, dictionary definitions, though "relevant and sometimes persuasive" to the genericness inquiry based on the assumption that such definitions generally reflect the public's perception of a word's meaning, are not necessarily dispositive or controlling. *Retail Servs., Inc.*, 364 F.3d at 544-45. Instead, where, as here, the court found that the term was not previously commonly used, it may consider additional evidence like consumer surveys in making its genericness determination.[11] This is particularly true where the mark involves a domain name. Unlike general terms such as "crab house," *seeHunt Masters*, 240 F.3d at 254-55, looking to the component parts of a domain name may not unambiguously represent the primary significance of the term as a whole given that the relevant public may recognize domain names to indicate specific locations

Page 186

on the internet. *SeeIn re Hotels.com*, 573 F.3d at 1305 (acknowledging that "consumers may automatically equate a domain name with a brand name") (citation omitted). Thus, even where the domain-name-as-mark technically describes the service provided, it does not necessarily follow that the public commonly understands the mark to refer to the service broadly speaking.

We therefore decline to adopt a per se rule and conclude that when ".com" is combined with an SLD, even a generic SLD, the resulting composite may be non-generic where evidence demonstrates that the mark's primary significance to the public as a whole is the source, not the product.

This approach comports with that taken by our sister circuits, who have similarly declined to adopt a per se rule against protecting domain names, even where they are formed by combining generic terms with TLDs. *See, e.g., Advertise.com Inc.*, 616 F.3d at 978-79; *In re Steelbuilding.com*, 415 F.3d 1293, 1299 (Fed. Cir. 2005). These courts have left open the possibility that in "rare circumstances" a TLD may render a term sufficiently distinctive to be protected as a trademark. *SeeIn re Steelbuilding.com*, 415 F.3d at 1299.

Tellingly, even where courts have found that the individual components of a domain name mark are independently generic, and that when added together the resulting composite merely describes the genus of the service provided, courts still considered other evidence such as consumer surveys in determining whether the mark was generic. For instance, in determining whether ADVERTISING.COM was generic, the Ninth Circuit explained that even though both "advertising" and ".com" were generic, and that ADVERTISING.COM conveyed only the genus of the services offered, it was possible "that *consumer surveys or other evidence* might ultimately demonstrate that [the] mark is valid and protectable." *Advertise.com, Inc*., 616 F.3d at 982 (emphasis added); *seeIn re Hotels.com*, 573 F.3d at 1304-05 (considering a consumer survey regarding the public's understanding of HOTELS.COM even though it determined that "hotels" and ".com" were independently generic and that the combination did not produce new meaning). While these courts have generally found the resulting composite of adding ".com" to certain SLDs to be generic,[12] they have nonetheless acknowledged that on rare occasions such marks may be non-generic. Here, the district court did not err in determining that this case presents one such rare occasion where the record evidence supported a finding that the USPTO failed to meet its burden of proving that the public primarily understood BOOKING.COM to refer to the genus of online hotel reservation services, rather than the company or brand itself.

We are not unsympathetic to the USPTO's concerns that granting trademark protection over BOOKING.COM may prevent other companies

Page 187

from using the mark. *See* OBX-Stock, Inc., 558 F.3d at 339-40 (noting trademark law's twin concerns). However, these concerns are assuaged by two considerations. First, because trademarks only protect the relevant service— here, the district court granted protection as to hotel reservation services but not travel agency services— protection over BOOKING.COM would not necessarily preclude another company from using, for example, carbooking.com or flightbooking.com.[13] Second, the purported overbreadth of the mark can be addressed in proceedings regarding the scope of the trademark's protection. To enforce a mark, a plaintiff must prove in a trademark infringement suit that there is a "likelihood of confusion"— that is, whether "the defendant's actual practice is likely to produce confusion in the minds of consumers about the origin of the goods or services in question." George & Co., 575 F.3d at 393 (citation omitted); *Pizzeria Uno*, 747 F.2d at 1527. Infringement plaintiffs often must show "actual confusion." *George & Co.*, 575 F.3d at 393. Given that domain names are unique by nature and that the public may understand a domain name as indicating a single site, it may be more difficult for domain name plaintiffs to demonstrate a likelihood of confusion.

In sum, adding ".com" to an SLD can result in a non-generic, descriptive mark upon a showing of primary significance to the relevant public. This is one such case. Based on the record before it, the district court properly found that the USPTO did not meet its burden of proving that "booking.com" is generic. We therefore affirm the court's finding that BOOKING.COM is descriptive. Because the USPTO does not challenge the district court's finding that BOOKING.COM has acquired secondary meaning where the mark is deemed descriptive, we affirm the district court's partial grant of summary judgment finding that BOOKING.COM is protectable as a trademark.

IV.

We turn now to Booking.com's contention that it should not be required to pay the USPTO's attorneys fees under 15 U.S.C. § 1071(b)(3). Under the Lanham Act, a dissatisfied trademark applicant may seek review of an adverse ruling on his trademark application either by appealing the USPTO's ruling to the Federal Circuit, 15 U.S.C. § 1071(a)(1), or by commencing a de novo action in a federal district court, id. § 1071(b)(1). If the applicant chooses to appeal to the Federal Circuit, the appeal is taken "on the record" before the USPTO, id. § 1071(a)(4), and the court defers to the USPTO's factual findings unless they are unsupported by substantial evidence. *Shammas v. Focarino*, 784 F.3d 219, 225 (4th Cir. 2015). In contrast, if he chooses to appeal in a district court, the parties may conduct discovery and submit evidence beyond the record before the USPTO, which the district court reviews de novo as the trier of fact. *Id.* Crucially, if the applicant decides to challenge the USPTO's ruling in the district court, the applicant must pay "*all the expenses of the proceeding* ... whether the final decision is in favor of such party or not." 15 U.S.C. § 1071(b)(3) (emphasis added).

Pursuant to this statute, the district court granted the USPTO's motion requiring

Page 188

Booking.com to pay $76,873.61 of its expenses, $51,472.53 of which constituted the prorated salaries of its attorneys and paralegals who worked on the matter. In reaching this decision, the district court relied on our precedent in *Shammas*, which held that "all the expenses of the proceeding" under § 1071(b)(3) includes attorneys fees. *Id*. at 224.

In so holding in *Shammas*, we first concluded that the "American Rule"— the bedrock principle that each litigant pays his own attorneys fees unless Congress has specifically and explicitly provided otherwise— was inapplicable to the provision because the rule applies "only where the award of attorneys fees turns on whether a party seeking fees has prevailed to at least some degree." 784 F.3d at 223. Accordingly, we interpreted the phrase "all the expenses of the proceeding" for "its ordinary meaning without regard to the American Rule," and concluded that it included attorneys fees. *Id*. at 224.

Whether the American Rule applies to § 1071(b)(3), however, has since been called into question. Relying on our decision in *Shammas*, the Federal Circuit previously held that a nearly identical provision of the Patent Act, 35 U.S.C. § 145, included attorneys fees. *Nantkwest, Inc. v. Matal*, 860 F.3d 1352, 1355 (Fed. Cir. 2017). Subsequently, however, the Federal Circuit reversed its decision en banc, squarely rejecting our reasoning in *Shammas* ; it now holds that attorneys fees are not covered under that provision. *Nantkwest, Inc. v. Iancu*, 898 F.3d 1177, 1185 (Fed. Cir. 2018) (en banc). Moreover, the year after we decided *Shammas*, the Supreme Court applied the American Rule to a bankruptcy statute that did not mention a prevailing party. *SeeBaker Botts L.L.P. v. ASARCO LLC*, __ U.S. __, 135 S.Ct. 2158, 2165, 192 L.Ed.2d 208 (2015).

These subsequent developments suggest that the American Rule's requirement that Congress "clearly and directly" express an intent to deviate from that rule may apply to § 1071(b)(3)— a statute that, if read to include attorneys fees, anomalously requires an appealing party to pay the prorated salaries of government attorneys.

Nonetheless, *Shammas* remains the law in this circuit, and as long as we continue to be bound by that precedent we must affirm the district court's grant of attorneys fees.

V.

For the foregoing reasons, we affirm the district court's partial grant of summary judgment to Booking.com as to the protectability of its trademark applications, and we affirm the district court's grant of the USPTO's motion for expenses.

AFFIRMED

WYNN, Circuit Judge, concurring in part and dissenting in part:

This case addresses a problem that Booking.com chose to bring upon itself. Because trademark law does not protect generic terms, an online business, like Booking.com, has two options in choosing its domain name. On the one hand, it can choose to operate under a generic domain[1]

Page 189

that describes the nature of the services it offers, and thereby attract the wealth of customers who simply search the web for that service. However, in electing that benefit, the entity accepts a trade-off. It must forego the ability to exclude competitors from using close variants of its domain name. On the other hand, the entity can choose to operate under a non-generic domain name— and thereby potentially limit, at least before it has built consumer awareness of its branding, the universe of potential customers who will find its business. Trademark law affords an entity that selects this latter option a special benefit. It can bar competitors from trading on any goodwill and recognition it generates in its domain name.

Booking.com chose the former approach— to operate under a generic domain name and forego the ability to exclude competitors from using close variants of its domain name. But in the face of recognizing that "booking" is a generic term, the district court creatively decided that combining the generic term "booking" with the generic top-level domain ".com" rendered it non-generic. In doing so, the district court's judgment— which the majority opinion concedes was grounded in legal error, but nonetheless declines to set aside— allows Booking.com to have its cake and eat it too. Booking.com gets to operate under a domain that merely describes the nature of its business *and* exclude its competitors from doing the same.

Booking.com maintains that such a result is warranted to prevent "unscrupulous competitors [from] prey[ing] on its millions of loyal consumers," Appellee's Br. at 38. But to the extent Booking.com fears that its competitors are using the terms "booking" and ".com" in ways that might confuse its customers, "this is the peril of attempting to build a brand around a generic term." *Advertise.com, Inc. v. AOL Advert., Inc.*, 616 F.3d 974, 980 n.6 (9th Cir. 2010). Accordingly, although I agree with much of the analysis in the majority opinion,[2] I part ways with my colleagues' decision to nevertheless affirm the district court's judgment that BOOKING.COM is a protectable trademark.

That decision rests upon my colleagues' determination that the district court's factual findings pertaining to genericness should be "accorded great deference," *Ante* at 181, regarding whether a proposed

Page 190

mark is generic— *i.e.*, whether a proposed mark is nothing more than the "common name of a product or service itself," *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 464 (4th Cir. 1996)— which is a question of fact generally subject to clear error review, *seeSwatch AG v. Beehive Wholesale, LLC*, 739 F.3d 150, 155 (4th Cir. 2014). But "we owe no deference to the district court's findings if they are derived as a result of the court's misapplication of the law." *Sara Lee*, 81 F.3d at 464 (citation omitted); *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1526 (4th Cir. 1984) ("[T]he clearly erroneous rule [will not] protect findings which have been made on the basis of the application of incorrect legal standards or made in disregard of applicable legal standards, such as burden of proof" (citations omitted)). When a finding derives from a district court's "application of an improper standard to the facts, it may be corrected as a matter of law." *United States v. Singer Mfg. Co.*, 374 U.S. 174, 194 n.9, 83 S.Ct. 1773, 10 L.Ed.2d 823 (1963). In such cases, the clearly erroneous standard is no longer applicable. *SeeUnited States v. Rodriguez-Morales*, 929 F.2d 780, 783 (1st Cir. 1991) ("Of course, if the lower court applies the wrong legal standard, no deference attaches, and we must proceed to correct the error.").

Here, the district court rendered the legal "conclu[sion]" that "when combined with a[ ] [Secondary Level Domain], a [Top Level Domain] generally has source identifying significance and the combination of a generic [Secondary Level Domain] and a [Top Level Domain] is generally a descriptive mark that is protectable upon a showing of acquired distinctiveness." *Booking.com B.V. v. Matal*, 278 F.Supp.3d 891, 909 (E.D. Va. 2017). Put differently, the district court concluded that, as a matter of law, "the combination of a generic [Secondary Level Domain] and a [Top Level Domain]" is *presumptively descriptive* and protectable upon a showing of acquired distinctiveness. *Id.*

Notably, in adopting this presumption, the district court expressly rejected the approach taken by the Federal Circuit in cases, like the instant case, involving a proposed trademark that combines a generic Secondary Level Domain with a Top Level Domain. *See id*. at 908-10. The majority opinion rejects that legal presumption but nevertheless defers to the district court's factual finding that BOOKING.COM is descriptive, and therefore protectable, on the theory that that finding was *not tainted* by the district court's legal error. *See Ante* at __ n.9. But a close examination of the district court's opinion reveals that the district court's legal error did play a role in the court's ultimate determination that BOOKING.COM is descriptive.

In particular, because the district court *presumed* that "the combination of a generic [Secondary Level Domain] and a [Top Level Domain]" is descriptive, *Booking.com*, 278 F.Supp.3d at 909, it subjected the registrant to a less onerous evidentiary burden for establishing descriptiveness than the law demands. This is evident for two reasons.

First, the district court's ultimate determination— that the proposed mark BOOKING.COM is descriptive— conflicts with the determination that *every other court* has reached in cases, like the instant case, involving the registration or enforcement of a proposed mark composed of a generic Secondary Level Domain and a Top Level Domain.[3] For instance, the Federal Circuit

Page 191

found that the generic term "hotels" "did not lose its generic character by placement in the domain name HOTELS.COM." *In re Hotels.com*, 573 F.3d 1300, 1304 (Fed. Cir. 2009). Instead, consumers would "immediately understand that HOTELS.COM identifies a website" that provides "information about hotels or making reservations at hotels." *Id.* The Federal Circuit also affirmed the finding of the Trademark Trial and Appeal Board (the "Trademark Board") that many other websites that used the word "hotels" in their domain names, such as "all-hotels.com" and "web-hotels.com," demonstrated "a competitive need for others to use [the term] as part of their own domain names." *Id.*

Likewise, in *In re Reed Elsevier Properties*, the Federal Circuit found it to be "abundantly clear" that the proposed mark in question, "LAWYERS.COM," was generic because "the relevant public would readily understand the term to identify a commercial web site providing access to and information about lawyers." 482 F.3d 1376, 1379-80 (Fed. Cir. 2007) (internal quotation marks omitted).

Similarly, in *In re 1800Mattress.com IP, LLC*, the Federal Circuit affirmed the Trademark Board's decision that the proposed mark MATTRESS.COM was generic because customers would naturally recognize the mark as referring to a commercial website providing retail services featuring mattresses. 586 F.3d 1359, 1364 (Fed. Cir. 2009). Notably, the Federal Circuit rejected the applicant's argument— which Booking.com also advances in this case and on which the district court relied, *seeBooking.com*, 278 F.Supp.3d at 914— that the term could not be generic because consumers did not refer to the stores as "mattresses.com[s]," *id.* (quoting *In re 1800Mattress.com IP, LLC*, 586 F.3d at 1362). Instead, the court agreed with the Trademark Board that the relevant public would understand MATTRESS.COM to be "no more than the sum of its constituent parts"— an online provider of mattresses. *Id.* at 1363.

Like the Federal Circuit, the Ninth Circuit has found that a generic Secondary Level Domain combined with a Top Level Domain does not generally amount to a protectable mark. In *Advertise.com*, the court considered whether AOL's claimed mark ADVERTISING.COM was protectable. 616 F.3d at 977. The district court below enjoined Advertise.com, a putative competitor of AOL's Advertising.com, from

Page 192

using its trade name or any other name confusingly similar to ADVERTISING.COM, concluding that AOL would likely succeed on its claim that the standard text mark ADVERTISING.COM was descriptive. *Id.* The Ninth Circuit held that the district court abused its discretion in entering the injunction because— like in the instant case— the district court applied an incorrect legal standard in determining whether a mark composed of a generic Secondary Level Domain and Top Level Domain is enforceable. *Id.* at 982. Engaging in its own analysis under the appropriate legal standard, the court held that AOL was unlikely to succeed on the merits because "ADVERTISING.COM still conveys only the generic nature of the services offered." *Id.* at 981-82.

Lower courts have followed *Hotels.com,Reed-Elsevier Properties*, 1800Mattress.com, and *Advertising.com* and refused to award trademark significance to proposed marks, like BOOKING.COM, combining a generic Secondary Level Domain with a Top Level Domain. *See, e.g., Borescopes R U.S. v.* 1800Endoscope.com, LLC, 728 F.Supp.2d 938, 952 (M.D. Tenn. 2010) (finding that the use of the term "borescopes" in companies' domain names "generically describes the class of product each sells"); *Image Online Design, Inc. v. Core Ass'n*, 120 F.Supp.2d 870, 878 (C.D. Cal. 2000) (noting that "a [Top Level Domain] and other non-distinctive modifiers of a URL like 'http://www' have no trademark significance"); *In Re Eddie Zs Blinds & Drapery, Inc.*, 74 U.S.P.Q.2d 1037 at *6 (T.T.A.B. 2005) (determining that BLINDSANDDRAPERY.COM was not one of the "exceptional circumstances" that should forestall a finding of genericness); *In Re Martin Container, Inc.*, 65 U.S.P.Q.2d 1058 at *5 (T.T.A.B. 2002), *appeal dismissed*, 56 Fed. App'x. 491 (Fed. Cir. 2003) (finding CONTAINER.COM generic because the combination of "container" and a Top Level Domain "does not result in a compound term that has somehow acquired" the ability to function as an indication of source).

A second indication that the district court's incorrect legal framework tainted its ultimate determination that

BOOKING.COM is protectable is that BOOKING.COM is not like the types of marks courts have recognized as among the "rare" occasions when adding a generic Secondary Level Domain to a Top Level Domain does not create a generic mark. Because Top Level Domains generally convey only that a business is web-based, it is "only in rare circumstances" that the combination of a generic Secondary Level Domain, on its own incapable of source identification, and ".com" will produce a composite mark that "expand[s] the meaning of the mark." *See, e.g.*, *Advertise.com*, 616 F.3d at 979 (quoting *In re Steelbuilding.com*, 415 F.3d 1293, 1299 (Fed. Cir. 2005)).

As an example of the "rare circumstance" in which a Top Level Domain could provide additional non-functional information, the Federal Circuit considered the possibility of a brick-and-mortar company that sold tennis equipment and operated under the name "tennis.net." *In re Oppedahl & Larson, LLP*, 373 F.3d 1171, 1175 (Fed. Cir. 2004). The court noted the "witty double entendre related to tennis nets" created by the combination of "tennis" and ".net" rendered such a usage distinguishable from a standard proposed mark combining a generic Secondary Level Domain with a Top Level Domain. *Id.*

Following *Oppedahl's* reasoning, if we were presented with a situation in which the ".com" was used in a way that played upon or expanded the meaning of its ordinary use as a Top Level Domain, registration might be appropriate. For instance, a

Page 193

website cataloguing and discussing romantic comedy movies of the 1980s, 1990s, and 2000s called "rom.com" might expand upon the ordinary meaning of the Top Level Domain, as it would both describe the commercial nature of the website, as well as convey the subject matter of the website.[4]

The tennis.net and rom.com examples are readily distinguishable from the instant case. The district court did not find— nor has Booking.com ever argued— that the combination of "booking"— a generic term— and ".com" amounts to a "witty double entendre" that expands the ordinary meanings of the proposed mark's component parts. Rather, BOOKING.COM is a run-of-the-mill combination of a generic term with a Top Level Domain that creates a composite mark concerning the subject or business encompassed by the generic term— precisely the type of mark that the courts in *Hotels.com*, *Reed Elsevier Properties*, *1800Mattress.com*, and *Advertise.com* found did not amount to the "rare circumstance" that warranted affording the domain name trademark protection.

BOOKING.COM's mark differs substantially from the types of proposed marks fitting into the "rare circumstances" in which a generic Secondary Level Domain and a Top Level Domain are protectable. This provides further evidence that the district court's incorrect legal test tainted its ultimate factual determination. Because the district court erroneously believed that marks combining a generic Secondary Level Domain and Top Level Domain are presumptively protectable, it never examined— as it should have— whether BOOKING.COM amounted to one of the "rare circumstances" when such marks are protectable.

The district court's incorrect legal test— the application of which my colleagues leave in place— upsets the careful balance the law has struck between assisting consumers to identify the source of goods and preserving the linguistic commons. Presumptively allowing protection of domain names composed of a generic Secondary Level Domain and Top Level Domain conflicts with the law's longstanding refusal to permit registration of generic terms as trademarks.

Fundamentally, the proscription against allowing generic terms to be trademarked stems from considerations regarding the monopolization of language. To permit generic terms to be trademarked "would grant the owner of the mark a monopoly, since a competitor could not describe his goods as what they are." *CES Publ'g Corp. v. St. Regis Publ'ns, Inc.*, 531 F.2d 11, 13 (2d Cir. 1975). This Court has long sought to foreclose such a result, holding that no single competitor has the right to "corner the market" on ordinary words and phrases, thereby enclosing the "public linguistic commons." *Am. Online, Inc. v. AT&T Corp.*, 243 F.3d 812, 821 (4th Cir. 2001); *see, e.g.*, *Ashley Furniture Indus. v. Sangiacomo N.A.*, 187 F.3d 363, 369 (4th Cir. 1999) (noting that the trade name "Pet

Page 194

Store" for a shop that sold pets would be generic).

Importantly, the law forbids trademarking generic terms, even when a putative mark holder engages in successful efforts to establish consumer recognition of an otherwise generic term. "[N]o matter how much money and effort the user of a generic term has poured into promoting the sale of its merchandise *and what success it has achieved in securing public identification*, it cannot deprive competing manufacturers of the product of the right to call an article by its name." *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976) (emphasis added). Therefore, even advertising, repeated use, and consumer association will not warrant affording trademark protection to a generic term. *SeeAm. Online*, 243 F.3d at 821 ("[T]he repeated use of ordinary words ... cannot give [a single company] a proprietary right over those words, even if an association develops between the words and [that company]."); *see also* *Surgicenters of Am., Inc. v. Med. Dental Surgeries, Co.,* 601 F.2d 1011, 1017 (9th Cir. 1979) (finding that even if a generic term becomes identified with a first user, trademark protection will not be available in the generic term).

The policy considerations underlying trademark law's refusal to protect generic terms apply regardless of whether the putative mark holder is a traditional brick-and-mortar business or located in cyberspace. As the PTO argues, a grocery business called The Grocery Store would— and should— never receive trademark protection because the name is generic— regardless of whether consumers associated the name with a particular entity. However, under the district court's erroneous approach— the consequences of which the majority leaves in place— if enough consumers recognized an online grocery business called "grocerystore.com," that business would be entitled to trademark protection. There is no basis in law or policy for drawing such a distinction. Just as competing brick-and-mortar grocery stores need to make use of the term "grocery" to inform customers of the nature of their businesses, so too do competing internet grocery providers need to make use of the term "grocery" in their domain names.

The district court's treatment of marks combining generic Secondary Level Domains and Top Level Domains as presumptively protectable also conflicts with precedent foreclosing protection of marks that combine a generic term with a generic commercial designation (e.g., "Company," "Corp.," or "Inc."). More than a hundred years ago, the Supreme Court held that the addition of commercial designations like these does not transform otherwise generic terms into protectable marks. *See* *Goodyear's India Rubber Glove Mfg. Co. v. Goodyear Rubber Co.,* 128 U.S. 598, 602-03, 9 S.Ct. 166, 32 L.Ed. 535 (1888).

Under *Goodyear's*, a brick-and-mortar reservation service operating under the term The Booking Company would not be able to receive a trademark in that name, regardless of the degree of brand recognition it generated or the number of consumers who identified it as a brand. *See* *Am. Online*, 243 F.3d at 821; *Abercrombie*, 537 F.2d at 9. Yet, under the district court's approach, the term BOOKING.COM is presumptively protectable. *Compare* *Advertise.com*, 616 F.3d at 982 ("That '.com,' when added to a generic term, 'indicates a commercial entity' does not suffice to establish that the composite is distinctive, much as AOL would not have created a

Page 195

protectable mark by adopting the designation 'Advertising Company.' ").

The district court concluded that "*Goodyear's* reasoning regarding corporate designators does not apply with equal force to domain names" because "adding a [Top Level Domain] such as '.com' to a generic [Secondary Level Domain] does more than indicate that a company offers services via the internet; it indicates a unique domain name that can only be owned by one entity." *Booking.com*, 278 F.Supp.3d at 910. But as the Federal Circuit has explained, "[a]lthough not a perfect analogy, the comparison of [Top Level Domains] (i.e., '.com,' '.org,' etc.) to entity designations such as 'Corp.' and 'Inc.' has merit." *Oppedahl*, 373 F.3d at 1175. "The commercial impression created by '.com' is similar to the impression created by 'Corp.' and 'Co.', that is, the association of a commercial entity with the mark." *Id.*

Additionally, the difference between an entity designation such as "Corp." and a Top Level Domain recognized by the district court is attributable to the functional nature of the internet. Although most Top Level Domains do suggest a relationship with the internet, a domain name "serves the purely technological function of locating a Web site in cyberspace." McCarthy on Trademarks, § 7:17.50. Functional features, however, cannot be the basis for trademark protection: "[E]ven if a functional feature has achieved consumer recognition (secondary meaning) of that feature as an indication of origin, the feature cannot serve as a legally protectable symbol." *Am. Online, Inc.,* 243 F.3d at 822-23. Yet that is precisely what the district court's legal test— the application of which my colleagues in the majority leave in place— does.

It is particularly important that we ensure that the district court's ultimate finding that BOOKING.COM is descriptive, and therefore protectable, was not tainted by its erroneous legal test because, as the PTO argues, trademark registration will provide Booking.com with a weapon to freeze out potential competitors. As explained above, trademark law's proscription on the registration of generic terms prevents firms from monopolizing language and allows competitors to "describe [their] goods as what they are." *CES Publ'g*, 531 F.2d at 13.

I believe that this Court's affirmance of the district court's judgment— even as it rejects the district court's legal analysis— unjustifiably empowers Booking.com to monopolize language, thereby enclosing the linguistic commons and adversely affecting competitors in precisely the manner that trademark law seeks to forestall. Put simply, the majority opinion's judgment will directly disadvantage Booking.com's competitors by taking away their ability to use the term "booking" in their own website domain names. Indeed, any competitors that attempt to use the term "booking" will face the risk of a costly, protracted, and uncertain infringement lawsuit.

Booking.com and the majority opinion assert that the potential harm to competitors— and therefore consumers— is minimal because: (1) the doctrine of descriptive fair use will prevent Booking.com from monopolizing the term; (2) the protection of BOOKING.COM extends only to *hotel* reservations, not to other reservation services; and (3) domain names are unique. I find none of these assertions persuasive.

Descriptive fair use is an affirmative defense that allows a competitor to use words contained in a trademark in their ordinary sense to describe the competitor's own goods or services to consumers.

Page 196

See KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 121-22, 125 S.Ct. 542, 160 L.Ed.2d 440 (2004). According to Booking.com, affording BOOKING.COM trademark protection will not adversely affect competition by depriving putative competitors from describing the nature of their business because such protection "will have no effect on competitors' right to make descriptive fair use of the word 'Booking.com.' " Appellee's Br. at 38. The district court agreed, noting that even if Booking.com were to successfully assert a *prima facie* case of trademark infringement by showing a likelihood of confusion between BOOKING.COM and a competitor's domain, the competitor could make use of the descriptive fair use doctrine to avoid liability.

For several reasons, I fear that the doctrine of descriptive fair use will provide Booking.com's competitors cold comfort. I am not convinced that the descriptive fair use defense will provide significant protection to competitors using the term "booking" in their own domain names. As the Ninth Circuit has explained, "granting trademark rights over a domain name composed of a generic term and a [Top Level Domain] grants the trademark holder rights over far more intellectual property than the domain name itself." *Advertise.com*, 616 F.3d at 980. Such trademark protection "would potentially reach almost any use of the generic term in a domain name." *Id*. at 981 (noting that any one of the thirty-two other domain names containing some form of the word "advertise" would be placed at risk of a lawsuit). Thus, notwithstanding the doctrine of descriptive fair use, a firm that obtains a trademark in a domain name that describes the service the firm provides, like Booking.com, may have the power "to foreclose competitors from using a vast array of simple, easy to remember domain names and designations that describe [such] services." *Id.*

Additionally, descriptive fair use is an affirmative defense, not an immunity from suit. Any online reservation business that chooses to include "booking" in its domain name will face the risk of defending an expensive infringement lawsuit. As a result, commercial competitors seeking to avoid litigation risk and expenses— even if they might ultimately prevail on descriptive fair use grounds— will be chilled from using the term.

My colleagues in the majority also emphasize that the district court awarded Booking.com protection for the mark *only* for Class 43 hotel services, not Class 39 travel agency services, meaning that "protection over BOOKING.COM would not *necessarily* preclude another company from using, for example, carbooking.com or flightbooking.com." *Ante* at 187 (emphasis added). But even assuming my colleagues' optimism that Booking.com could not preclude competitors from using domain names containing the word "booking" is well-founded— a decidedly uncertain question, *seeAdvertise.com*, 616 F.3d at 980-81— I see no reason why Booking.com should be entitled to monopolize the generic term "booking" in the online hotel reservation industry by precluding competitors from using domain names like hotelbooking.com or ehotelbooking.com,[5] which likewise describe such competitors' services "as what they are." *CES Publ'g*, 531 F.2d at 13. Put simply, there is no reason why monopolization of language should be allowed

Page 197

in the internet domain name context for *any* class of services when trademark law has consistently maintained that generic terms such as "booking" should be available in the public linguistic commons for all competitors to use.

Finally, my colleagues in the majority seek to assuage concerns that granting trademark protection over BOOKING.COM will prevent other companies from using variants of the mark by emphasizing that, to enforce the mark, Booking.com will have to prove that there is a "likelihood of confusion" with the allegedly infringing mark. *Ante* at 187. According to the majority, "[g]iven that domain names are unique by nature and that the public may understand a domain name as indicating a single site, it may be more difficult for domain name plaintiffs to demonstrate a likelihood of confusion." *Id.* Even accepting my colleagues' assumption that Booking.com will have difficulty proving likelihood of confusion— again, an uncertain question— affording protection to BOOKING.COM would still likely chill competition in the online booking space. Put simply, putative competitors may— and likely will— choose not to operate under domain names that include the word "booking"— even if that term best describes the service they offer— because they do not want to incur the expense and risk of defending an infringement action.

In sum, the district court's opinion reveals that its incorrect understanding of the governing legal framework likely tainted its finding that BOOKING.COM is distinctive, and therefore protectable. Because the district court's erroneous legal test factored into its ultimate factual determination as to descriptiveness, I cannot concur in my colleagues' decision to affirm the district court's judgment. Accordingly, with great respect for my good colleagues in the majority, I dissent.

Notes:

[1] Throughout this opinion, we use Booking.com to refer to the Plaintiff-Appellant and BOOKING.COM to refer to the proposed mark.

[2] The applications also identified Class 39 services, which include "travel and tour ticket reservation services" and "online travel and tourism services." *Booking.com B.V. v. Matal,* 278 F.Supp.3d 891, 896-97 (E.D. Va. 2017). Because the district court found that the marks were only protectable as to Class 43 services and remanded with respect to Class 39 services, and Booking.com does not challenge this ruling on appeal, we consider only whether BOOKING.COM is protectable as to Class 43 services.

[3] As we discuss further below, Booking.com could have appealed to the Federal Circuit but declined to do so.

[4] Teflon surveys are the "most widely used survey format to resolve a genericness challenge." 2 McCarthy on Trademarks at § 12:16. These surveys explain the distinction between generic names and trademark or brand names and then ask survey respondents to identify a series of names as common or brand names.

[5] In trademark infringement proceedings, we have held that the burden of proof lies with the party claiming that a previously registered mark is generic because there is a presumption of validity. *SeeGlover v. Ampak, Inc.*, 74 F.3d 57, 59 (4th Cir. 1996). Where a mark is not registered, however, and the alleged infringer asserts genericness as a defense, the plaintiff bears the burden of proving that the mark is not generic. *SeeAle House Mgmt. Inc. v. Raleigh Ale House, Inc.*, 205 F.3d 137, 140 (4th Cir. 2000).

[6] The Lanham Act codifies the primary significance test as the test for determining whether a registered trademark has become generic in *cancellation* of registration proceedings. 15 U.S.C. § 1064(3) ("The primary significance of the registered mark to the relevant public ... shall be the test for determining whether the registered mark has become the generic name of goods or services on or in connection with which it has been used."); *seeGlover*, 74 F.3d at 59. However, we and the Federal Circuit have also applied the primary significance test to determine genericness in registration proceedings. *SeeIn re 1800Mattress.com IP, LLC*, 586 F.3d 1359, 1362-63 (Fed. Cir. 2009) (applying a two-step genericness inquiry, asking in part whether the term sought to be registered is "understood by the relevant public to refer to that genus of goods or services") (citation omitted); *In re Reed Elsevier Props., Inc.*, 482 F.3d 1376, 1378 (Fed. Cir. 2007) (same); *see alsoAmerica Online, Inc. v. AT&T Corp.,* 243 F.3d 812, 822 (4th Cir. 2001) (determining that a mark was generic because the evidence "d[id] not reveal that the *primary significance* of the term" was the source rather than its generic meaning) (emphasis added).

[7] Specifically, we defer to the district court's factual finding regarding the primary significance of the mark to the public— a finding for which the court applied the proper legal analysis— and *not* the court's determination as to the trademark significance of the fact that a domain name like "booking.com" necessarily refers only to a single source. In fact, we conclude that the court erred in this latter determination, discussed *infra* ; but contrary to the Dissent's position, such error does not affect the court's *separate* factual finding as to primary significance. *SeeBooking.com B.V.*, 278 F.Supp.3d at 913-18.

[8] Because the relevant inquiry is what the mark's primary significance is to the public, we do not consider the district court's suggestion, relying on Booking.com's linguistic expert, that "linguistic understanding" cannot be divorced from use. *Booking.com B.V.*, 278 F.Supp.3d at 914 (alteration and citation omitted).

[9] The district court concluded that a TLD like .com generally has source-identifying significance when added to an SLD like booking, and that a mark composed of a generic SLD like booking together with a TLD is usually a descriptive mark eligible for protection upon a showing of secondary meaning. We decline to adopt a rule that goes so far. Such a rule would effectively make *any* domain name distinctive, which oversteps the focus of our trademark jurisprudence on a mark's primary significance to the public. However, because we find other evidentiary bases to affirm the district court, as discussed *supra*, our rejection of this approach does not alter the outcome of our inquiry.

[10] Because we do not adopt the district court's approach to the addition of TLDs to SLDs, we need not address the USPTO's contention that the district court impermissibly relied on BOOKING.COM's functional role as a web address to establish non-genericness, where functional features are precluded from trademark protection.

[11] As we have discussed, once a term has been deemed generic, consumer recognition will not save it from being generic. *SeeRetail Servs., Inc.*, 364 F.3d at 547. Here,

BOOKING.COM was not already deemed generic because it had not been so determined by a prior court, and the district court expressly found that it was not commonly used. Accordingly, the USPTO's reliance on cases where terms like "You Have Mail" and "Freebies" were found to be commonly used to argue that consumer recognition cannot render BOOKING.COM non-generic, is misplaced. *SeeAmerica Online* , 243 F.3d at 822 and *Retail Services, Inc.*, 364 F.3d at 547.

[12] *See, e.g.*, *In re Hotels.com*, 573 F.3d at 1304 (HOTELS.COM); *In re 1800Mattress.com IP, LLC*, 586 F.3d at 1364 (MATTRESS.COM); *In re Reed Elsevier Props., Inc.*, 482 F.3d at 1378 (LAWYERS.COM). We note, however, that on appeal from the TTAB, the Federal Circuit applies a more deferential standard of review— reviewing factual findings for substantial evidence— than that applied by the district court, which reviews the TTAB's decision de novo. *SeeShammas v. Focarino*, 784 F.3d 219, 225 (4th Cir. 2015). Given this deferential standard of review, the Federal Circuit may affirm a genericness holding where the district court, reviewing the extant evidence and any new evidence de novo, may have reached a different conclusion.

[13] As the district court noted, WORKOUT.COM, ENTERTAINMENT.COM, and WEATHER.COM are registered marks that have not precluded domain names such as MIRACLEWORKOUT.COM, WWW.GOLIVE-ENTERTAINMENT.COM, and CAMPERSWEATHER.COM. *Booking.com B.V.*, 278 F.Supp.3d at 911 & n.6 (taking judicial notice of such marks in the public record).

[1] A domain name, the string of text used to look up the internet protocol address for a particular internet site, is made up of a Top Level Domain and a Secondary Level Domain. The Top Level Domain is the final portion of the web address— such as ".com," ".gov," or ".edu"— that signifies the category of website: i.e. commercial, government, or educational. The Secondary Level Domain is the preceding part of the web address. Well-known Secondary Level Domains include "facebook," "amazon" and "google." Thus, in the domain name http://www.booking.com, ".com" is the Top Level Domain, whereas "booking" is the Secondary Level Domain.

[2] I agree with much of the analysis in the majority opinion. The majority opinion is correct that in determining whether a proposed trademark is a generic term not subject to protection, courts must "look to the proposed mark *as a whole* ." *Ante* at 181, 184-85 (emphasis retained). Accordingly, I join my colleagues and our sister circuits in declining "to adopt a per se rule against protecting domain names, even where they are formed by combining generic terms with [Top Level Domains]." *Ante* at 186. Also like my colleagues, I believe that on only "*rare* occasion[s]" should the combination of a generic Secondary Level Domain and a Top Level Domain result in a protectable trademark. *Ante* at 186-87 (emphasis added). And like my colleagues, I conclude the district court committed legal error in holding that "a [Top Level Domain] like .com generally has source-identifying significance when added to a[ ] [Secondary Level Domain] like booking, and that a mark composed of a generic [Secondary Level Domain] like booking together with a [Top Level Domain] is usually a descriptive mark eligible for protection upon a showing of secondary meaning." *Ante* at 185 n.9. I also join my colleagues in the portion of the majority opinion affirming the district court's granting of attorneys' fees to the U.S. Patent & Trademark Office ("PTO"). *Ante* at 188. In particular, I agree that *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), remains the controlling precedent in this circuit.

[3] The district court found— and I agree— that "by itself, the word 'booking' is generic for the classes of hotel and travel reservation services recited in plaintiff's applications." *Booking.com*, 278 F.Supp.3d at 905. Likewise, courts and commentators have long stated that a Top Level Domain is not protectable. For instance, the PTO has long stated that Top Level Domains "generally serve no source-identifying function." TMEP § 1209.03(m) (5th ed. 2007). This position has been consistently held in federal courts. *SeeAdvertise.com*, 616 F.3d at 978 (finding that a Top Level Domain merely reflects an online commercial organization). Additionally, the leading treatise on trademark law has stated that a Top Level Domain has no ability to distinguish one source from another. 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 7:17.50 (5th ed. 2018) ("The '.com' portion of the domain name has no trademark significance and is essentially the generic locator for all names in that top level domain."). In this way, a Top Level Domain is similar to other common web address components, such as "http://www." and ".html." *Id.* Because all websites must contain some form of Top Level Domain, such as ".com" or ".gov.," there is no unique source-identifying information. Similarly, in trademark infringement analyses, Top Level Domains have long been considered irrelevant to the strength of one's mark, as they only demonstrate, *inter alia*, a website's commercial, governmental, or organizational nature. *SeeBrookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1055 (9th Cir. 1999) (refusing to consider the ".com" portion of the web address when comparing marks in a case of potential infringement).

[4] "Rom com" is a common abbreviation for the "romantic comedy" genre of movies, whose plots revolve around the humorous developments and lighthearted tensions that occur in a romantic couple's bourgeoning relationship, while typically culminating in a happy ending. *See*

https://www.merriam-webster.com/dictionary/romcom. Although rom.com differs from tennis.net in that the Secondary Level Domain arguably is not a generic term, as "rom" is a shorthand reference for romantic, the domain name rom (dot) com is, as a composite term, both a generic descriptor and a "witty" play on that descriptor.

[5] Several hotel booking websites have domain names combining, in various ways, "booking" with ".com," including "bookingcenter.com," "ebookers.com," "bookingwhiz.com," "hotelbooking.com," "bookit.com," and "bookingbuddy.com." J.A. 337-39.

Recent Cases and Developments in Copyright Law

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2/7/2020

Agenda

HANDAL MOROFSKY

- Judicial Review of 2019 cases
- Legislative Proposals
- Cases to look out for in 2020

Fourth Estate v. Wall- Street.com

HANDAL & MOROFSKY

- Previous split in copyright application or registration of copyright before an infringement suit is brought was settled by SCOTUS.
- Registration is required before an infringement suit can be filed.

Rimini Street v. Oracle

- The Copyright act includes language that awards "full costs" of litigation.
- Oracle was awarded $12 million in litigation costs
- SCOTUS limited "full costs" to the six categories provided under §§ 1821 and 1920

Sean Hall v. Taylor Swift

- Taylor swift was originally sued in 2017 by Songwriters Sean Hall and Nathan Butler over the song “Shake It Off”
- The writers claim that the song infringes their song called “Playas gon’ Play” released by 3LW
- The lower court dismissed the lawsuit because the lyrics were merely short phrases without the “modicum of originality” necessary for copyright protection
- The ninth circuit reversed the ruling citing Justice Holmes’ warning that it would be dangerous for judges quickly assess the originality of a copyrighted work.

Kathryn Townsend Griffin v. Ed Sheeran

- Ed Sheeran has been sued by the Estate of Marvin Gaye over Ed's song "Thinking Out Loud" as copying Gaye's song "Let's Get It On".
- Ed Sheeran moved to dismiss the case
- The District Court didn't dismiss the case at least in part because a you tube video where Sheeran switches between "Thinking Out Loud" and "Let's Get It on" in the middle of a concert

HANDAL MOROFSKY

Dr. Seuss Enterprises v. ComicMix

- The Estate of Dr. Seuss filed a copyright infringement suit against a comic book maker for the creation of a comic book that combined Dr. Seuss' Oh, the Places You'll Go!" and "star Trek"
- ComicMix liberally used scenes and content from the book. However, these scenes and the content was always changed slightly
- The District Court granted the Defendants second motion for summary judgement under a fair use analysis

Silvertop Associates v. Kangaroo Manufacturing

HANDAL & MOROFSKY

- Silvertop Associates (Rasta Imposta) a Halloween wholesaler created a banana costume and discovered that Kangaroo Manufacturing had begun selling a similar costume
- Rasta sued Kangaroo relying on the Star Athletica decision stating that the costume's artistic features go beyond the utility of a costume.

Christian Charles v. Jerry Seinfeld

HANDAL & MOROFSKY

- A one time collaborator sued Jerry Seinfeld for copyright infringement stating that Jerry stole the concept for “Comedians in Cars Getting Coffee” from him.
- The judge reviewing the facts of the case saw the case as a dispute over copyright ownership rather than an infringement and dismissed the case as being filed after the 3 year statute of limitations

Implementation of the Music Modernization Act

HANDAL & MOROFSKY

- MMA creates a compulsory blanket mechanical license
- Willing buyer/willing seller standard
- Copyright Office started rulemaking for MMA

The Public Domain Day

HANDAL MOROFSKY

- The Sonny Bono Copyright Term Extension Act of 1998 extended the previous 75 year term for copyrights to 95 years
- January 1, 2019 many industrially owned works became part of the public domain

Cases to Watch in 2020

HANDAL MOROFSKY

- *Allen v. Cooper*
- *Georgia Code Revision Commission v. Public.Resource.org*
- *Oracle v. Google*

Additional Issues being litigated

HANDAL & MOROFSKY

- Alfonso Ribeiro v. Epic Games, Inc.- copyrightability of dance moves
- Copyright cases related to celebrity use of paparazzi pictures

Questions?

HANDAL MOROFSKY

Thank You!

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

FILED

OCT 28 2019

MOLLY C. DWYER, CLERK
U.S. COURT OF APPEALS

SEAN HALL, doing business as Gimme Some Hot Sauce Music, an individual; NATHAN BUTLER, doing business as Faith Force Music, an individual,

Plaintiffs-Appellants,

v.

TAYLOR SWIFT, an individual; et al.,

Defendants-Appellees.

No. 18-55426

D.C. No. 2:17-cv-06882-MWF-AS

MEMORANDUM*

Appeal from the United States District Court
for the Central District of California
Michael W. Fitzgerald, District Judge, Presiding

Argued and Submitted October 15, 2019
San Diego, California

Before: HURWITZ, OWENS, and LEE, Circuit Judges.

Sean Hall and Nathan Butler (together, Hall) appeal from the district court's dismissal under Federal Rule of Civil Procedure 12(b)(6) of their complaint against Taylor Swift, Martin Sandberg, and Karl Schuster (together, Swift) alleging copyright infringement. The complaint alleged that Swift's hit song *Shake It Off*

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* This disposition is not appropriate for publication and is not precedent except as provided by Ninth Circuit Rule 36-3.

(2014) illegally copied a six-word phrase and a four-part lyrical sequence from Hall's *Playas Gon' Play* (2001). We have jurisdiction under 28 U.S.C. § 1291, and we review de novo the district court's dismissal under Rule 12(b)(6). *See Dougherty v. City of Covina*, 654 F.3d 892, 897 (9th Cir. 2011). As the parties are familiar with the facts, we do not recount them here. We reverse and remand.

The district court dismissed the complaint based on a lack of originality in the pertinent portions of Hall's work. *See Satava v. Lowry*, 323 F.3d 805, 810 (9th Cir. 2003) ("Any copyrighted expression must be 'original.' Although the amount of creative input . . . required to meet the originality standard is low, it is not negligible." (citing *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 345, 362 (1991))); *see also* 1 Nimmer on Copyright § 2.05[B] (2017) (noting that originality is established when "the work originates in the author" and "has a spark that goes beyond the banal or trivial"). Even taking into account the matters of which the district court took judicial notice, *see United States v. Ritchie*, 342 F.3d 903, 907-08 (9th Cir. 2003), Hall's complaint still plausibly alleged originality. *See Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009).

Originality, as we have long recognized, is normally a question of fact. *See Dezendorf v. Twentieth Century-Fox Film Corp.*, 99 F.2d 850, 851 (9th Cir. 1938) (stating that the "question of originality . . . is one of fact, not of law" (internal quotation marks omitted)). Indeed, as Justice Holmes long ago cautioned:

> 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. At the one extreme, some works of genius would be sure to miss appreciation. Their very novelty would make them repulsive until the public had learned the new language in which their author spoke. . . . At the other end, copyright would be denied to pictures which appealed to a public less educated than the judge. . . . [A]nd the taste of any public is not to be treated with contempt.

Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 251-52 (1903).

Justice Holmes' century-old warning remains valid. By concluding that, "for such short phrases to be protected under the Copyright Act, they must be more creative than the lyrics at issues here," the district court constituted itself as the final judge of the worth of an expressive work. Because the absence of originality is not established either on the face of the complaint or through the judicially noticed matters, we reverse the district court's dismissal under Rule 12(b)(6).[1]

REVERSED and REMANDED.

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[1] Swift argues that this Court should affirm the district court's decision on other grounds. However, we decline to do so. The district court may consider Swift's alternative arguments on remand.

Christian Charles, Plaintiff,

v.

Jerry Seinfeld, et al,, Defendants.

No. 18-CV-1196(AJN)

United States District Court, S.D. New York

September 30, 2019

OPINION & ORDER

ALISON J. NATHAN, District Judge

This litigation concerns allegations that Plaintiff is the author of intellectual property related to the talk show *Comedians in Cars Getting Coffee,* produced and distributed by Defendants. Now before the Court is Defendants' motion to dismiss, Dkt. No. 73. For the reasons set forth below, the Court GRANTS the motion. The copyright claims are time-barred, and the Court declines supplemental jurisdiction over Plaintiffs remaining state law claims.

I. BACKGROUND

The following facts are drawn from Plaintiffs Second Amended Complaint ("SAC"), Dkt. No. 70, Exhs. 3-4. Since the 1990s, Plaintiff Christian Charles, a writer and director, and Defendant Jerry Seinfeld, a well-known comedian and actor, had worked together on various projects. SAC ¶ 18-26. During one of their collaborations, Charles allegedly suggested to Seinfeld that he should create a television show based on the concept of two friends talking and driving. *Id.* ¶ 22. Charles produced a treatment of the show, but Seinfeld ultimately decided not to proceed with the project. *Id.* ¶ 24.[1] Years later, in 2011, Seinfeld allegedly mentioned to Charles that he was considering a talk show about "comedians driving in a car to a coffee place and just 'chatting, '" as his next project. *Id.* ¶ 28. Charles claims he immediately noted that this was the same idea for which he earlier produced the treatment. *Id.* They then purportedly agreed to work together on the project. *Id.*

Charles then produced a new treatment which he claims captures the "look and feel" of *Comedians in Cars Getting Coffee. Id .* ¶ 32. Seinfeld liked the treatment, and Charles allegedly created a "synopsis, camera shot list with description and visual camera angles, and script, " all of which he deems "the Script." *Id.* ¶ 36. In October 2011, Charles and his production company, mouseROAR, shot a pilot of the show with Seinfeld, settling on the name, *Comedians in Cars Getting Coffee. Id .* ¶ 36-44. According to the SAC, despite some initial reservations, Seinfeld decided he wanted to proceed with the project. *Id.* ¶ 45-47.

In Charles's telling, this is the point at which things go sour. Charles allegedly had a business understanding with Seinfeld that mouseROAR would provide all production services and was concerned when Seinfeld brought in a subsidiary of Sony Pictures Television that also did production work. *Id.* ¶ 62. In January and February of 2012, Charles claims that he communicated his request "for compensation and backend involvement" with the show. *Id.* ¶ 69. According to the SAC, Seinfeld "expressed outrage at the notion that Charles would have more than a 'work for hire' directing role." *Id.* ¶ 70. The SAC further states that Seinfeld characterized Charles as "ungrateful" and told Charles that he "should expect to be compensated through his directing fee." *Id.* They had another conversation along similar lines a few days later. *Id.* ¶ 73. During these conversations, Charles alleges that "Seinfeld did not claim authorship or ownership of the Pilot" even though "Charles had often reminded Seinfeld" that the idea for the show was Charles's. *Id.* Chares also contends that he never made any agreements with any of the Defendants regarding a "work-for-hire" arrangement or his alleged copyright interests. *Id.*¶ 71-72.

Charles alleges that business partners and confidantes of Seinfeld assured Charles that he would "remain involved" and that the spat with Seinfeld would "blow over." *Id.* ¶ 74. As late as April of

2012, Charles claims that one Seinfeld representative left a voicemail stating that Charles and Seinfeld could still work together. *Id.* ¶ 76. Later that month, the SAC states that Seinfeld agreed to pay $107, 734 for pre-production expenses that mouseROAR incurred. *Id.* ¶¶ 77-79. Charles also alleges that he and his representatives were engaged in discussions with the Sony subsidiary, regarding a potential deal and "backend compensation" as the show's "writer/director." *Id.* ¶ 80. Despite these conversations, Charles had no further involvement in the project, which became a successful web series that continues to produce new episodes. *Id.* ¶¶ 81, 96.

From 2012 to 2014, Charles claims that he "maintained a reasonable and good faith belief that "Seinfeld would eventually acknowledge Charles's authorship and ownership and bring him in" on the show. *Id.* ¶ 86. By September of 2016, the SAC states that "Charles concluded that Seinfeld never intended to include Charles in the Project." *Id.* ¶ 91. That month Charles registered his treatment with the Copyright Office. *Id.* ¶ 92. In 2017, Netfiix inked a lucrative new deal for the show to join their platform, leading Charles to contact Seinfeld. *Id.* ¶ 96-97. Seinfeld's lawyer responded, stating that Seinfeld was the creator and owner of the show. *Id.* ¶ 98. While Charles concedes that Seinfeld had previously claimed to be the "creator" of the show in the press, this was the first time that "Seinfeld or a representative of Seinfeld had directly made this claim to Charles." *Id.* In February of 2018, Charles filed this lawsuit against Defendants, all of whom are involved in the production or distribution of *Comedians in Cars Getting Coffee. Id .* ¶¶ 1-3, 99. He brings claims for copyright infringement of the treatment, script, and pilot, as well as claims for joint authorship, injunctive relief, and several state law causes of action. *Id.* ¶¶ 100-71.

II. LEGAL STANDARD

To withstand a Rule 12(b)(6) motion to dismiss, "a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft v. Iqbal,* 556 U.S. 662, 678 (2009) (quoting *Bell Atl. Corp. v. Twombly,* 550 U.S. 544, 570 (2007)). A plaintiff is not required to provide "detailed factual allegations" in the complaint but must assert "more than labels and conclusions." *Twombly,* 550 U.S. at 555. Ultimately, the "[f]actual allegations must be enough to raise a right to relief above the speculative level." *Id.* The Court must accept the allegations in the complaint as true and draw all reasonable inferences in the non-movant's favor. *ATSI Communs, Inc. v. Shaar Fund, Ltd.,* 493 F.3d 87, 98 (2d Cir. 2007).

While "the statute of limitations is ordinarily an affirmative defense that must be raised in the answer" it may nevertheless "be decided on a Rule 12(b)(6) motion if the defense appears on the face of the complaint." *Ellul v. Congregation of Christian Bros., Ti'4* F.3d 791, 798 n.12 (2d Cir. 2014). When evaluating 12(b)(6) motions based on the statute of limitations, the Court must continue to "assume [Plaintiffs] factual allegations are true" and apply the plausibility standard announced in *Twombly* and *Iqbal. Luv N' Care, Ltd. v. Shiboleth LLP,* No. 16-cv-3179, 2017 U.S. Dist. LEXIS 128060, at *15 (S.D.N.Y. Aug. 8, 2017).

III. DISCUSSION

Defendants argue that Plaintiffs copyright claims are time-barred. The Court agrees.

Civil actions under the Copyright Act have a three-year statute of limitations. *See* 17 U.S.C. § 507(b). To successfully sue for copyright infringement, a plaintiff must show "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Kwan v. Schlein,* 634 F.3d 224, 229 (2d Cir. 2011) (quoting *Feist Publ'ns, Inc. v. Rural Tel, Serv. Co.,* Inc., 499 U.S. 340, 361 (1991)). The Second Circuit has held that when "ownership is the dispositive issue" in an infringement claim and the "ownership claim is time-barred, " then the infringement claim itself is time-barred, even if there had been infringing activity in the three years preceding the lawsuit. *Kwan,* 634 F.3d at 230; *see also Simmons v. Stanberry,* 810 F.3d 114, 116 (2d Cir. 2016) (per curiam) ("Where the plaintiffs claims were rooted in her contested assertion of an ownership interest in the copyright, and that claim of ownership interest was time-barred because of the plaintiffs delay in suing, the plaintiff could not resuscitate the untimely claim by relying on claims against the defendants' continuing course of infringing publication after the plaintiffs ownership claim became time-barred.").

Plaintiffs infringement claim is squarely "rooted in [his] contested assertion of an ownership interest in the copyright." *Id.* The principle issue in this case is not the "nature, extent or scope, of copying." *Kwan,* 634 F.3d at 229. Rather, it is whether Charles's alleged "contributions ... qualify [him] as the author and therefore owner" of the copyrights in *Comedians in Cars Getting Coffee. Id.*

Plaintiff does not truly dispute any of this. *See* Memorandum in Opposition to Defendants' Motion to Dismiss, Dkt. No. 85, at 1 ("Resolution of this case depends upon the answer to one simple question: who it the *author* of the *[Comedians in Cars Getting Coffee}* Pilot.") (emphasis in original). Instead, Plaintiff makes unavailing attempts to distinguish Second Circuit precedent on this issue. First, he contends that his lawsuit is about "authorship, " which is somehow different than "ownership." However, authorship is merely one path to ownership of a copyright, and *Kwan* itself dealt with an authorship dispute. 634 F.3d at 229. Second, Plaintiff argues that *Kwan* and *Simmons* involved disputes over the plaintiffs status as an owner but not defendant's status. This is not a material distinction, because a non-owner defendant can prevail in an infringement suit so long as the plaintiff is also not the owner. Moreover, the plaintiff in *Kwan* claimed that she, and not the defendant, was the sole author, even though the defendant had been listed as the author on the work in question. *Id.* at 227; *see also Id .* at 229 ("[Plaintiff] cannot recover unless she was the sole author"). This set of facts largely mirrors the present case.

Having determined that "ownership forms the backbone of the 'infringement' claim, " the relevant inquiry is whether it is evident from the face of Plaintiff s Second Amended Complaint that his ownership claim is time-barred. *Id.* at 229. The ownership claim "accrues only once, when 'a reasonably diligent plaintiff would have been put on inquiry as to the existence of a right.'" *Id.* at 228 (quoting *Stone v. Williams,* 970 F.2d 1043, 1048 (2d Cir. 1992)). Furthermore, "any number of events can trigger the accrual of an ownership claim, including an express assertion of sole authorship or ownership." *Kwan,* 634 F.3d at 228. For several reasons, the SAC describes assertions made over three years before this lawsuit was filed that were sufficiently express as to put a reasonably diligent plaintiff on inquiry.

First, the SAC alleges that in 2011 Seinfeld twice rejected Charles's request for backend compensation and made it clear that Charles's only involvement was to be on a "work-for-hire" basis. In *Wilson v. Dynatone Publising Co.,* the Second Circuit explained that a defendant who, in a copyright registration, "assert[ed] ownership *as a work for hire* would effectively repudiate Plaintiffs' claim" of copyright ownership, if the plaintiffs were put on notice of the registration. 892 F.3d 112, 119 (2d Cir. 2018) (emphasis in original). Likewise, Seinfeld restricting Charles to a "work-for-hire" directing role necessarily contradicted any idea that Charles was the owner of intellectual property in the show. Even if all inferences are drawn in favor of Charles, a reasonably diligent plaintiff would have understood that Seinfeld was repudiating any claim of ownership that Charles may have. That Seinfeld did not expressly claim ownership for himself during these conversations does not matter. It is sufficient that Charles's claim was rejected. *See Mahan v. ROC Nation, LLC,* 634 F.App'x 329, 331 (2d Cir. 2016) (statute of limitations barred copyright infringement claim when defendant "had long ago expressly repudiated [plaintiffs] ownership claims"); *Simmons,* 810 F.3d at 116 (copyright infringement claim was time-barred when "more than three years prior to [plaintiffs] filing of his suit, [defendant] had made clear to [plaintiff] that he rejected [plaintiffs] assertion of an interest in the copyright").

Charles claims that statements made by associates of Seinfeld in the aftermath of the two phone calls diluted or muddled the repudiation. However, as the SAC makes explicit, these statements relate only to whether Charles "would remain involved in the Project." SAC ¶ 74; *see also*

Id . ¶ 76 ("It's not over; Christian and Jerry can still work together"). Even drawing all inferences in favor of Charles, these remarks do not plausibly contradict Seinfeld's statements that Charles would not be "involved" on more than a work-for-hire basis.

Second, Seinfeld and other Defendants went on to produce and distribute the show without giving any credit to Charles. In *Kwan,* the fact that the book in question was published without crediting Plaintiff as an author was enough to put her on notice that her claim of authorship was repudiated. 634 F.3d at 227, 229. The SAC states that from 2012 to 2014, Charles believed that "Seinfeld would eventually acknowledge Charles's authorship and ownership and bring him in on the Project." SAC ¶ 86. Even interpreting the SAC most favorably to Charles, it clearly alleges he was aware that the show was being produced and that he was not being credited on it.

Because Charles was on notice that his ownership claim had been repudiated since at least 2012, his infringement claim is time-barred. His joint authorship claim is also time-barred for the same reasons. And his request for an injunction fails, because it was premised on Charles' assertion that he is the sole owner. Because Charles has had multiple opportunities to amend his complaint in the face of Defendants' timeliness arguments and has not made any further amendment requests, these claims are dismissed with prejudice. *See Gallop v. Cheney,* 642 F.3d 364, 369 (2d Cir. 2011) ("While leave to amend under the Federal Rules of Civil Procedure is 'freely granted, ' *see* Fed. R. Civ. P. 15(a), no court can be said to have erred in failing to grant a request that was not made."); *De Jesus v. Sears, Roebuck & Co.,* 87 F.3d 65, 72 (2d Cir. 1996) (dismissal with prejudice is proper when "a party has been given ample prior opportunity to allege a claim"); *see also* Individual Rule 3.F ("Non-moving parties are on notice that declining to amend their pleadings to timely respond to a fully briefed argument in the motion to dismiss may well constitute a waiver of their right to use the amendment process to cure any defects that have been made apparent by the briefing.").

The Court further declines supplemental jurisdiction over the remaining state law claims. *See In re Merrill Lynch Ltd. P 'ships Litig.*, 154 F.3d 56, 61 (2d Cir. 1998) (per curiam) (noting that "when the federal claims are dismissed the 'state claims should be dismissed as well'") (quoting *United Mine Workers v. Gibbs,* 383 U.S. 715, 726 (1966)); *see also Carnegie-Mellon Univ. v. Cohill,* 484 U.S. 343, 350 n.7 (1988) (explaining that "in the usual case in which all federal-law claims are eliminated before trial, the balance of factors to be considered under the pendent jurisdiction doctrine-judicial economy, convenience, fairness and comity-will point toward declining jurisdiction over the remaining state-law claims").

The Court finds no reason to deviate from that normal practice here. Because "the Court has not yet invested resources necessary to resolve [these] claims, " and because "[t]he extensive discovery already taken is likely sufficient to enable [these] claims to be evaluated in state court without any additional discovery, " the Court declines to exercise supplemental jurisdiction over Plaintiffs state law claims. *Vuona v. Merrill Lynch & Co., Inc.,* 919 F.Supp.2d 359, 393-94 (S.D.N.Y. 2013). They are dismissed without prejudice.[2]

IV. CONCLUSION

For the reasons stated above, the Court hereby GRANTS Defendants' motion to dismiss. The federal claims are dismissed with prejudice and the state law claims dismissed without prejudice. Because the Court resolves these motions on the papers, Defendants' request for oral argument, Dkt. No. 89, is hereby DENIED. The Clerk of Court is respectfully directed to terminate Dkt. Nos. 73, 89 and to close this case.

SO ORDERED.

Notes:

[1] In this context, the term "treatment" commonly refers to "a brief outline, in prose, describing the actions of a movie plot, indicating characters along the way with little or no dialogue ... run[ning] no more than 25 pages." *Richlin v. MGMPictures, Inc.,* 531 F.3d 962, 964 n.l (9th Cir. 2008). It can include a "mixture of story and staging." *Id.*

[2] After submitting briefing on this motion, the parties became engaged in a dispute regarding the proper procedural vehicle for Defendants to challenge Plaintiffs attachment of various declarations and affidavits to his opposition memorandum. *See* Dkt. Nos. 91, 92. Because these declarations and affidavits would not affect the Court's analysis if they were considered, the Court declines to address the parties' procedural arguments.

Page 1101

372 F.Supp.3d 1101 (S.D.Cal. 2019)

DR. SEUSS ENTERPRISES, L.P., a California limited partnership, Plaintiff,

v.

COMICMIX LLC, a Connecticut limited liability company; Glenn Hauman, an individual; David Jerrold Friedman a/k/a David Gerrold, and individual; and Ty Templeton, an individual, Defendants.

No. 16-CV-2779 JLS (BGS)

United States District Court, S.D. California

March 12, 2019

Page 1102

[Copyrighted Material Omitted]

Page 1103

[Copyrighted Material Omitted]

Page 1104

[Copyrighted Material Omitted]

Page 1105

Gina L. Durham, DLA Piper LLP, San Francisco, CA, James Kevin Spencer Stewart, Pro Hac Vice, Ryan Compton, Pro Hac Vice, DLA Piper LLP, Washington, DC, Marc E. Miller, Pro Hac Vice, Tamar Duvdevani, Pro Hac Vice, DLA Piper, LLP, New York, NY, Andrew Lawrence Deutsch, DLA Piper LLP, Los Angeles, CA, Stanley J. Panikowski, III, DLA Piper US, San Diego, CA, for Plaintiff.

Daniel G. Booth, Pro Hac Vice, Booth Sweet LLP, Cambridge, MA, Michael Licari, D'Egidio Licari Townsend & Shah, APC, San Diego, CA, for Defendants.

ORDER (1) GRANTING DEFENDANTS' MOTION FOR SUMMARY JUDGMENT, (2) DENYING PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT, AND (3) DENYING AS MOOT PLAINTIFF'S MOTIONS TO STRIKE AND TO EXCLUDE

(ECF Nos. 104, 107, 108, 116)

Hon. Janis L. Sammartino, United States District Judge

Presently before the Court are Plaintiff Dr. Seuss Enterprises, L.P.'s Motions to Exclude Gans Testimony Under Federal Rule of Evidence 702 ("Mot. to Exclude," ECF No. 104), for Summary Judgment ("Pl.'s MSJ," ECF Nos. 107, 109, 115[1]),

Page 1106

and to Strike Declaration of Dan Booth ("Mot. to Strike," ECF No. 116) and Defendants ComicMix LLC, Glenn Hauman, David Jerrold Friedman a/k/a David Gerrold, and Ty Templeton's Motion for Summary Judgment Pursuant to Fed.R.Civ.P. 56 ("Defs.' MSJ," ECF Nos. 108, 110). Also before the Court are Plaintiff's response in opposition to Defendants' Motion for Summary Judgment ("Pl.'s MSJ Opp'n," ECF Nos. 119, 124); Defendants' responses in opposition to Plaintiff's Motion for Summary Judgment ("Defs.' MSJ Opp'n," ECF Nos. 120, 125), Motion to Exclude (ECF No. 126), and Motion to Strike (ECF No. 133); Plaintiff's replies in support of its Motion to Exclude (ECF No. 141), Motion for

Summary Judgment ("Pl.'s MSJ Reply," ECF Nos. 140, 143), and Motion to Strike (ECF No. 145); and Defendants' reply in support of their Motion for Summary Judgment ("Defs.' MSJ Reply," ECF Nos. 130, 135). The Court heard oral argument on February 7, 2019. Having considered the Parties' arguments, the law, and the record, the Court **GRANTS** Defendants' Motion for Summary Judgment (ECF No. 108), **DENIES** Plaintiff's Motion for Summary Judgment (ECF No. 107), and **DENIES AS MOOT** Plaintiff's Motions to Exclude (ECF No. 104) and to Strike (ECF No. 116).

BACKGROUND

I. Undisputed Facts[2]

A. Plaintiff and Its Copyrighted Works

Plaintiff is the owner, by assignment, of the copyrights to the works of Theodor S. Geisel, the author and illustrator of the books written under the pseudonym "Dr. Seuss." Pl.'s Statement of Undisputed Material Facts in Support of Pl.'s MSJ ("SOF"), ECF No. 115-1, ¶¶ 1-4. Mr. Geisel wrote and illustrated the works at issue here: *Oh, the Places You'll Go!* ("*Go!* "); *How the Grinch Stole Christmas!* ("*Grinch* "); and *The Sneetches and Other Stories* ("*Sneetches* ") (collectively, the "Copyrighted Works"). *Id.* ¶¶ 2-7. The Copyrighted Works are duly registered for copyright with the Copyright Office and all copyrights remain in force. *Id.* ¶¶ 2-4. Although Mr. Geisel passed away in 1991, Plaintiff oversees a robust publishing program, working closely with its publishers to release anniversary editions, reissues in new formats or sizes, and updated editions of the iconic Dr. Seuss books, including the Copyrighted Works. *Id.* ¶¶ 51, 128-37.

Plaintiff also licenses authors and illustrators to publish additional works under the Dr. Seuss brand. *Id.* ¶¶ 51, 134-35. For example, Plaintiff's series *The Cat In The Hat Learning Library* includes books written and illustrated by other authors that are based upon and incorporate Mr. Geisel's works. *Id.* ¶ 134. This series includes titles such as *Oh, the Things You Can Do That Are Good For You!*, *There's No Place Like Space!*, and *Oh, the Pets You Can Get! Id.* ¶ 135. Plaintiff has also licensed the publication of several books that are derivative of the Copyrighted Works, including *Go!: Oh, Baby! Go, Baby!* ; *Oh, the Places I'll Go! By ME, Myself* ; *Oh, Baby, the Places You'll Go!* ; and *Oh, the Places I've Been! Journal. Id.* ¶ 142. These books continue the style of the original Dr. Seuss books, and Plaintiff provides close quality control to ensure

Page 1107

consistency of style and quality. *Id.* ¶¶ 129-31.

While children may be the intended readers for many of Dr. Seuss' works, adults buy them, too, and Plaintiff therefore markets the works to both children and adults. *Id.* ¶¶ 146-49. Other Dr. Seuss works, including *Go!*, are also aimed at teenagers and adults, and are therefore marketed to both age groups. *Id.* ¶¶ 147-48. Additionally, *Go!* is a very popular gift for graduates, and is Plaintiff's best-selling book, and the perennial number one selling book on *The New York Times* Best Sellers list each spring during graduation season. *Id.* ¶¶ 141, 148.

Plaintiff is not just a publisher; it is also in the entertainment business, licensing Dr. Seuss works for development of films, television, stage productions, theme parks, and museum exhibitions. *Id.* ¶ 138. Plaintiff also runs an extensive product licensing and merchandising program. *Id.* ¶¶ 138-39, 144. In fact, in 2017, Plaintiff was named the top licensed book brand according to NPD, a market industry research firm. *Id.* ¶ 159. Importantly for purposes of this case, Plaintiff collaborates with other intellectual property holders on collaborations that combine Dr. Seuss' works with those holders' creations to develop new works and products that have combined appeal to larger audiences. *Id.* ¶¶ 150-56. For example, Plaintiff and its partners have created *The Wubbulous World of Dr. Seuss*, a television and book series with The Jim Henson Company that featured "muppetized" Dr. Seuss characters; *Grinch Panda Pop*, a digital game that combines Jam City's Panda character with the Grinch character; Dr. Seuss Funko figurines, which combine Funko Inc.'s distinctive toy designs with Dr. Seuss characters; and a line of Comme des Garç ons clothing combining Comme des Garç ons' well-known heart design with *Grinch* artwork. *Id.* ¶¶ 154-56. Many more collaborations are in the works. *Id.* ¶ 156.

Plaintiff receives numerous offers from parties wishing to work with DSE on a collaboration or license Plaintiff's intellectual property. *Id.* ¶ 157. Plaintiff approaches these offers selectively, and when Plaintiff considers whether to pursue a collaboration with another intellectual property holder, it first carefully vets the collaborator. *Id.* ¶ 130. If Plaintiff decides to move forward, it works extensively with the collaborator and maintains tight control over the work. *Id.* ¶ 129, 131.

B. Defendants and Boldly

1. Conception and Development of Oh, the Places You'll Boldly Go!

Mr. Gerrold has written *Star Trek* episodes for Paramount Pictures, the producer of the *Star Trek* television show. Declaration of Tamar Duvdevani in Support of Pl.'s MSJ ("Duvdevani Decl.") Ex. 2, ECF No. 107-24, at 16:14-17:24. In May 2016, Mr. Gerrold suggested to Mr. Hauman that, "if we could get a license, we should do a Star Trek Primer." SOF ¶ 8. The original idea was to combine Star Trek themes with the pre-school book *Pat the Bunny*, *id.* ¶ 9, although they also considered using *Fun with Dick & Jane*, *Goodnight Moon*, and *The Very Hungry Caterpillar*, *id.* ¶ 15, before finally settling on *Go!*

Mr. Templeton is an illustrator adept at copying other illustrators' styles. *Id.* ¶ 32. In June 2016, Mr. Hauman invited Mr. Templeton to join the project, instructing Mr. Templeton that "this would be Seuss-style [(*Star Trek* : The Original Series)] backgrounds," Duvdevani Decl. Ex. 25, ECF No. 107-39, at 423,[3] and that "we're

Page 1108

going to want the cover and at least a background art piece for promotions, as well as be able to use the cover for posters, mugs, and all the merchandise that will push this thing over the top." *Id.* at 424. Mr. Templeton responded, "Holy CRAP that's a cool idea. The title is like printing money. I'm totally in." SOF ¶ 30.

With the team in place, Defendants set out to create *Oh, the Places You'll Boldly Go!* ("*Boldly* "). Although concerned about their project's legal risk, Mr. Gerrold and Mr. Hauman concluded that their proposed project would likely qualify as a "parody" of the source material and therefore constitute a fair use. *Id.* ¶¶ 10-12, 16-18, 23-24. Each of Mr. Templeton, Mr. Gerrold, and Mr. Hauman testified that he considered *Boldly* a parody, a mash-up, and a transformative work. *See, e.g.*, Duvdevani Decl. Ex. 1, ECF No. 107-23, at 120:14-23; Duvdevani Decl. Ex. 2 at 68:7-8, 77:19-78; Duvdevani Decl. Ex. 3, ECF No. 107-25, at 75:23-76:11. They also did not anticipate that *Boldly* would compete with *Go!* or any other of the Copyrighted Works. *See, e.g.*, Duvdevani Decl. Ex. 2 at 43:3-45:1; Duvdevani Decl. Ex. 3 at 185:18-186:3.

But each Defendant also testified that he copied from the Copyrighted Works to create *Boldly.* SOF ¶¶ 33-34, 52-55, 57, 65. Indeed, Mr. Hauman scanned a copy of *Go!* to Mr. Gerrold because he wanted to "parallel [*Go!*] as close as [he] c[ould]." *Id.* ¶ 34. Although Mr. Gerrold had written his first draft "from scratch" and without access to *Go!*, he later rewrote *Boldly's* text to more closely match *Go! Id.* ¶ 35. Mr. Hauman created a side-by-side comparison of *Go!'s* and *Boldly's* text, *id.* ¶¶ 34, 57, to assist himself and Mr. Gerrold in their effort "to parallel the structure of [*Go!*]." Duvdevani Decl. Ex. 2 at 95:7-8.

Mr. Templeton testified as to his process for illustrating *Boldly* :

I would have the original book open to what I was looking at. I would rough out the positions the characters are in. After I was satisfied with the position that the characters are in being similar enough to evoke the original source material, I would render them as carefully as I could.

Duvdevani Decl. Ex. 1 at 171:3-9. For example, Mr. Templeton's illustration of one page took him about seven hours because he "painstakingly attempted to make" his illustration "nearly identical" in certain respects to one illustrated by Dr. Seuss. *Id.* at 167:1-17. Mr. Hauman instructed Mr. Templeton to "go closer to" *Go!*, SOF ¶¶ 37, 49, 53, and Mr. Templeton later admitted, "I did, in fact, slavishly copy from Seuss," to illustrate *Boldly. Id.* ¶ 54. This was because it was "essential to the parody ... that people recognize the source material in poses since they WON'T be seeing the Grinch or the Whos or the Gox" or any other character from Dr. Seuss, and Mr. Templeton was therefore "concerned if we try to completely ignore everything about the source material the gags fall apart." Duvdevani Decl. Ex. 68, ECF No. 107-64, at 609.

Defendants included two disclaimers on the copyright page of the unpublished, "completed" draft of *Boldly.* Duvdevani Decl. Ex. 31, ECF No. 115-11, at 452. The first read: "This is a work of fair use, and is not associated with or endorsed by CBS Studio or Dr. Seuss Enterprises, L.P." *Id.* The second disclaimer read, "Copyright Disclaimer under section 107 of the Copyright Act 1976, allowance is made for 'fair use' for purposes such as criticism, comment, news reporting, teaching, scholarship, education, research, and parody." *Id.*

Page 1109

The copyright page further attributes the copyright and trademarks in *Boldly* to Mr. Gerrold and Mr. Templeton— not to Plaintiff. *Id.*

2. Plans to Publish and Sell Boldly

In July 2016, Mr. Hauman contacted John Frazier, a merchant at ecommerce retailer ThinkGeek, to assess interest in handling merchandise, printing and distribution for *Boldly.* SOF ¶ 41. Mr. Frazier advised Mr. Hauman that, while ThinkGeek did not manufacture books, it could handle distribution for Boldly, but stated: "It goes without saying you've got the license, though, right?" Duvdevani Decl. Ex. 29, ECF No. 107-42, at 441. Mr. Hauman replied to Mr. Frazier, "No license, this is straight parody fair use of both Seuss and Trek," but "I realize this may complicate matters for you and cause you to pass" and, "if so, I completely understand and no hard feelings." *Id.*

ThinkGeek eventually ordered 5,000 copies of *Boldly*, if they could be printed and delivered in time for Christmas sales. SOF ¶ 93. On July 19, 2016, Mr. Hauman wrote an e-mail to another third-party stating: "[H]ad a conversation with the senior buyer for ThinkGeek, and we'll be selling them a lot of stuff. (I was hoping they'd even handle fulfillment on merchandise, but since this is unlicensed it seems unlikely.)." Duvdevani Decl. Ex. 30, ECF No. 107-43, at 444.

On August 31, 2016, Defendants launched a fundraising campaign on Kickstarter.com to pay for the production costs and fixed costs for creating *Boldly.* SOF ¶ 66. Defendants never contacted Plaintiff or CBS/Paramount for a license, *id.* ¶ 10, but told the public, in the "Risks and Challenges" section of their Kickstarter campaign:

While we firmly believe that our parody, created with love and affection, fully falls within the boundary of fair use, there may be some people who believe that this might be in violation of their intellectual property rights. And we may have to spend time and money proving it to people in black robes. And we may even lose that.

Id. ¶ 67. The Kickstarter campaign ran through September 30, 2016, netting 727 backers who pledged $ 29,575 to the project. *See* Duvdevani Decl. Ex. 40, ECF No. 107-50, at 522.

Allison Adler, an editor at publisher Andrews McMeel Publishing ("AMP"), saw the Kickstarter page, reached out to Defendants, and subsequently presented a proposal to AMP's Acquisitions Committee for publishing *Boldly*, describing the intended audience as "Graduates and parents of graduates (college, high school, 8th grade); fans of Star Trek; fans of Dr. Seuss." *Id.* ¶¶ 73-77, 80.

Mr. Hauman and Ms. Adler spoke and exchanged several e-mails. *Id.* ¶¶ 80, 82-85, 87-88, 90. Mr. Hauman disclosed to Ms. Adler his discussions with ThinkGeek, that Defendants were considering sequels to *Boldly* ("Picard Hears A Q" and "One Kirk, Two Kirk, Red Shirt, Blue Shirt"), and that Defendants wanted to create merchandise for *Boldly*, depending on "what can be done legally with and without permission." *Id.* ¶¶ 72, 85.

On September 19, 2016, AMP sent Mr. Hauman an offer to publish *Boldly* and, following several rounds of correspondence, the parties reached a "letter of agreement" on the principal terms on September 21, 2016. *Id.* ¶¶ 87-90. By September 27, 2016, AMP's VP of Sales advised Ms. Adler to "do an on-sale date" of February 28, 2017, "for the trade," Duvdevani Decl. Ex. 57, ECF No. 115-22, at 583, so "we can try and capture some grad biz." Duvdevani Decl. Ex. 58, ECF No. 115-23, at 586.

Page 1110

3. Plaintiff's Demand Letters and Litigation

After learning about *Boldly*, Plaintiff sent Defendants three letters, dated September 28, October 7, and October 25, 2016, demanding that Defendants immediately cease all use of the Copyrighted Works. SOF ¶¶ 104-06. Plaintiff also sent a DMCA takedown notice to Kickstarter on October 7, 2016. *Id.* ¶ 69.

On September 28, 2016— the date the first letter was sent to Defendants— Mr. Hauman forwarded it to Ms. Adler of AMP. *Id.* ¶ 94. The next day, AMP's President advised that "the risk of moving forward is not something we can take on," and AMP withdrew from the project. *Id.* ¶¶ 95-97. Defendants did not send the letters to ThinkGeek. *See id.* ¶ 118.

Defendants retained counsel on October 26, 2018, and sent Plaintiff a responsive letter on October 28, 2016, which refused DSE's demands, threatened legal claims, and advised that Defendants would be sending a counter-notice to Kickstarter to reinstate its campaign, which they did on October 31, 2016. *Id.* ¶ 107-09.

Plaintiff filed this infringement action on November 10, 2016. ECF No. 1. After receiving the Complaint, Mr. Gerrold suggested that re-drawing the illustrations could be a "way out" of the litigation:

A lot of our artwork is based on Dr. Seuss's artwork. What if we did whole new artwork, not specifically based on any individual drawing by Seuss, but close enough to his style to match the text. If we replace the stuff that's too dead on - yes, its extra work for Ty [Templeton], but it really weakens their case.

Duvdevani Decl. Ex. 24, ECF No. 107-38, at 421. Mr. Templeton admitted that he "did, in fact, slavishly copy from Seuss," and noted that "[i]n my original layouts for our book, I was ignoring the layouts for [*Go!*] book, and just trying for a S[eu]ssian art style." *Id.* Mr. Templeton offered to revise the artwork to follow *Go!* less closely. *Id.*

On November 15, 2016, Mr. Hauman notified ThinkGeek about Plaintiff's claims. SOF ¶ 125. On February 2, 2017, ThinkGeek contacted Mr. Hauman for an update, as it would "LOVE to be able to offer [*Boldly*] for Graduation." Duvdevani Decl. Ex. 66, ECF No. 107-62, at 605. Mr. Hauman replied, "I would LOVE to offer it to you, but the lawsuit grinds on." *Id. Boldly* remains unpublished. *See, e.g.*, Duvdevani Decl. Ex. 3 at 139:6-140:3.

II. Procedural Background

Many of the issues raised by Plaintiff's and Defendants' Motions for Summary Judgment have been addressed previously in the course of the extensive motion practice in this case.

A. Defendants' First Motion to Dismiss

Following the filing of Plaintiff's Complaint on November 10, 2016, *see* ECF No. 1, Defendants moved to dismiss Plaintiff's copyright claims on the grounds of fair use and its trademark claims on the grounds that Plaintiff held no cognizable trademark rights in the title, artistic style, or fonts used in *Go!* and, if it did, Defendants' use was protected by the First Amendment under *Rogers v. Grimaldi,* 875 F.2d 994 (2d Cir. 1989), and constituted a nominative fair use. *See* ECF No. 8.

On June 9, 2017, the Court granted in part and denied in part Defendants' first motion to dismiss. *See generally* ECF No. 38. Regarding Defendants' fair use defense, the Court found that *Boldly* is "a highly transformative work that takes no more than necessary to accomplish its transformative purpose and will not impinge

Page 1111

on the original market for Plaintiff's underlying work." *Id.* at 12. Although the Court declined to find that *Boldly* is a parody, the Court concluded that *Boldly* "is no doubt transformative." *Id.* at 8. Acknowledging that Defendants did intend to profit from *Boldly*, the Court concluded that the weight given Defendants' commercial purpose "is slight given both the transformative nature of the work ... and the fact that *Boldly* does not supplant the market for *Go!* or the other relevant Dr. Seuss works." *Id.* The Court concluded that the creative nature of the Copyrighted Works weighed slightly in Plaintiff's favor, *id.* at 9, while the amount and substantiality of the Copyrighted Works Defendants used did "not weigh against Defendants" because *Boldly* did not copy elements from *Go!* and the other Copyrighted works "in their entirety" and did not "copy more than is necessary to accomplish its transformative purpose." *Id.* at 9-10. Finally, accepting Plaintiff's allegations as true, the Court concluded that the Court had to presume some degree of harm to Plaintiff's licensing opportunities, although "this presumed harm is neutralized somewhat by the fact that *Boldly* does not substitute for the original and serves a different market function than Go!" because "*Boldly's* market relies on consumers who have already read and greatly appreciated *Go!* and Dr. Seuss's other works, and who simultaneously have a strong working knowledge of the Star Trek series," rendering it "unlikely that *Boldly* would severely impact the market for Dr. Seuss's works." *Id.* at 11. "Ultimately, given the procedural posture of this motion and near-perfect balancing of the factors, the Court" denied Defendants' first motion as to fair use. *Id.* at 13.

As to Plaintiff's trademark and unfair competition claims, the Court recognized that the *Rogers* test was applicable, *see id.* at 14-16, concluding that "there is no question that Defendants' invocation of Plaintiff's alleged trademarks is relevant to *Boldly's* artistic purpose," *id.* at 15, and that "*Boldly* does not explicitly mislead as to its source or contents." *Id.* at 16. Nonetheless, the Court declined to grant Defendants' motion regarding Plaintiff's alleged trademark in *Go!'s* title because Defendants failed to address Plaintiff's argument concerning confusingly similar titles. *Id.* at 17. The Court granted Defendants' motion to dismiss Plaintiff's trademark claims on nominative fair use grounds because Plaintiff failed to oppose Defendants' arguments on the merits. *Id.* at 18-19. Given the dismissal of Plaintiff's trademark claims, the Court also dismissed its unfair competition claims. *Id.* at 19. Nonetheless, the Court granted Plaintiff leave to file an amended complaint regarding its trademark and unfair competition causes of action. *See id.* at 20.

B. Defendants' Second Motion to Dismiss

Plaintiff filed the operative Amended Complaint on June 22, 2017, *see* ECF No. 39, which Defendants again moved to dismiss. *See* ECF No. 41. The Court denied Defendants' motion. *See generally* ECF No. 51. As to Defendants' fair use defense, although the Court found no "reason to alter its analysis regarding the first three factors," *see id.* at 6, the Court re-examined the fourth factor, concluding that it would "not presume market harm" because it had found that *Boldly* was transformative. *Id.* at 9. Based on Plaintiff's allegations, however, the Court concluded that there was "potential harm to the market for Plaintiff's derivative works" and that the factor favored Plaintiff. *Id.*

As for Plaintiff's trademark and unfair competition claims, the Court concluded that the title of *Go!* may be entitled to trademark protection, *id.* at 13, but that

Page 1112

"Plaintiff's claimed general 'illustration style' is not protectable." *Id.* at 15. The Court therefore focused on Plaintiff's allegations concerning the use of the title of *Go!* and its font in analyzing Defendants' nominative fair use arguments. *Id.* Although the Court determined that there was no descriptive substitute for the title of the book and it was necessary for *Boldly* to use *Go!'s* title, *id.* at 19, and that Defendants did "nothing in conjunction with the use of the mark to suggest a sponsorship or endorsement by Plaintiff," *id.* at 23, the Court concluded that "it was unnecessary for Defendants to use the distinctive font as used on *Go!* to communicate their message (i.e., that *Boldly* is a mash-up of the *Go!* and Star Trek universes)." *Id.* at 21-22. As before, the same result was applicable to Plaintiff's unfair competition claims. *See id.* at 23-24.

C. Defendants' Motions for Judgment on the Pleadings and Issuance of a Request to the Register of Copyrights Pursuant to 17 U.S.C. § 411(b)(2)

On December 21, 2017, Defendants answered the First Amended Complaint, *see* ECF No. 53, and moved for judgment on the pleadings of Plaintiff's trademark and unfair competition claims under *Rogers* as applied by the Ninth Circuit's recent decision in *Twentieth Century Fox Television v. Empire Distribution, Inc.,* 875 F.3d 1192 (9th Cir. 2017). *See* ECF No. 54. On December 22, 2017, Defendants also filed a motion for issuance of request to the register of copyrights pursuant to 17 U.S.C. § 411(b)(2), on the basis that Mr. Geisel's copyright registration applications for *Go!* and *Sneetches* were knowingly and materially inaccurate and incomplete. *See* ECF No. 57.

On May 21, 2018, the Court denied Defendants' motion for issuance of a request to the register of copyrights, *see* ECF No. 88, and granted in part and denied in part Defendants' motion for judgment on the pleadings. *See* ECF No. 89. With respect to the motion for judgment on the pleadings, as before, the Court concluded that Defendants' invocation of Plaintiff's trademarks was relevant to *Boldly's* artistic purpose and content. *Id.* at 6-7. The Court also concluded that "Defendants' use of the text and design of *Go!'s* title is not enough to be an 'explicit misstatement' " as to the source or content of the work. *Id.* at 7-8. The Court therefore concluded that "the title of *Boldly* does not violate the Lanham Act" and dismissed Plaintiff's trademark and unfair competition claims to the extent they related to the title of *Boldly. Id.* at 8-9. The Court explicitly reserved judgment as to "whether or not Plaintiff has protectable trademark rights in the font and illustration style of *Go!* " *Id.* at 8.

As for Defendants' motion under Section 411(b)(2), Defendants claimed that "The Sneetches" was published in a July 1953 issue of *Redbook* and that "The Zax" was published in the March 1954 issue, but that Mr. Geisel failed timely to renew the copyright for either story. ECF No. 57 at 3-4. Further, when Mr. Geisel applied to register the copyright in *Sneetches*, he failed to indicate that *Sneetches* contained these previously published works. *Id.* at 4-5. *Go!* also included a page derived from Mr. Geisel's previously published work "The Economic Situation Clarified: A Prognostic Re-

Evaluation," *id.* at 7-8, the prior publication of which was not identified in the registration application for *Go! Id.* at 10-11. Defendants therefore requested that the Court request the Register of Copyrights to advise whether the inaccurate information in the registration applications for *Sneetches* and *Go!*, if known, would have caused her to refuse the registrations. *See generally* ECF No. 57. The Court rejected Defendants' arguments,

Page 1113

concluding that the *Redbook* stories "were not a 'substantial part' of the" *Sneetches*, ECF No. 88 at 8, and that "*Go!* did not incorporate a substantial amount of preexisting material from 'Economic Situation.' " *Id.* at 9.

MOTIONS FOR SUMMARY JUDGMENT

I. Legal Standard

Under Federal Rule of Civil Procedure 56(a), a party may move for summary judgment as to a claim or defense or part of a claim or defense. Summary judgment is appropriate where the Court is satisfied 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); *Celotex Corp. v. Catrett,* 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). Material facts are those that may affect the outcome of the case. *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). A genuine dispute of material fact exists only if "the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Id.* When the Court considers the evidence presented by the parties, "[t]he evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor." *Id*. at 255, 106 S.Ct. 2505 (citing *Adickes v. S.H. Kress & Co.,* 398 U.S. 144, 158-159, 90 S.Ct. 1598, 26 L.Ed.2d 142 (1970)).

The initial burden of establishing the absence of a genuine issue of material fact falls on the moving party. *Celotex*, 477 U.S. at 323, 106 S.Ct. 2548. The moving party may meet this burden by identifying the "portions of 'the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any,' " that show an absence of dispute regarding a material fact. *Id.* (quoting Fed.R.Civ.P. 56(c)). When a plaintiff seeks summary judgment as to an element for which it bears the burden of proof, "it must come forward with evidence which would entitle it to a directed verdict if the evidence went uncontroverted at trial." *C.A.R. Transp. Brokerage Co. v. Darden Rests., Inc.,* 213 F.3d 474, 480 (9th Cir. 2000) (quoting *Houghton v. South,* 965 F.2d 1532, 1536 (9th Cir. 1992)).

Once the moving party satisfies this initial burden, the nonmoving party must identify specific facts showing that there is a genuine dispute for trial. *Celotex*, 477 U.S. at 324, 106 S.Ct. 2548. This requires "more than simply show[ing] that there is some metaphysical doubt as to the material facts." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.,* 475 U.S. 574, 586, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986). Rather, to survive summary judgment, the nonmoving party must "by her own affidavits, or by the 'depositions, answers to interrogatories, and admissions on file,' designate 'specific facts' " that would allow a reasonable fact finder to return a verdict for the non-moving party. *Celotex*, 477 U.S. at 324, 106 S.Ct. 2548; *Anderson*, 477 U.S. at 248, 106 S.Ct. 2505. The non-moving party cannot oppose a properly supported summary judgment motion by "rest[ing] on mere allegations or denials of his pleadings." *Anderson*, 477 U.S. at 259, 106 S.Ct. 2505.

II. Analysis

A. Defendants' Motion for Summary Judgment

Defendants seek summary judgment as to all of Plaintiff's surviving claims on the grounds that

Defendants are entitled to summary adjudication on their Twelfth and Thirty-Seventh Affirmative Defenses for Fair Use and First Amendment, respectively. Defs.' MSJ Notice at 1.

Page 1114

1. Copyright Infringement and Fair Use

Defendants seek summary adjudication on Plaintiff's copyright infringement claim on the grounds that *Boldly* is a fair use. *See* Defs.' MSJ at 7-12. As the Court has previously explained, *see* ECF No. 38 at 4 (citing 17 U.S.C. § 107; *Campbell v. Acuff-Rose Music, Inc.,* 510 U.S. 569, 576-77, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994)), "the doctrine of 'fair use' shields from infringement particular uses of a copyrighted work."

In codifying the fair use doctrine, Congress set forth four non-exclusive factors for courts to consider in evaluating whether a particular use of a copyrighted work is fair: (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 fair use doctrine thus '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.' " ... Accordingly, "the analysis is a flexible one[,]" to be "perform[ed] on a case-by-case basis" and "in light of the copyright law's purpose 'to promote the progress of science and art by protecting artistic and scientific works while encouraging the development and evolution of new works.' "

ECF No. 38 at 5 (quoting 17 U.S.C. § 107; *Campbell*, 510 U.S. at 577, 114 S.Ct. 1164; *Leadsinger, Inc. v. BMG Music Pub.,* 512 F.3d 522, 529 (9th Cir. 2008)).

a. First Factor: The Purpose and Character of the Use

As the Court previously explained,

"The central purpose of this [factor] is to see ... whether the new work merely 'supersede[s] the objects' of the original creation ... or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is 'transformative.' " ... Because "the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works[,]" 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." ... "[A]n allegedly infringing work is typically viewed as transformative as long as new expressive content or message is apparent." ... "This is so even where ... the allegedly infringing work makes few physical changes to the original or fails to comment on the original." ... However, even when a new use is transformative, "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 overall balance of this factor.

ECF No. 38 at 6-7 (quoting *Campbell*, 510 U.S. at 579, 114 S.Ct. 1164; *Seltzer v. Green Day, Inc.,* 725 F.3d 1170, 1177-78 (9th Cir. 2013)). At the motion-to-dismiss stage, the Court concluded that, "although *Boldly* fails to qualify as a parody[,] it is no doubt transformative." *Id.* at 8. Further, while "there is no question that Defendants

Page 1115

created their work for profit[,] ... weigh[ing] against Defendants ..., its weight is slight given both the transformative nature of the work ... and the fact that *Boldly* does not supplant the market for *Go!* or other relevant Dr. Seuss works." *Id.* Accordingly, the Court concluded that, "on balance, this factor weighs in favor of finding Defendants' use to be fair." *Id.*

Not surprisingly, Defendants argue that "[t]he Court's analysis of [this] ... fair use factor[ ] is settled," Defs.' MSJ at 7, while Plaintiff urges the Court to "reconsider [its] finding in light of further legal developments," specifically, the Federal Circuit's subsequent decision in *Oracle America, Inc. v. Google LLC,* 886 F.3d 1179 (Fed. Cir. 2018). Pl.'s MSJ at 14. Specifically, Plaintiff claims that "*Oracle* outlines three inquiries for the court to consider in weighting the first factor: (1) 'whether the use is commercial in nature; ' (2) 'whether the new work is transformative or simply supplants the original; ' and (3) whether the facts show 'that the infringer acted in bad faith.' " *Id.* at 14-15 (quoting *Oracle*, 886 F.3d at 1196). Plaintiff contends that "*Boldly* loses on all three counts" because it "is highly commercial, ... is not 'transformative' as the term is applied in fair use, and Defendants acted in bad faith." *Id.* at 15.

The Court does not find *Oracle* persuasive. Plaintiff argues that "*Oracle* held that ... Google's use of Oracle's Java program was not transformative, despite the fact that Google only used 37 of the 166 Java S.E. API packages and created its own implementing code." Pl.'s MSJ at 16 (citing *Oracle*, 886 F.3d at 1200-01). This may be true, but there is a key distinction: in *Oracle*, the Defendants copied the 37 S.E. API packages wholesale, while in *Boldly* "the copied elements are always interspersed with original writing and illustrations that transform *Go!'s* pages into repurposed, *Star-Trek* -centric ones." *See* ECF No. 38 at 8. Defendants did not copy verbatim text from *Go!* in writing *Boldly*, nor did they replicate entire illustrations from *Go!* Although Defendants certainly borrowed from *Go!* — at times liberally— the elements borrowed were always adapted or transformed. The Court therefore concludes, as it did previously, *see id.*, that Defendants' work, while commercial, is highly transformative.

Further, the Court is not persuaded that *Boldly* "has the same intrinsic purpose and function as *Go!* ," *i.e.*, "providing an illustrated book, with the same uplifting message that would appeal to graduating high school and college seniors," *see* Pl.'s MSJ at 17, or that Defendants "act[ed] in bad faith." *See id.* at 17. While *Boldly* may be an illustrated book with an uplifting message (something over which Plaintiff cannot exercise a monopoly), it is one tailored to fans of *Star Trek's* Original Series. *See, e.g.*, Duvdevani Decl. Ex. 2 at 67:1-68:3. Further, that Defendants discussed the necessity of a license and determined that *Boldly* was a "fair use parody" without seeking the advice of counsel does not amount to bad faith. *See, e.g.*, *Campbell*, 510 U.S. at 585 n.18, 114 S.Ct. 1164 ("Even if [bad] faith were central to fair use, [Defendants'] actions do not necessarily suggest that they believed their version was not fair use."); *see also Henley v. DeVore,* 733 F.Supp.2d 1144, 1166 (C.D. Cal. 2010) ("The Court declines to hold that an infringer must, as a matter of law, consult an attorney or investigate complicated fair use doctrine to avoid a finding of willfulness."). There is no evidence here that Defendants "knew that [they] needed a license to use [the Copyrighted Works]." *Cf. Oracle*, 886 F.3d at 1203.

Finally, Plaintiff's argument that *Boldly* is a derivative work misses the

Page 1116

mark, as a derivative work is not foreclosed from being transformative (or constituting a fair use). The Copyright Act defines a "derivative work" as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted." 17 U.S.C. § 101. "Subject to sections 107 through 122, the owner of copyright ... has the exclusive rights to do and to authorize ... [the] prepar[ation of] derivative works based upon the copyrighted work." 17 U.S.C. § 106(2). The Court need not resolve whether *Boldly* is a derivative work for purposes of Sections 101 and 106(2), however, because Plaintiff has overlooked the critical introductory clause to Section 106(2), which limits the "exclusive right[ ]" to prepare derivative works by, among other exceptions, the doctrine of fair use. *See* 17 U.S.C. § 107; *see also* H.R. Rep. No. 94-1476, at 61 (1976) ("[E]verything in section 106 is made 'subject to sections 107 through 118,' and must be read in conjunction with those provisions."), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674. Consequently, even if *Boldly* were a derivative work, it could still be transformative— as the Court has found— and constitute a non-infringing fair use.[4] The Court therefore reaffirms its prior conclusion and determines, on balance, that this factor weighs in favor of finding Defendants' use to be fair.

b. Second Factor: The Nature of the Copyrighted Use

The Parties agree that there is no reason for the Court to alter its prior finding that "this factor as a whole ... weighs only slightly in [Plaintiff's] favor." *See* ECF No. 38 at 9 (quoting *Seltzer*, 725 F.3d at 1178); *see also* Pl.'s MSJ at 20; Defs.' MSJ at 7. Accordingly, because there is no dispute that the Copyrighted Works are highly creative but have also been long and widely published, the Court concludes as before that this factor slightly favors Plaintiff.

c. Third Factor: The Amount and Substantiality of the Portion Used

In ruling on Defendants' first motion to dismiss, the Court found that, although "there is no dispute that *Boldly* copies many aspects of *Go!'s* and other Dr. Seuss illustrations[,] ... *Boldly* does not copy them in their entirety[,]" but rather "infuse[s each] with new meaning and additional illustrations that reframe Seuss images from a unique *Star-Trek* viewpoint." ECF No. 38 at 9. The Court also found that *Boldly* did not "copy more than is necessary to accomplish its transformative purpose." *Id.* Consequently, the Court held that "this factor d[id] not weigh against Defendants." *Id.* at 10 (citing *Seltzer*, 725 F.3d at 1178 ("[T]his 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.")).

Defendants urge the Court to stand by its earlier ruling, *see* Defs.' MSJ at 7, while Plaintiff again encourages the Court to reconsider its prior conclusion given the Federal Circuit's decision in *Oracle* and facts developed in discovery that it claims

Page 1117

show "Defendants took far more from *Go!* than they needed to create a Dr. Seuss-*Star Trek* mash-up." *See* Pl.'s MSJ at 20-21. Specifically, Plaintiff claims that "*Oracle* makes clear ... Defendants' addition of new content stolen from another copyright holder (*Star Trek* trademarks and references) does not lessen the substantiality of the taking from" Plaintiff. *Id.* Plaintiff points to emails from Defendants, written after the filing of this lawsuit, weighing the possibility of creating "whole new artwork, not specifically based on any individual drawing by Seuss, but close enough to his style to match the text" as evidence that Defendants "could have taken far less from *Go!* to create a 'mash-up.' " *Id.* at 21 (quoting Duvdevani Decl. Ex. 24, ECF No. 107-38).

The Court is unpersuaded. There is always an argument to be made that an infringement defendant could have used less— otherwise the case would not be in litigation. The pertinent question is whether Defendants "only copie[d] as much *as [wa]s necessary for [their] intended use.* " *L.A. News Serv. v. CBS Broad., Inc.,* 305 F.3d 924, 941 (9th Cir. 2002) (emphasis added) (quoting *Kelly v. Arriba Soft Corp.,* 280 F.3d 934, 943 (9th Cir. 2002)). Here, Defendants sought to "mash up" the *Star Trek* original series with *Go!* in particular, rather than "Dr. Seuss" in general. *See, e.g.*, Duvdevani Decl. Ex. 2 at 43:3-45:1.

Although the Court ultimately concluded that *Boldly* was not a parody, *see* ECF No. 38 at 8, the Court concludes that this case is most analogous to the situation in *Leibovitz v. Paramount Pictures Corp.,* 137 F.3d 109 (2d Cir. 1998). In *Leibovitz*, the defendant was alleged to have infringed a famous photograph of a nude, pregnant Demi Moore that appeared on the cover of the August 1991 issue of *Vanity Fair. Id*. at 111. The photo of Ms. Moore was itself "a well known pose evocative of Botticelli's *Birth of Venus.* " *Id.* As part of an advertising campaign for an upcoming movie, the defendant commissioned a photographer to take a photo of another nude, pregnant woman in a similar pose, and "[g]reat effort was made to ensure that the photograph resembled in meticulous detail the one taken [of Ms. Moore] by [the plaintiff]," from the model's posture to her hand placement to the use of a large ring on the same finger. *Id.* The defendant's photograph was then digitally enhanced using a computer to make the skin tone and body shape more closely resemble that of Ms. Moore in the plaintiff's original photo. *Id*. at 111-12. Leslie Nielsen's face was superimposed on the model's body, "with his jaw and eyes positioned roughly at the same angle as Moore's, but with her serious look replaced by Nielsen's mischievous smirk." *Id*. at 112. The finished poster advertised that the movie was "DUE THIS MARCH." *Id*. at 111.

The Second Circuit stressed that, "[i]n assessing the amount and substantiality of the portion used, [the court] must focus only on the protected elements of the original." *Id*. at 115. Consequently, the court reasoned, the plaintiff "is entitled to no protection for the appearance in her photograph of the body of a nude, pregnant female," id. at 115-16, but rather only "the particular way the body of Moore is portrayed." *Id*. at 116. The court clarified that, "[e]ven though the basic pose of a nude, pregnant body and the position of the hands, if ever protectable, were placed into the public domain by painters and sculptors long before Botticelli, [the plaintiff] is entitled to protection for such artistic elements as the particular lighting, the resulting skin tone of the subject, and the camera angle that she selected." *Id.* (footnote omitted). The court ultimately concluded that the defendant "took more of the [plaintiff's] photograph than was minimally

Page 1118

necessary to conjure it up, but" that there was "little, if any, weight against fair use so long as the first and fourth factors favor the" defendant. *Id.*

As in *Leibovitz*, the Court must take care in distinguishing precisely those elements of the Copyrighted Works to which Plaintiff is entitled copyright protection. Examining the cover of each work, for example, Plaintiff may claim copyright protection in the unique, rainbow-colored rings and tower on the cover of *Go!* Plaintiff, however, cannot claim copyright over *any* disc-shaped item tilted at a particular angle; to grant Plaintiff such broad protection would foreclose a photographer from taking a photo of the Space Needle just so, a result that is clearly untenable under— and antithetical to— copyright law.

But that is essentially what Plaintiff attempts to do here. Instead of replicating Plaintiff's rainbow-ringed disc, Defendants drew a similarly-shaped but decidedly non-Seussian spacecraft— the USS Enterprise— at the same angle and placed a red-and-pink striped planet where the larger of two background discs appears on the original cover. *See* Duvdevani Decl. Ex. 31, ECF No. 115-11, at 450. *Boldly's* cover also features a figure whose arms and hands are posed similarly to those of Plaintiff's narrator and who sports a similar nose and eyes, but *Boldly's* narrator has clearly been replaced by Captain Kirk, with his light, combed-over hair and gold shirt with black trim, dark trousers, and boots.[5] *Id.* Captain Kirk stands on a small moon or asteroid above the Enterprise and, although the movement of the moon evokes the tower or tube pictured on *Go!'s* cover, the resemblance is purely geometric. *Id.* Finally, instead of a Seussian landscape, *Boldly's* cover is appropriately set in space, prominently featuring stars and planets. *Id.* In short, "portions of the old work are incorporated into the new work but emerge imbued with a different character." *See Mattel, Inc. v. Walking Mountain Prods.,* 353 F.3d 792, 804 (9th Cir. 2003).

Further, Defendants here took less from Plaintiff's copyrighted works both quantitatively and qualitatively than the defendant in *Leibovitz.* The defendant in *Leibovitz* incorporated nearly the entirety of the plaintiff's photograph, except for superimposing a different face onto the body. 137 F.3d at 111-12. Here, by contrast, Defendants took discrete elements of the Copyrighted Works:

cross-hatching, object placements, certain distinctive facial features, lines written in anapestic tetrameter. Yes, these are elements significant to the Copyrighted Works, but Defendants ultimately did not use Dr. Seuss' words, his character, or his universe. The Court therefore stands by its prior conclusion that Defendants took no more from the Copyrighted Works than was necessary for Defendants' purposes, *i.e.*, a "mash-up" of *Go!* and *Star Trek*, and that, consequently, this factor does not weigh against Defendants.

d. Fourth Factor: The Market Effect of the Use

As the Court previously explained,

Page 1119

> This factor considers "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." ... "Where the allegedly infringing use does not substitute for the original and serves a 'different market function,' such factor weighs in favor of fair use." ... However, "[t]his factor also considers any impact on 'traditional, reasonable, or likely to be developed markets.' "

ECF No. 38 at 10-11 (quoting *Campbell*, 510 U.S. at 590, 114 S.Ct. 1164; *Seltzer*, 725 F.3d at 1179). Given Plaintiff's allegation in its original complaint that "[i]t is not uncommon for DSE to license" its works, including in "collaborations with other rights holders," *see* ECF No. 1 ¶ 32, the Court concluded that potential harm to Plaintiff's licensing opportunities was to be presumed and that the factor favored Plaintiff, although "Defendants might well be able to ultimately disprove [Plaintiff's] statement [concerning its licensing of collaborations] as it applies [to] works of *Boldly's* type." ECF No. 38 at 11. The Court added, however, that "this presumed harm is neutralized somewhat by the fact that *Boldly* does not substitute for the original and serves a different market function than *Go!* " because "*Boldly's* market relies on consumers who have already read and greatly appreciated *Go!* and Dr. Seuss's other works, and who simultaneously have a strong working knowledge of the *Star Trek* series." *Id.* In denying Defendants' second motion, the Court recognized that because it had "previously found *Boldly* to be transformative[,] ... [it] d[id] not presume market harm." ECF No. 51 at 9.

At oral argument, Plaintiff's counsel conceded that, if the Court concludes that *Boldly* is transformative, the burden is on Plaintiff to demonstrate a likelihood of future market harm. ECF No. 148 at 7:5-24, 12:20-22; *see also, e.g.*, *Campbell*, 510 U.S. at 591, 114 S.Ct. 1164 ("[W]hen, on the contrary, the second use is transformative, market substitution is at least less certain, and market harm may not be so readily inferred."). Not only must Plaintiff introduce "[e]vidence of substantial harm to it," *see Campbell*, 510 U.S. at 593, 114 S.Ct. 1164, but Plaintiff must make this showing "by a preponderance of the evidence." *Sony Corp. of Am. v. Universal City Studios, Inc.,* 464 U.S. 417, 451, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984).

Given that this factor is often treated as the "single most important element of fair use," *see Harper & Row Publishers, Inc. v. Nation Enters.,* 471 U.S. 539, 566, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985), the parties hotly contest the inferences that can be drawn from the developed record. Plaintiff, on the one hand, contends that "*Boldly* was intended to compete with, and thus supplant, *Go!* in the market for graduation gifts, and, given the enduring popularity of *Star Trek* over the last 50 years, it is reasonable to assume that some prospective *Go!* buyers would instead buy *Boldly* because the purchaser or the gift recipient is a *Star Trek* fan." Pl.'s MSJ at 23. Plaintiff notes that it "has also published several books that are derivative of the DSE Works, including derivatives of *Go!* " and that "[c]ombining the DSE Works with *Star Trek* intellectual property to create a new illustrated work is exactly the type of 'collab' project that DSE might license." *Id.* Further, Plaintiff raises the specter of a slippery slope, arguing that, "if third parties could freely create collaborative mash-ups without permission of the affected copyright holders, DSE would not be the only one harmed: the entire market

Page 1120

for authorized collaborative works would be threatened." *Id.* at 24 (citing *Campbell*, 510 U.S. at 587, 590, 114 S.Ct. 1164). Defendants, on the other hand, counter that Plaintiff "shows only that it has a market for its works, not that *Boldly* would affect that market." Defs.' MSJ Opp'n at 15. Defendants urge that Plaintiff's "suppositions are not a valid basis to accept its Doomsday scenarios, or to further delay Defendants' opportunity to publish their creative mashup." *Id.* at 21.

At the hearing, the Court asked Plaintiff to identify any record evidence that *Boldly* is likely to harm the market for *Go!* and Plaintiff's licensed derivatives. ECF No. 148 at 15:16-16:19; *see also id.* at 8:9-16, 11:2-12:12, 14:1-24. As in its papers, Plaintiff argued that, "had Defendants and their publisher and wholesalers acted on th[eir] plan to target 'fans of Seuss' and 'Trek' in Spring, a substantial number of purchasers would have bought *Boldly*, rather than *Go!*, as a graduation gift." Pl.'s MSJ Reply at 8; *see also* ECF No. 148 at 14:1-24. As for Plaintiff's market for derivative works, Plaintiff introduced undisputed evidence that it has published many derivatives of the Copyrighted Works— including collaborations with other rights holders— and has a "robust licensing program." Pl.'s MSJ at 9; *see also* ECF No. 148 at 9:9-11:18. Plaintiff also contends that " 'unrestricted and widespread conduct of the sort engaged in by the defendant' would harm [Plaintiff]'s licensing program." Pl.'s MSJ at 10 (quoting *Campbell*, 510 U.S. at 590, 114 S.Ct. 1164); *see also* ECF No. 148 at 11:19-12:12, 58:24-60:3 (quoting *Campbell*, 510 U.S. at 590, 114 S.Ct. 1164).

Even viewing the undisputed evidence most favorably to Plaintiff, the Court concludes that Plaintiff has failed to sustain its burden to demonstrate by a preponderance of the evidence that *Boldly* is likely substantially to harm the market for *Go!* or licensed derivatives of *Go!* Instead, the "potential harm to [Plaintiff]'s market remains hypothetical." *See, e.g.*, Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1168 (9th Cir. 2007); *Equals Three, LLC v. Jukin Media, Inc.,* 139 F.Supp.3d 1094, 1108 (C.D. Cal. 2015).

Equals Three is instructive. In *Equals Three*, a producer of online humor videos brought a declaratory relief action against the owner of an online library of user-generated video clips, seeking an injunction and declaratory judgment that its use of the owner's videos was a fair use. 139 F.Supp.3d at 1098. The owner countersued, asserting that the humorous videos infringed its copyrights. *Id.* The copyright owner was a media company that acquired user-generated internet video clips that it determined were likely to "go viral," obtaining a library of over 17,000 videos. *Id.* It capitalized on its video library through ad-supported and subscription-based syndication and through licensing the videos for use on television and cable shows. *Id.* Some of the owner's clips were used without a licensing agreement by the alleged infringer, which produced a short humor program broadcast on YouTube typically involving a host giving an introduction and then showing and remarking on several video clips. *Id*. at 1099.

In evaluating the alleged infringer's fair use defense, the district court determined that, although not parodic, the use of all but one of the videos was transformative and that the commercial nature of the use was outweighed by this transformativeness.[6] *See* id. at 1104-05. The court reasoned

Page 1121

that "the jokes, narration, graphics, editing, and other elements that [the humorist] adds to [the copyright holder]'s videos add something new to [the copyright holder]'s videos with a different purpose and character." *Id*. at 1105.

With respect to market harm, the copyright holder offered the "speculative conclusion" that its videos are most valuable shortly after publication and that this was when the alleged infringer copied its videos. *Id*. at 1107. The court noted that the copyright holder gave "no specific facts regarding the value of the videos at issue in the case before or after [the alleged infringer] used them" and that, "even assuming *arguendo* that the videos are more valuable shortly after publication, focusing on harm from [the alleged infringer]'s failure to pay a license risks circular reasoning— if [the alleged infringer]'s use is fair then no license fee is required by it or similar users." *Id.* The copyright holder also "argue[d] that [the alleged infringer]'s episodes usurp[ed] demand for [the copyright holder]'s videos[,] ... offer[ing] evidence that it licenses its videos to shows which it claim[ed we]re similar to [the alleged infringer]'s." *Id.* Although the court recognized that there was "no cognizable derivative market for criticism," it "consider[ed] the possibility that [the alleged infringer]'s viewers use the episodes as a substitute for [the copyright holder]'s videos." *Id*. at 1108. As here, the copyright holder argued "that viewers no longer need to watch its videos after watching [the alleged infringer]'s episodes," while the alleged infringer argued "that its episodes actually increase [the copyright holder]'s views." *Id.* But "[n]either side submit[ted] admissible evidence strongly supporting its position." *Id.* The copyright holder, on the one hand, "relie[d] on [its Vice President of Content Operations]'s unfounded testimony that [the alleged infringer]'s viewers no longer need to watch [the copyright holder]'s videos" and "the conclusory statement of its Director of Licensing ... that [the alleged infringer]'s use of [the copyright holder]'s videos decreases their licensing values." *Id.* On the other hand, the alleged infringer "relie[d] primarily on its employees' inadequately supported testimony and on unauthenticated statements purportedly from [its] viewers to show that its viewers also watch [the copyright holder]'s videos." *Id.* Although the court "c[ould] imagine a fine line between the demand for the humorous original and the humorous new work commenting thereon ..., there [wa]s no actual evidence of any such harm." *Id.* "Thus, on this record, where any market harm remains hypothetical," the court found that the factor did "not favor either party." *Id.* (citing *Perfect 10*, 508 F.3d at 1168).

Similarly, in *Perfect 10*, the Ninth Circuit determined that Google's use of thumbnails of copyrighted images was highly transformative, *see* 508 F.3d at 1165, and consequently that "market harm c[ould]not be presumed." *Id*. at 1168. Although the copyright holder argued that it had a market for reduced-sized images, such as those available through Google's search results, the plaintiff did not introduce any evidence that any downloads of Google's thumbnail search results for mobile phone use had actually taken place.

Page 1122

Id. at 1166, 1168. Consequently, "[t]his potential harm to [the copyright holder]'s market remain[ed] hypothetical," and the Ninth Circuit reversed the district court and concluded that the fourth fair use factor "favor[ed] neither party." *Id*. at 1168.

As in *Perfect 10* and *Equals Three*, the Court has concluded that Defendants' use of the Copyrighted Works was transformative. *See supra* Section II.A.1.a. Accordingly, as Plaintiff itself has conceded, *see* ECF No. 148 at 7:5-24, 12:20-22, and as the Court has previously found, *see* ECF No. 51 at 9, harm to Plaintiff's potential market for *Go!* cannot be presumed. *See, e.g.*, *Campbell*, 510 U.S. at 591, 114 S.Ct. 1164; *Perfect 10*, 508 F.3d at 1168; *Equals Tree*, 139 F.Supp.3d at 1107. It was therefore incumbent upon Plaintiff to introduce sufficient evidence to demonstrate by a preponderance of the evidence that *Boldly* is likely substantially to harm the market for *Go!* or its licensed derivatives. This it has failed to do.

As before, *see* ECF No. 38 at 11 (citing *Kelly*, 336 F.3d at 821), the Court concludes on the record before it that *Boldly* is not likely to usurp *Go!'s* market as a children's book:

Boldly
does not substitute for the original and serves a different market function than
Go!

... Indeed, *Boldly's* market relies on consumers who have already read and greatly appreciated *Go!* and Dr. Seuss's other works, and who simultaneously have a strong working knowledge of the *Star Trek* series. It is therefore unlikely that *Boldly* would severely impact the market for Dr. Seuss's works.

Yes, Defendants wanted *Boldly* to be "family friendly," but they "d[idn']t expect it to be read by 5 year olds"; they just wanted it to "be safe for them." Duvdevani Decl. Ex. 20, ECF No. 107-35, at 362. Even if *Boldly* appears "family friendly," *id.*, it still touches on more adult subjects, including "lovers ... [who]'ll never be back for an episode two." Duvdevani Decl. Ex. 31 at 456. Even the illustrations are imbued with sexual innuendo, with one page depicting a number of women (and possibly one man) with whom Captain Kirk has slept. *See id.* at 469. The illustration also features Captain Kirk pulling on his boots, *see id.*, which Mr. Templeton explains "is a common trope of Star Trek that after Captain Kirk has bedded a lovely alien lady, you will always see the scene afterwards, he will be pulling his boots back on. That was the sort of shorthand in Star Trek for Captain Kirk got some.... [The illustration]'s evocative of the Star Trek element of sex." Duvdevani Decl. Ex. 1 at 175:3-17.

This further cements the Court's prior conclusion that *Boldly* is targeted at those who have an appreciation of both *Go!* (or other Dr. Seuss works) and *Star Trek's* Original Series. As Mr. Gerrold testified, *Star Trek* "is a very adult show and was always from the very beginning ... a commentary on social issues, it is about the challenges that adults face, and Star Trek is for a very adult demographic." Duvdevani Decl. Ex. 2 at 43:12-18. *Boldly* was intended "for adults who are familiar with all the episodes [of *Star Trek*]" and "would not work for kids who have not seen the episode[s]." *Id.* at 44:10-14. Despite its admittedly Seussian appearance, *Boldly* is clearly not a children's book and there is a minimal risk that *Boldly* will usurp *Go!'s* market to the extent it is targeted to children (either directly or through their parents).

The closer question concerns *Go!'s* graduation and derivative markets. *See, e.g.*, Pl.'s MSJ at 22-24. Plaintiff claims, for example, that "*Boldly* was intended to compete with, and thus supplant, *Go!* in

Page 1123

the market for graduation gifts." *Id.* at 23. It is clear that Defendants' publisher and distributor intended to market *Boldly* for, among other purposes, graduation,[7] *see, e.g.*, Duvdevani Decl. Ex. 48, ECF No. 115-19, at 550 (identifying the possible audience as "[g]raduates and parents of graduates (college, high school, 8th grade); fans of *Star Trek* ; fans of Dr. Seuss"); Duvdevani Decl. Ex. 66, ECF No. 107-62 ("[ThinkGeek woul]d LOVE to be able to offer [*Boldly*] for Graduation on the site."), but Plaintiff has introduced no evidence concerning the likely incidence of such purchases or the possible impact— if any— on its considerable licensing revenues.

What is clear is that *Go!* is Plaintiff's "best-selling book," *see* SOF ¶ 141, and that is it a "NY Times best seller each spring" with "[o]ver 12.5M copies sold with sales increasing the past 4 years!" *See* Duvdevani Decl. Ex. 108, ECF No. 115-52, at 1. Defendants, on the other hand, raised $ 29,575 from 727 backers for *Boldly* over a two-month period through Kickstarter, *see* Duvdevani Decl. Ex. 40, ECF No. 107-50, at 522, and ThinkGeek placed an order for 5,000 copies of *Boldly* for Christmas 2016 sales. *See* Duvdevani Decl. Ex. 59, ECF No. 115-24; Duvdevani Decl. Ex. 60, ECF No. 107-59. Although it is certainly conceivable that some would-be purchasers of *Go!* would instead purchase *Boldly* for a Trekkie graduate, there is a dearth of evidence or expert testimony permitting the Court to extrapolate the likely effect— if any— that *Boldly* may have on Plaintiff's sales of *Go!*

The same is true of Plaintiff's derivative market. It is undisputed that Plaintiff was the top book licensor in 2017, *see* Duvdevani Decl. Ex. 126, ECF No. 107-81, and that the "bulk" of Plaintiff's revenues comes from licensing, with approximately half of those revenues coming from publishing in "non-film year[s]." Duvdevani Decl. Ex. 4, ECF No. 115-2, at 59:6-60:2. It is also undisputed that Plaintiff has licensed books derivative of *Go!*, such as *Go!: Oh Baby! Go, Baby!* ; *Oh, the Places I'll Go! by ME, Myself* ; *Oh, Baby, the Places You'll Go!* ; *Oh, the Places You'll Go (Pop-Up)* ; and *Oh, the Places I've Been! Journal*, *see, e.g., id.* at 75:7-79:22, 80:4-7; *see also* SOF ¶ 142, and that Plaintiff has licensed collaborations in which Plaintiff's intellectual property is combined with another's intellectual property, such as *Wubbulous World of Dr. Seuss*, *Grinch Panda Pop*, a clothing line with Comme des Garç ons, Dr. Seuss Funko figurines, and PBD-related books based on *The Cat in the Hat Knows a Lot About That. See, e.g.*, Duvdevani Decl. Ex. 4 at 125:2-129:2, 135:25-137:3, 142:19-146:19, 151:1-160:5, 166:4-168:12, 284:19-286:3; *see also* SOF ¶¶ 150-56.

As in *Perfect 10* and *Equals Three*, however, Plaintiff has introduced no evidence tending to show that it would lose licensing opportunities or revenues as a result of publication of *Boldly* or similar works. *See, e.g.*, *Perfect 10*, 508 F.3d at 1168 (no showing that users of search engine had downloaded thumbnail images for cell phone use, thus harming the plaintiff's market for cell phone downloads); *Equals Three*, 139 F.Supp.3d at 1108 (no showing

Page 1124

that potential licensees would be less likely to license copyrighted videos). And as in *Equals Three*, Plaintiff's argument "risks circular reasoning," *see* 139 F.Supp.3d at 1107, in that "it is a given in every fair use case that plaintiff suffers a loss of a *potential* market if that potential is defined as the theoretical market for licensing the very use at bar."[8] 4 Nimmer on Copyright § 13.05 (2018); *see also Am. Geophysical Union v. Texaco Inc.,* 60 F.3d 913, 929 n.17 (2d Cir. 1994) ("[W]ere a court automatically to conclude in every case that potential licensing revenues were impermissibly impaired simply because the secondary user did not pay a fee for the right to engage in the use, the fourth fair use factor would always favor the copyright holder."), *cert. dismissed*, 516 U.S. 1005, 116 S.Ct. 592, 133 L.Ed.2d 486 (1995); William F. Patry, *Patry on Fair Use* § 6:9 (2018) ("If taken to a logical extreme, the fourth factor would always weigh against fair use since there is always a potential market that the copyright owner could in theory license."). After all, as the Supreme Court has admonished, "[t]he primary objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and useful Arts.' To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work." *Fogerty v. Fantasy, Inc.,* 510 U.S. 517, 527, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994) (quoting *Feist Publ'ns, Inc. v. Rural Tele. Serv. Co.,* 499 U.S. 340, 349-50, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991)).

And merely because Plaintiff has licensed works derivative of *Go!* does not mean that a license is required in all instances. *See, e.g.*, *Authors Guild, Inc. v. HathiTrust,* 755 F.3d 87, 100 (2d Cir. 2014) ("[I]t is irrelevant that the Libraries might be willing to purchase licenses in order to engage in this transformative use (if the use were deemed unfair). Lost licensing revenue counts under Factor Four only when the use serves as a substitute for the original."); *Ty, Inc. v. Publ'ns Int'l Ltd.,* 292 F.3d 512, 521 (7th Cir. 2002) ("Given that [the copyright holder] can license (in fact has licensed) the publication of collectors' guides that contain photos of all the [the copyrighted works], how could a competitor forbidden to publish photos of the complete line compete? And if it couldn't compete, the result would be to deliver into [the copyright holder]'s hands a monopoly of [the copyrighted works] collectors' guides even though [the copyright

Page 1125

holder] acknowledges that such guides are not derivative works and do not become such by being licensed by it."); *Sony Computer Entm't, Inc. v. Connectix Corp.,* 203 F.3d 596, 607-08 (9th Cir. 2000)

("[The copyright holder] understandably seeks control over the market for devices that play games [the copyright holder] produces or licenses. The copyright law, however, does not confer such a monopoly.") (citing *Sega Enters. Ltd. v. Accolade, Inc.,* 977 F.2d 1510, 1523-24 (9th Cir. 1992) ("[A]n attempt to monopolize the market by making it impossible for others to compete runs counter to the statutory purpose of promoting creative expression and cannot constitute a strong equitable basis for resisting the invocation of the fair use doctrine.")); *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.,* 150 F.3d 132, 145 n.11 (2d Cir. 1998) ("[B]y developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work, a copyright owner plainly cannot prevent others from entering those fair use markets"); *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.,* 996 F.2d 1366, 1377 (2d Cir. 1993) ("[T]he author of 'Twin Peaks' cannot preserve for itself the entire field of publishable works that wish to cash in on the 'Twin Peaks' phenomenon."). Indeed, Section 107 specifically carves out of Plaintiff's monopoly uses that are "fair" and further the ultimate aims of copyright law.

Under circumstances such as this, in which Plaintiff has failed to introduce evidence tending to demonstrate that the challenged work will substantially harm the market for its Copyrighted Works, the Court may conclude that this factor favors neither party. *See Perfect 10*, 508 F.3d at 1168; *Equals Three*, 139 F.Supp.3d at 1108.

e. Weighing of the Factors

"No single factor or combination of factors controls the fair use analysis; rather, the Court must weigh all the facts 'in light of the purposes of copyright.' " *Sofa Entm't, Inc. v. Dodger Prods., Inc.,* 782 F.Supp.2d 898, 910 (C.D. Cal. 2010) (quoting *Campbell*, 510 U.S. at 577-78, 114 S.Ct. 1164 ("The task is not to be simplified with bright-line rules.... Nor may the four statutory factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.")) (citing *Twentieth Century Music Corp. v. Aiken,* 422 U.S. 151, 156, 95 S.Ct. 2040, 45 L.Ed.2d 84 (1975) ("Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.")), *aff'd*, 709 F.3d 1273 (9th Cir. 2013).

Here, the Court has concluded that *Boldly* is highly transformative. As such, *Boldly* serves to further "the goal of copyright, to promote science and the arts." *See Campbell*, 510 U.S. at 579, 114 S.Ct. 1164. Despite *Boldly's* commercial nature, the first factor of the fair use analysis therefore weighs in favor of Defendants. Of course, Plaintiff's copyrighted works are also highly creative, although they have also long been in publication, resulting in the second factor slightly favoring Plaintiff. Although Defendants borrowed heavily from *Go!* and the other Copyrighted Works, the Court ultimately concludes that Defendants took no more than was necessary for their purposes; consequently, this factor does not weigh against Defendants. Finally, the Court concludes that the harm to Plaintiff's market remains speculative and, accordingly, that the fourth factor is neutral. On balance, therefore, the fair use factors favor Defendants. Accordingly, the Court **GRANTS** Defendants' Motion for Summary Judgment as to fair use.

Page 1126

2. Trademark Infringement Claims

Defendants also seek summary adjudication of Plaintiff's surviving trademark infringement claims.[9] *See* Defs.' MSJ at 12-18. Following the Court's dismissal of Plaintiff's claims based on the title of *Boldly*, *see* ECF No. 89 at 8-9, Plaintiff's surviving trademark claims are premised upon Defendants' alleged misappropriation of "the stylized font that [Plaintiff] uses consistently throughout the Dr. Seuss books" and "Dr. Seuss's unique illustration style." *See, e.g.*, FAC ¶¶ 76, 85. Defendants contend that these claims are defective because neither a stylized font nor an illustration style is subject to trademark protection, *see* Defs.' MSJ at 13-15, and, even if they were, that Defendants' use merits First Amendment protection under *Rogers v. Grimaldi,* 875 F.2d 994 (2d Cir. 1989). Defs.' MSJ at 15-18.

a. Trademark Protection

i. Illustration Style

Defendants contend that "[t]rademark law does not protect an artist's overall style, rather than discrete manifestations of that style." Defs.' MSJ at 13. Despite acknowledging that "no reported case has involved these precise facts," Plaintiff counters that "illustrative style and font meet the Lanham Act's intentionally broad definition of mark." Pl.'s MSJ Opp'n at 18. Indeed, Plaintiff argues, "the undisputed evidence amply supports [Plaintiff]'s allegations that [Plaintiff's stylized font and unique illustration style] are distinctive and have acquired secondary meaning in the mind of the public, and are readily associated with [Plaintiff]." *Id.* at 17. Plaintiff relies heavily upon a survey introduced by its expert, Hal L. Poret, which "shows that 24% of consumers are confused as to origin [of *Boldly*] *because* Defendants deliberately used [Plaintiff's distinctive illustration style and font], which is legally probative of confusion." *Id.* at 18 (emphasis in original).

In ruling on Defendants' motion to dismiss, the Court concluded that, "at this stage of the proceedings and based on the information in front of the Court, ... Plaintiff's claimed general 'illustration style' is not protectable." ECF No. 51 at 15 (citing *Whitehead v. CBS/Viacom, Inc.,* 315 F.Supp.2d 1, 13 (D.D.C. 2004)). As Defendants note, *see* Defs.' MSJ at 13, "[c]ourts have almost uniformly said no" trademark protection exists for an artistic style. 2 McCarthy on Trademarks and Unfair Competition § 10:40.50 (5th ed.).

The Court sees no legal or factual basis to change its conclusion at the summary judgment stage. Accordingly, the Court **GRANTS** Defendants' motion and grants summary judgment on Plaintiff's trademark claims to the extent they are premised on Plaintiff's artistic style. *See, e.g.*, *Munro v. Lucy Activewear, Inc.,* 899 F.3d 585, 590 (8th Cir. 2018) ("[C]opyright, not trademark, protects artistic and creative ideas and concepts."), *cert. denied*, __ U.S. __, 139 S.Ct. 941, 203 L.Ed.2d 131 (2019);

Page 1127

Galerie Furstenberg v. Coffaro, 697 F.Supp. 1282, 1290 (S.D.N.Y. 1988) ("Plaintiff seeks to protect Dali's 'unique style and interpretation of a certain subject' (i.e., his authorship) 'as expressed on paper' (i.e., fixed in any tangible medium of expression). This claim is properly brought under the federal copyright, not trademark, statute."); *see also Dastar Corp. v. Twentieth Century Fox Film Corp.,* 539 U.S. 23, 34, 123 S.Ct. 2041, 156 L.Ed.2d 18 (2003) ("[I]n construing the Lanham Act, [the Supreme Court] ha[s] been 'careful to caution against misuse or over-extension' of trademark and related protections into areas traditionally occupied by patent or copyright."); *Landscape Forms, Inc. v. Columbia Cascade Co.,* 113 F.3d 373, 382 (2d Cir. 1997) ("If the law protected style at such a level of abstraction, Braque might have prevented Picasso from selling cubist paintings in the United States.").

Because "the same result inures regarding Plaintiff's unfair competition claims," *see* ECF No. 38 at 19; ECF No. 51 at 23; *see also Cleary v. News Corp.,* 30 F.3d 1255, 1263 (9th Cir. 1994), the Court similarly **GRANTS** Defendant's Motion for Summary Judgment and **DISMISSES** those claims to the same extent.

ii. Typeface[10]

Defendants first argue that "[a] mutable font is no more susceptible of trademark rights than a general style." Defs.' MSJ at 14. The Court must agree. Although "[o]ne can obtain a trademark on the name of a typeface ..., as trademarks only protect the use of a name or mark in commerce, trademark cannot protect the design of the typeface itself." Evans, *supra* note 10, at 323 (footnotes omitted) (citing Lipton, *supra* note 10, at 184). A number of publications use distinctive typefaces. *The New Yorker*, for example, uses its own Irvin typeface for its headlines, David Consuegra, *American Type Design and Designers* 170-71 (2004), and Adobe Caslon for the text of its articles. *See* Adam Gopnik, *John Updike*, New Yorker, Feb. 9, 2009, at 35. Although *The New Yorker* may trademark the name of the typeface or its mark in that stylized typeface, *see* THE NEW YORKER, Registration No. 0844606, it cannot trademark (or copyright, *see* 37 C.F.R. § § 202.1(a), (e)) the typeface itself. It seems unlikely, therefore, that *The New Yorker* could turn to trademark law to prevent another publication from using a combination of the Irvin and Adobe Caslon typefaces, even if the somewhat unique combination of those typefaces is associated in the minds of readers with *The New Yorker.*

Even if the typeface Defendants copied for the cover, title page, and spine of *Boldly* were entitled to trademark protection, however, Defendants contend that "*Boldly* does not use th[e] ‘Seuss font[s]’ " Plaintiff urges licenses to use in its Style Guide. Defs.’ MSJ Reply at 8-9. Defendants have introduced evidence that Plaintiff instructs licensees to use its custom Dr. Seuss Light

Page 1128

or Bold fonts "for graphics, titles, or call outs on packaging." Duvdevani Decl. Ex. 85-1, ECF No. 115-29, at 13. The Dr. Seuss font "is the primary font of the Dr. Seuss licensing program" and was inspired by Dr. Seuss’ hand lettered title from *The Cat in the Hat. Id.* at 11.

The Court acknowledges that it previously concluded, without considering the Ninth Circuit’s decision in *Twentieth Century Fox Television v. Empire Distribution, Inc.,* 875 F.3d 1192 (9th Cir. 2017) ("*Empire* "), that "Defendants ha[d] not satisfied th[e] nominative fair use factor" because "[t]he look of the lettering [of the titles] is unquestionable identical on both [*Go!* and *Boldly*], down to the shape of the exclamation point," which "was unnecessary." ECF No. 51 at 21-22. Upon review of *Empire*, however, the Court concluded that the title of *Boldly* did not violate the Lanham Act because "the title of *Boldly* ... is relevant to its own content," ECF No. 89 at 7, and "Plaintiff has not pointed to, and is not able to point to, any evidence that the title of *Boldly* explicitly misleads as to the source of the work." *Id*. at 8.

Having concluded that the title of *Boldly* does not violate the Lanham Act, the Court now concludes that Defendants’ use of Seussian typefaces, not in conjunction with an enforceable mark, cannot support a claim for violation of the Lanham Act or, consequently, California’s Unfair Competition Law. Accordingly, the Court **GRANTS** Defendants’ Motion for Summary Judgment as to Plaintiff’s remaining trademark and unfair competition claims, to the extent they are based upon Defendants’ alleged misappropriation of Plaintiff’s typefaces. The Court also **GRANTS** Defendant’s Motion for Summary Judgment and **DISMISSES** Plaintiff’s surviving unfair competition claims to the same extent.

b. First Amendment Protection Under *Rogers*

Given the Court’s conclusion that neither Plaintiff’s artistic style nor distinctive font is entitled to trademark protection, *see supra* Section III.B.2.a, the Court declines to address Defendants’ argument that their use of the alleged marks is entitled to First Amendment protection under *Rogers . See* Defs.’ MSJ at 15-18.

B. Plaintiff’s Motion for Summary Judgment

In light of the Court’s conclusion that Defendants are entitled to summary judgment on their fair use defense, *see supra* Section II.A.1, the Court **DENIES** Plaintiff’s Motion for Summary Judgment.

EVIDENTIARY MOTIONS

Plaintiff requests that the Court strike the Booth Declaration and Exhibits 1 through 7 thereto, *see generally* Mot. to Strike, and exclude the testimony of Defendants' expert, Dr. Joshua Gans. *See generally* Mot. to Exclude. Because the Court relies on neither the Booth Declaration nor the opinions of Dr. Gans in reaching the above conclusions, the Court **DENIES AS MOOT** Plaintiff's Motions to Exclude and to Strike.

CONCLUSION

In light of the foregoing, the Court **GRANTS** Defendants' Motion for Summary Judgment (ECF No. 108), **DENIES** Plaintiff's Motion for Summary Judgment (ECF No. 107), and **DENIES AS MOOT** Plaintiff's Motions to Exclude (ECF No. 104) and to Strike (ECF No. 116).

IT IS SO ORDERED.

Notes:

[1] The Court granted the Parties leave to file several of their filings under seal on the grounds that they had been designed "Confidential" or "Highly Confidential" under the Protective Order in this case. *See* ECF Nos. 114, 123, 134, 142.

[2] Plaintiff's recitation of the facts is largely undisputed. Accordingly, the Court borrows liberally from Plaintiff's recitation of the facts, *see* Pl.'s MSJ at 2-10, and Defendants' response. *See* Defs.' MSJ Opp'n at 3-15.

[3] Those of Plaintiff's exhibits lacking native pagination will be cited according to the pagination Plaintiff has provided.

[4] If anything, the derivative works question appears to relate to the copyrightability of *Boldly*, *see, e.g.*, 17 U.S.C. § 103(a) (defining scope of copyright protection for derivative works); *see also* H.R. Rep. 94-1476, at 58 (1976) ("[T]he unauthorized reproduction of a work might be 'lawful' [for purposes of Section 103(a)] under the doctrine of fair use or an applicable foreign law, and if so the work incorporating it could be copyrighted."), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5671, which is not at issue in this action.

[5] Plaintiff attempts to argue that *Boldly* uses a Dr. Seuss character: "the 'boy,' " Pl.'s MSJ Reply at 2, "a derivation of *Go!'s* protagonist." *Id.* at 9-10. Plaintiff cannot claim copyright protection for the use of any unidentified "boy" protagonist; its rights are limited only to the particular boy protagonist appearing in *Go!*, sporting a yellow cap and onesie. Although *Boldly's* protagonist shares certain facial features with the "boy," such as his button nose, and mimics many of his poses, he is no longer the "boy" from *Go!*, but rather has been transformed into Captain Kirk from Star Trek. The Court therefore finds unavailing Plaintiff's claim that Defendants have used one of Plaintiff's "characters."

[6] The one video that the district court determined was not transformative used a copyrighted "video of the first person to buy an iPhone 6 in Perth dropping the phone." *Id*. at 1105. In a declaration, the humorist claimed that it used the video "for the purpose of making two points: (1) 'don't be first at shit'; and (2) Apple Inc.'s method of packaging iPhones at the top of the box is absurd." *Id.* Because the alleged infringer "admit[ted] that its purpose of using [the copyright holder]'s video was to make two general, broad points that were not directly aimed at criticizing or commenting on the *video* ," the court concluded that "[t]he use of [the copyright holder]'s footage to make these two points is akin to using news footage without adding anything transformative to what made the footage valuable." *Id.* Such is not the case here. *See supra* Section II.A.1.a.

[7] To the extent that Plaintiff argues Defendants originally intended to market *Boldly* to graduates, the Court is unpersuaded. Rather, it seems clear that Defendants intended to market *Boldly* to fans of Star Trek, as demonstrated by their desire to have copies in time for World Con on August 17, 2016, *see, e.g.*, Duvdevani Decl. Ex. 27, ECF No. 107-41, at 434, and decision to partner with ThinkGeek, "which produces and sells a lot of material that is of ... interest to fans of Star Trek, Dr. Who, Star Wars, what have you." Duvdevani Decl. Ex. 3 at 86:21-87:3; *see also Star Trek Merchandise*, ThinkGeek, https://www.thinkgeek.com/interests/startrek/ (last visited Feb. 1, 2019).

[8] To reduce this risk of circular reasoning, courts are to consider only the copyright holder's "traditional, reasonable, or likely to be developed markets." *Seltzer*, 725 F.3d at 1179 (citing *Ringgold v. Black Entm't Television, Inc.,* 126 F.3d 70, 81 (2d Cir. 1997)). Here, Plaintiff's proprietary "Style Guide," *see* Duvdevani Decl. Ex. 85, ECF No. 115-29-31, which is "the packet of materials that a partner under license would receive to help them start designing products for Dr. Seuss," Duvdevani Decl. Ex. 4 at 316:2-12, supports Defendants' argument that *Boldly* occupies a market that Plaintiff has not traditionally targeted or is likely to develop. Under "Do's and Don'ts," Plaintiff instructs its licensees not to show characters with items "not from [the

Seuss] world" and not to "use Seuss characters with third party's characters." Duvdevani Decl. Ex. 85, ECF No. 115-29, at 680-81. Licensees are also not supposed to "make up Seuss-like rhymes." *Id.* at 681. *Boldly*, however, breaks these rules: it makes liberal (if not exclusive) use of third-party characters from Star Trek, mixes them with non-Seussian elements and worlds from Star Trek, and it creates its own Seuss-like rhymes using Star Trek wordplay. *See, e.g.*, Duvdevani Decl. Ex. 31 at 453 (depicting the protagonist in a spacesuit walking along the Enterprise as it floats through space and explaining that "Your big ship will take you to alien skies. / It's the best that we've got for your great enterprise."). It is therefore unlikely that *Boldly* is "precisely the type [of 'collab'] that [Plaintiff] might consider." *See* Pl.'s MSJ at 20.

[9] Defendants also contend that they are entitled to judgment on Count II of Plaintiff's First Amended Complaint. *See* Defs.' MSJ at 12-13. In Count II, Plaintiff alleges that Defendants have used without authorization Plaintiff's *United States Trademark Registration No* . 5,099,531 for OH THE PLACES YOU'LL GO. FAC ¶¶ 66-72. On May 21, 2018, the Court concluded "that the title of *Boldly* does not violate the Lanham Act," and therefore "**GRANT[ED]** Defendants' Motion for Judgment on the Pleadings as to Counts II and III [and IV] of the First Amended Complaint as they relate to the title of *Boldly.* " ECF No. 89 at 8-9. Given the Court's prior Order, Defendants were not required to seek summary adjudication of Count II here; nonetheless, the Court **GRANTS** Defendants' Motion for Summary Judgment as to Plaintiff's Count II.

[10] Although the terms are used interchangeably in common parlance and the parties' filings, the Court clarifies that Defendants are alleged to have used Plaintiff's "typeface," rather than "font." As Professor Lipton explains, "a typeface is the artistic creation of a typeface designer, while a font is the result of an industrial process to enable the reproduction of typefaces in the printing process." Jacqueline D. Lipton, To (c) or Not to (c)? Copyright and Innovation in the Digital Typeface Industry, 43 U.C. Davis L.Rev. 143, 148 (2009) (footnote omitted). Today, " 'font' refers to the code or program that tells a computer or printer how to render or print a certain typeface on a computer monitor or piece of paper." Emily N. Evans, *Fonts, Typefaces, and IP Protection: Getting to Just Right*, 21 J. Intell. Prop. L. 307, 310 (2014). Here, Defendants are alleged to have reproduced Plaintiff's typefaces; they are not alleged to have replicated Plaintiff's underlying "code" or font.

__ U.S. __ (2019)
139 S.Ct. 881, 203 L.Ed.2d 147, 27 Fla.L.Weekly Fed. S 686
FOURTH ESTATE PUBLIC BENEFIT CORPORATION, Petitioner
v.
WALL-STREET.COM, LLC, et al.
No. 17-571
United States Supreme Court
March 4, 2019

Argued January 8, 2019

Syllabus [*]

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. 887 - 892.

(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. Pp. 887 - 888.

(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. 887 - 892.

(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. 888 - 890.

(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 granting 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. 889 - 892.

856 F.3d 1338, affirmed.

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

[139 S.Ct. 885] Peter K. Stris, Los Angeles, CA, for Respondents.

Aaron M. Panner, Washington, DC, for Petitioner.

Jonathan Y. Ellis for the United States as amicus curiae, by special leave of the Court, supporting the Respondents.

David A. Geller, FL, Peter K. Stris, Brendan S. Maher, Elizabeth Brannen, Rachana A. Pathak, Douglas D. Geyser, Victor O'Connell, John Stokes, Stris & Maher LLP, Los Angeles, CA, for Respondents.

Joel B. Rothman, Jerold I. Schneider, Schneider Rothman, Intellectual Property Law Group, PLLC, FL, Aaron M. Panner, Gregory G. Rapawy, Grace W. Knofczynski, Kellogg, Hansen, Todd, Figel & Frederick, P.L.L.C., Washington, DC, for Petitioner.

OPINION

GINSBURG, Justice.

[139 S.Ct. 886] 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 [139 S.Ct. 887] 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.[1] Because the Register had not yet acted on Fourth Estate's applications,[2] 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.[3]

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. __, 138 S.Ct. 2707, 201 L.Ed.2d 1095 (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 (C.A.9 2010) (registration has been made under § 411(a) when the copyright claimant's "complete application" for registration is received by the Copyright Office).

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, 123 S.Ct. 769, 154 L.Ed.2d 683 (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.

[139 S.Ct. 888] 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 preregistration 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.[4] Section 411(a)'s 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 [139 S.Ct. 889] 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, 448, 125 S.Ct. 2427, 162 L.Ed.2d 418 (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 registration. Preregistration, as noted *supra,* at 887 - 888, 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, 122 S.Ct. 441, 151 L.Ed.2d 339 (2001) (rejecting an interpretation that "would in practical effect render [139 S.Ct. 890] [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 888 - 890, 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.2d 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 Congress' 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 [139 S.Ct. 891] 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 887 - 888. 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.[5]

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 887 - 888, 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. [139 S.Ct. 892] See also 1 P. Goldstein, Copyright §

3.15, 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 888.[6] 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 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.

Notes:

[*] 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, 26 S.Ct. 282, 50 L.Ed. 499.

[1] 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.*

[2] 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.

[3] The merits of the Copyright Office's decision refusing registration are not at issue in this Court.

[4] 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 infringement 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 ...."

[5] 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 (C.A.2 1958), see *supra,* at 890. 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.

[6] 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).

__ U.S. __ (2019)

139 S.Ct. 873, 203 L.Ed.2d 180, 27 Fla.L.Weekly Fed. S 683

RIMINI STREET, INC., et al., Petitioners

v.

ORACLE USA, INC., et al.

No. 17-1625

United States Supreme Court

March 4, 2019

Argued January 14, 2019

Syllabus [*]

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. 876 - 881.

(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, 107 S.Ct. 2494, 96 L.Ed.2d 385; *West Virginia Univ. Hospitals, Inc. v. Casey,* 499 U.S. 83, 111 S.Ct. 1138, 113 L.Ed.2d 68; *Arlington Central School Dist. Bd. of Ed. v. Murphy,* 548 U.S. 291, 126 S.Ct. 2455, 165 L.Ed.2d 526. 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, e-discovery expenses, and jury consultant fees. Pp. 876 - 879.

(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, 107 S.Ct. 2494. 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, 133 S.Ct. 1166, 185 L.Ed.2d 242. Pp. 878 - 881.

879 F.3d 948, reversed in part and remanded.

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

[139 S.Ct. 874] Mark A. Perry, Washington, D.C., for Petitioners.

Paul D. Clement, Washington, DC, for Respondents.

Allon Kedem for the United States as amicus curiae, by special leave of the Court, supporting the Petitioners.

Blaine H. Evanson, Joseph A. Gorman, Gibson, Dunn & Crutcher LLP, Los Angeles, CA, Mark A. Perry, Jeremy M. Christiansen, Gibson, Dunn & Crutcher LLP, Washington, D.C., for Petitioners.

William A. Issacson, Karen L. Dunn, Boies, Schiller & Flexner LLP, Washington, DC, Paul D. Clement, Erin E. Murphy, Matthew D. Rowen, Laura Wolk, Kirkland & Ellis LLP, Washington, DC, David B. Salmons, Morgan, Lewis & Bockius LLP, Washington, DC, Dale M. Cendali, Joshua L. Simmons, Kirkland & Ellis LLP, New York, NY, for Respondents.

OPINION

KAVANAUGH, Justice.

[139 S.Ct. 875] The Copyright Act gives federal district courts discretion to award "full costs" to a party in copyright litigation. [139 S.Ct. 876] 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.

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 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. __, 139 S.Ct. 52, 201 L.Ed.2d 1130 (2018). Compare 879 F.3d at 965-966; *Twentieth Century Fox Film Corp. v. Entertainment Distributing,* 429 F.3d 869 (C.A.9 2005), with [139 S.Ct. 877] *Artisan Contractors Assn. of Am., Inc. v. Frontier Ins. Co.,* 275 F.3d 1038 (C.A.11 2001); *Pinkham v. Camex, Inc.,* 84 F.3d 292 (C.A.8 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,"[1] and Congress has detailed how to calculate the 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, 111 S.Ct. 1138, 113 L.Ed.2d 68 (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, 111 S.Ct. 1138. 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 question 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, 107 S.Ct. 2494, 96 L.Ed.2d 385 (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 [139 S.Ct. 878] 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, 107 S.Ct. 2494.

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, 111 S.Ct. 1138. 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, 111 S.Ct. 1138 (quoting *Crawford Fitting*, 482 U.S. at 439, 107 S.Ct. 2494).

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, 126 S.Ct. 2455, 165 L.Ed.2d 526 (2006); see also *Taniguchi v. Kan. Pacific Saipan, Ltd.,* 566 U.S. 560, 573, 132 S.Ct. 1997, 182 L.Ed.2d 903 (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, 126 S.Ct. 2455 (quoting *Crawford Fitting*, 482 U.S. at 445, 107 S.Ct. 2494).

Our cases, in sum, establish a clear rule: A statute 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, 126 S.Ct. 2455 (requiring " 'explici[t]' " authority); *Casey*, 499 U.S. at 86, 111 S.Ct. 1138 (requiring " 'explicit' " authority); *Crawford Fitting*, 482 U.S. at 439, 107 S.Ct. 2494 (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. __, __, 139 S.Ct. 361, 368, 202 L.Ed.2d 269 (2018).

The adjective "full" in § 505 therefore does not alter the meaning of the word [139 S.Ct. 879] "costs." Rather, "full costs" are all 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, 107 S.Ct. 2494; *Alyeska Pipeline Service Co. v. Wilderness Society,* 421 U.S. 240, 247-250, 95 S.Ct. 1612, 44 L.Ed.2d 141 (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, 107 S.Ct. 2494; 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, 107 S.Ct. 2494. 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 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, 107 S.Ct. 2494. 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 [139 S.Ct. 880] 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*, 107 S.Ct. 2494; *Alyeska Pipeline*, 421 U.S. at 250, 95 S.Ct. 1612. 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 treble cost awards that were also commonly available under state law at the time.[2] 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*, 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 [139 S.Ct. 881] 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 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.[3]

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, 133 S.Ct. 1166, 185 L.Ed.2d 242 (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.

* * *

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.

Notes:

[*] 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, 26 S.Ct. 282, 50 L.Ed. 499.

[1] 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;

"(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.

[2] 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).

[3] 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.

Page 215

931 F.3d 215 (3rd Cir. 2019)
SILVERTOP ASSOCIATES INC., dba Rasta Imposta
v.
KANGAROO MANUFACTURING INC., Appellant
No. 18-2266
United States Court of Appeals, Third Circuit
August 1, 2019

Argued April 3, 2019

Page 216

[Copyrighted Material Omitted]

Page 217

On Appeal from the United States District Court for the District of New Jersey (D.C. No. 1-17-cv-07919), District Judge: Honorable Noel L. Hillman

Alexis Arena [Argued], Flaster Greenberg, Eric R. Clendening, Flaster Greenberg, Attorneys for Appellee

David A. Schrader [Argued], Paykin Krieg & Adams, Attorney for Appellant

Before: CHAGARES, HARDIMAN, Circuit Judges, and GOLDBERG, District Judge.[*]

OPINION

HARDIMAN, Circuit Judge.

This interlocutory appeal involves the validity of a copyright in a full-body banana

Page 218

costume. Appellant Kangaroo Manufacturing Inc. concedes that the banana costume it manufactures and sells is substantially similar to the banana costume created and sold by Appellee Rasta Imposta. *See infra* Appendix A. Yet Kangaroo claims that Rasta cannot hold a valid copyright in such a costume’s "pictorial, graphic, or sculptural features." 17 U.S.C. § 101. This dispute presents a matter of first impression for our Court and requires us to apply the Supreme Court’s recent decision in *Star Athletica, L.L.C. v. Varsity Brands, Inc.,* __ U.S. __, 137 S.Ct. 1002, 197 L.Ed.2d 354 (2017). We hold that, in combination, the Rasta costume’s non-utilitarian, sculptural features are copyrightable, so we will affirm the District Court’s preliminary injunction.

I

This dispute stems from a business relationship that went bad. In 2010, Rasta obtained Copyright Registration No. VA 1-707-439 for its full-body banana costume. Two years later, Rasta began working with a company called Yagoozon, Inc., which purchased and resold thousands of Rasta’s banana costumes. Yagoozon’s founder, Justin Ligeri, also founded Kangaroo and at all relevant times was aware of Rasta’s copyright registration in the banana costume. After the business relationship between Rasta and Yagoozon ended, Rasta’s CEO, Robert Berman, discovered Kangaroo selling a costume that resembled his company’s without a license.

Rasta sued Kangaroo for copyright infringement, trade dress infringement, and unfair competition. After settlement discussions were unsuccessful, Rasta moved for a preliminary injunction and Kangaroo responded by moving to dismiss. The District Court granted the motion for a preliminary injunction and explained its reasons for doing so in a thorough opinion. *See Silvertop Assocs., Inc. v. Kangaroo Mfg., Inc.,* 319 F.Supp.3d 754 (D.N.J. 2018). It also dismissed the unfair competition count. Kangaroo appealed, but because the District Court had not entered an order detailing the injunction's terms, we granted the parties' motion to remand for the limited purpose of entering a corrected order. The District Court amended its order, and the injunction is now ripe for review on appeal.

II

The District Court had jurisdiction under 28 U.S.C. § § 1331 and 1338(a). We have jurisdiction under 28 U.S.C. § 1292(a)(1). We review the District Court's conclusions of law de novo and its ultimate decision to grant the preliminary injunction for abuse of discretion. *Child Evangelism Fellowship of N.J. Inc. v. Stafford Twp. Sch. Dist.,* 386 F.3d 514, 524 (3d Cir. 2004).[1]

III

Kangaroo claims the injunction should not have issued because Rasta is not likely to succeed on the merits of its copyright infringement claim.[2] According

Page 219

to Kangaroo, Rasta does not hold a valid copyright in its banana costume. Whether Rasta's copyright is valid is a question of law, which makes our review plenary. *See Masquerade Novelty, Inc. v. Unique Indus.,* 912 F.2d 663, 667 (3d Cir. 1990).[3] And we must remain "cognizant of the Supreme Court's teaching that copyrights protect only expressions of ideas and not ideas themselves." *Id*. at 671 (citing *Mazer v. Stein,* 347 U.S. 201, 217, 74 S.Ct. 460, 98 L.Ed. 630 (1954)).

We begin by analyzing whether non-utilitarian, sculptural features of the costume are copyrightable by determining whether those features can be identified separately from its utilitarian features and are capable of existing independently from its utilitarian features. *See* 17 U.S.C. § 101; *Star Athletica*, 137 S.Ct. at 1008. We then consider whether the merger and *scenes a faire* doctrines render the costume ineligible for copyright protection. We conclude that the District Court did not err when it held that Rasta is reasonably likely to prove ownership of a valid copyright.

A

"A valid copyright extends only to copyrightable subject matter." *Star Athletica*, 137 S.Ct. at 1008. Copyrightable subject matter means "original works of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102(a). Originality is a very low bar, requiring "only a minimal amount of creativity." *Kay Berry, Inc. v. Taylor Gifts, Inc.,* 421 F.3d 199, 207 (3d Cir. 2005). "Works of authorship include ... pictorial, graphic, and sculptural works," 17 U.S.C. § 102(a)(5), which are "two-dimensional and three-dimensional works of fine, graphic, and applied art, [etc.]," id. § 101. "And a work of authorship is 'fixed in a tangible medium of expression when it is embodied in a' 'material object ... from which the work can be perceived, reproduced, or otherwise communicated.' " *Star Athletica*, 137 S.Ct. at 1008 (internal quotation marks and alterations omitted) (quoting 17 U.S.C. § 101).

A special rule applies to "useful article[s]," *i.e.*, those which have "an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information." *Id.* (quoting 17 U.S.C. § 101). Without more, they may not receive protection as such. *Id.* Instead, useful articles that "incorporate[ ] pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article" may be eligible for protection of those features alone. *Id.* (quoting 17 U.S.C. § 101). Thus, separability analysis determines whether a useful article contains copyrightable features.

A useful article's design feature "is eligible for copyright if, when identified and imagined apart from the useful article, it would qualify as a pictorial, graphic, or sculptural work either on its own or when fixed in some other tangible medium." *Id*. at 1012 (describing separability analysis). So we ask two questions: (1) can the artistic feature of the useful article's design "be perceived as a two- or three-dimensional work of art separate from the useful article[?]" and (2) would the feature "qualify as a protectable pictorial, graphic, or

Page 220

sculptural work either on its own or in some other medium if imagined separately from the useful article[?]" *Id*. at 1016.

The first requirement "is not onerous. The decisionmaker need only be able to look at the useful article and spot some two- or three-dimensional element that appears to have pictorial, graphic, or sculptural qualities." *Id*. at 1010.

The second requirement, which is "ordinarily more difficult to satisfy," requires "that the separately identified feature has the capacity to exist apart from the utilitarian aspects of the article." *Id.* ("In other words, the feature must be able to exist as its own pictorial, graphic, or sculptural work as defined in § 101 once it is imagined apart from the useful article."). And that separate feature "cannot itself be a useful article or 'an article that is normally a part of a useful article' (which is itself considered a useful article)." *Id.* (alteration omitted) (quoting 17 U.S.C. § 101). We do not focus on "any aspects of the useful article that remain after the imaginary extraction." *Id*. at 1013. Nor does the work's marketability or artistic merit bear on our analysis. *See* id. at 1015. Thus, the two-part inquiry effectively turns on whether the separately imagined features are still intrinsically useful.

We have explained that we do not analyze each feature in isolation; instead, a "specific *combination* of elements" that gives a sculpture "its unique look" could be eligible for copyright protection. *Kay Berry*, 421 F.3d at 209 (emphasis added). Those combined features may include "texture, color, size, and shape," among others, and it "means nothing that these elements may not be individually entitled to protection." *Id*. at 207; *see also Star Athletica*, 137 S.Ct. at 1012 (analyzing the uniform designs' "arrangement of colors, shapes, stripes, and chevrons" together, not individually).

The Supreme Court in *Star Athletica* found the two-dimensional design patterns on cheerleader uniforms eligible for copyright protection. *Id.* The uniform's utilitarian "shape, cut, and dimensions" were *not* copyrightable, but "the two-dimensional work of art fixed in the tangible medium of the uniform fabric" was. *Id*. at 1013. Imagining those designs apart from the uniform did not necessarily replicate the useful article even though the designs still looked like uniforms. *See* id. at 1012.

The *Star Athletica* Court also provided helpful examples addressing three-dimensional articles. First, it reaffirmed its decision in *Mazer*, which held that a statuette depicting a dancer, intended for use as a lamp base, was eligible for copyright protection. *Id*. at 1011 (citing 347 U.S. at 214, 218-19, 74 S.Ct. 460). Second, the Court noted that a replica of a useful article (cardboard model car) could be copyrightable, although the underlying article (the car itself) could not. *Id*. at 1010. Finally, the Court noted that a shovel, "even if displayed in an art gallery," still has an intrinsic utilitarian function beyond portraying its appearance or conveying information. *Id*. at 1013 n.2. So it could not be copyrighted, even though a drawing of a shovel or any separately identifiable artistic features could. *Id.* We too have observed that "just because a sculpture is incorporated into an article that functions as other than a pure sculpture does not mean that the sculptural part of the article is not copyrightable." *Masquerade Novelty*, 912 F.2d at 669.

B

Having articulated the legal principles that govern our analysis, we turn to the particular facts of this case. To begin with, Rasta's banana costume is a "useful

Page 221

article."[4] The artistic features of the costume, in combination, prove both separable and capable of independent existence as a copyrightable work: a sculpture. Those sculptural features include the banana's combination of colors, lines, shape, and length. They do not include the cutout holes for the wearer's arms, legs, and face; the holes' dimensions; or the holes' locations on the costume, because those features are utilitarian.[5] Although more difficult to imagine separately from the costume's "non-appearance related utility" (*i.e.*, wearability) than many works, *Masquerade Novelty*, 912 F.2d at 669, one can still imagine the banana apart from the costume as an original sculpture. That sculpted banana, once split from the costume, is not intrinsically utilitarian and does not merely replicate the costume, so it may be copyrighted.

Kangaroo responds that we must inspect each feature individually, find each one too unoriginal or too utilitarian in isolation for copyright, and decline to protect the whole. But *Kay Berry* forecloses this divide-and-conquer approach by training our focus on the combination of design elements in a work. *See* 421 F.3d at 209-10 (focusing on "the specific combination of elements [ ] employed to give [a work] its unique look"). And the *Star Athletica* Court did not cherry-pick the uniform designs' colors, shapes, or lines; it too evaluated their combination. 137 S.Ct. at 1012 (focusing on "the arrangement of colors, shapes, stripes, and chevrons on the surface of the cheerleading uniforms"). Thus, the separately imagined banana— the sum of its non-utilitarian parts— is copyrightable.

Kangaroo also contends the banana is unoriginal because its designers based the design on a natural banana. They ask us to hold that depictions of natural objects in their natural condition can never be copyrighted. This argument seeks to raise the originality requirement's very low bar, which precedent forecloses for good reason. *See Kay Berry*, 421 F.3d at 207. A judge's own aesthetic judgments must play no role in copyright analysis. *See Star Athletica*, 137 S.Ct. at 1015. "Our inquiry is limited to how the article and feature[s] are perceived, not how or why they were designed." *Id.* The cases Kangaroo cites in its brief confirm that whether natural objects are copyrightable depends on the circumstances. *Compare Satava v. Lowry,* 323 F.3d 805, 810 (9th Cir. 2003) (holding that a sculpture of a jellyfish was not copyrightable), *with Coquico, Inc. v. Rodriguez-Miranda,* 562 F.3d 62, 69 (1st Cir. 2009) (holding that several elements of a plush toy depicting a tree frog were copyrightable). The essential question is

Page 222

whether the depiction of the natural object has a minimal level of creativity. Rasta's banana meets those requirements.

In furtherance of its argument that costumes depicting items found in nature can never be copyrighted, Kangaroo relies on *Whimsicality, Inc. v. Rubie's Costume Co.,* 891 F.2d 452 (2d Cir. 1989). *Whimsicality* involved a company's misrepresentation of its costumes as only "soft sculpture" on its application for copyright registration, without any indication (written or pictorial) that they could be worn. *Id*. at 456. Unlike that case, here the Copyright Office recognized that Rasta sought to copyright a costume and initially refused to register a copyright *because* it was a costume. Additionally, the *Whimsicality* court imagined the costumes peeled away from their wearers as deflated piles of fabric, leaving nothing recognizable or original to copyright. *See id. Star Athletica* does not allow that approach in this appeal. The three-dimensional banana sculpture that separability analysis requires us to imagine is not a crumpled pile of fabric; it is a recognizable rendering of a banana. *See Star Athletica*, 137 S.Ct. at 1012 (requiring courts to imagine the separated work "on its own *or when fixed* in some other tangible medium" (emphasis added)). Courts have not, as Kangaroo claims, "consistently found that costumes of natural items, such as bees and pumpkins, cannot be copyrighted." Reply Br. 5; *see also Animal Fair, Inc. v. AMFESCO Indus.,* 620 F.Supp. 175, 188 (D. Minn. 1985) (finding a slipper in the shape of a bear's paw copyrightable), *aff'd mem.*, 794 F.2d 678 (8th Cir. 1986). Indeed, the Second Circuit focused its decision on Whimsicality's misrepresentation to the Copyright Office and did not even reach the question whether costumes are an exception to the general rule that clothing is not copyrightable. 891 F.2d at 455-56. In our view, the non-utilitarian, sculptural features of this costume are just such an exception.[6]

We therefore hold that the banana costume's combination of colors, lines, shape, and length (*i.e.*, its artistic features) are both separable and capable of independent existence, and thus are copyrightable.

C

Lastly, Kangaroo invokes two copyright doctrines— merger and *scenes a faire* — to argue the banana costume is ineligible for protection. Both arguments address the same question: whether copyrighting the banana costume would effectively monopolize an underlying idea, either directly or through elements necessary to that idea's expression.

Because Congress has excluded "any idea, procedure, process, system, method of operation, concept, principle, or discovery" from copyright protection, 17 U.S.C. § 102(b), courts deny such protection when a work's underlying idea can effectively be expressed in only one way. Courts term this rare occurrence "merger," and find it only when "there are no or few other ways of expressing a particular idea." *Educ. Testing Servs. v. Katzman,* 793 F.2d 533, 539 (3d Cir. 1986) (quoting *Apple Comput., Inc. v. Franklin Comput. Corp.,* 714 F.2d 1240, 1253 (3d Cir. 1983). And if copyrighting a design feature would effectively monopolize an underlying idea, procedure, process, etc., then the merger doctrine exists to deny that protection. *See*

Page 223

Kay Berry, 421 F.3d at 209. Notably, merger "is most applicable where the idea and the expression are of items found in nature, or are found commonly in everyday life." *Yankee Candle Co. v. Bridgewater Candle Co.,* 259 F.3d 25, 36 (1st Cir. 2001). But if copyright does not foreclose "other methods of expressing [an] idea ... as a practical matter, then there is no merger." Educ. Testing Servs., 793 F.2d at 539 (quoting *Apple Comput.*, 714 F.2d at 1253).

Here, copyrighting Rasta's banana costume would not effectively monopolize the underlying idea because there are many other ways to make a costume resemble a banana. Indeed, Rasta provided over 20 non-infringing examples. As the District Court observed, one can easily distinguish those examples from Rasta's costume based on the shape, curvature, tips, tips' color, overall color, length, width, lining, texture, and material. *See Silvertop Assocs.*, 319 F.Supp.3d at 768. We agree and hold the merger doctrine does not apply here.

Courts also exclude *scenes a faire* from copyright protection, which include elements "standard, stock, or common to a particular topic or that necessarily follow from a common theme or setting." *Dun & Bradstreet Software Servs. v. Grace Consulting, Inc.,* 307 F.3d 197, 214 (3d Cir. 2002) (quoting *Gates Rubber Co. v. Bando Chem. Indus.,* 9 F.3d 823, 838 (10th Cir. 1993)). The doctrine covers "those elements of a work that necessarily result[ ] from external factors inherent in the subject matter of the work." *Id*. at 215 (quoting *Mitel, Inc. v. Iqtel, Inc.,* 124 F.3d 1366, 1375 (10th Cir. 1997)). As with merger, the *scenes a faire* doctrine seeks to curb copyright's potential to allow monopolizing an underlying idea— via features that are so common or necessary to that idea's expression that copyrighting them effectively copyrights the idea itself. *E.g.*, *Mitel*, 124 F.3d at 1374-75 (citing foot chases as a *scene a faire* of police fiction).

Here too, copyrighting the banana costume's non-utilitarian features in combination would not threaten such monopolization. Kangaroo points to no specific feature that *necessarily* results from the costume's subject matter (a banana). Although a banana costume is likely to be yellow, it could be any shade of yellow— or green or brown for that matter. Although a banana costume is likely to be curved, it need not be— let alone in any particular manner. And although a banana costume is likely to have ends that resemble a natural banana's, those tips need not look like Rasta's black tips (in color, shape, or size). Again, the record includes over 20 examples of banana costumes that Rasta concedes would be non-infringing. The *scenes a faire* doctrine does not apply here either.

* * *

Because Rasta established a reasonable likelihood that it could prove entitlement to protection for the veritable fruits of its intellectual labor, we will affirm.

APPENDIX A

Page 224

(Image Omitted)

Notes:

[*] Honorable Mitchell S. Goldberg, District Judge of the United States District Court for the Eastern District of Pennsylvania, sitting by designation.

[1] Kangaroo argues that the District Court erred by failing to apply the heightened mandatory injunction standard. *See Trinity Indus. v. Chi. Bridge & Iron Co.,* 735 F.3d 131, 139 (3d Cir. 2013). We disagree for the reasons the District Court articulated: Rasta's motion for a preliminary injunction did not request all or substantially all of its relief in a way that the relief could not later be undone. *See Punnett v. Carter,* 621 F.2d 578, 582-83 (3d Cir. 1980). And Rasta's preliminary injunction motion merely sought to maintain the status quo the parties agreed to in their Stipulation of Standstill. *See id.*

[2] The other three prerequisites for injunctive relief are not at issue.

[3] Registering a work's copyright within five years of the work's first publication entitles the holder to a presumption of validity. *See* 17 U.S.C. § 410(c). A later-filed registration may still be probative though. *See id.* ("The evidentiary weight to be accorded [a later-filed] certificate ... shall be within the discretion of the court."). Here, Rasta's Certificate of Registration lists a 2001 first publication date and a 2010 registration date, so it is not entitled to the statutory presumption of validity, though we may consider the registration's existence in our analysis.

[4] We have noted that "a costume ... may serve, aside from its appearance, to clothe the wearer." *Masquerade Novelty*, 912 F.2d at 670. *Star Athletica* addressed cheerleader uniforms as useful articles. 137 S.Ct. at 1010. And Rasta concedes its costume is a useful article.

[5] The District Court correctly found "that the cutout holes are not, per se, a feature eligible for copyright" because they "perform a solely utilitarian function." *Silvertop*, 319 F.Supp.3d at 764. It went on, however, to list "the location of the head and arm cutouts which dictate how the costume drapes on and protrudes from a wearer (as opposed to the mere existence of the cutout holes)" among the copyrightable features. *Id*. at 765. We disagree with that portion of the District Court's analysis because we must imagine the banana apart from the useful (*i.e.*, wearable) article. Rasta has not identified any artistic aspect to the holes' dimensions or locations except in relation to the wearer. The cutout holes' dimensions and locations on the costume are intrinsically useful (perhaps even necessary) to make the costume wearable like the "shape, cut, and dimensions" of the cheerleader uniforms in *Star Athletica*, so they cannot be copyrighted. 137 S.Ct. at 1012.

[6] Kangaroo's reliance on the underlying district court decision in *Whimsicality* is also misplaced because that decision, though carefully reasoned, employed a separability analysis inconsistent with the analysis required by *Star Athletica* . *See Whimsicality, Inc. v. Rubie's Costumes Co.,* 721 F.Supp. 1566, 1572-76 (E.D.N.Y.), *order aff'd in part, vacated in part sub nom.*, 891 F.2d 452 (2d Cir. 1989).
