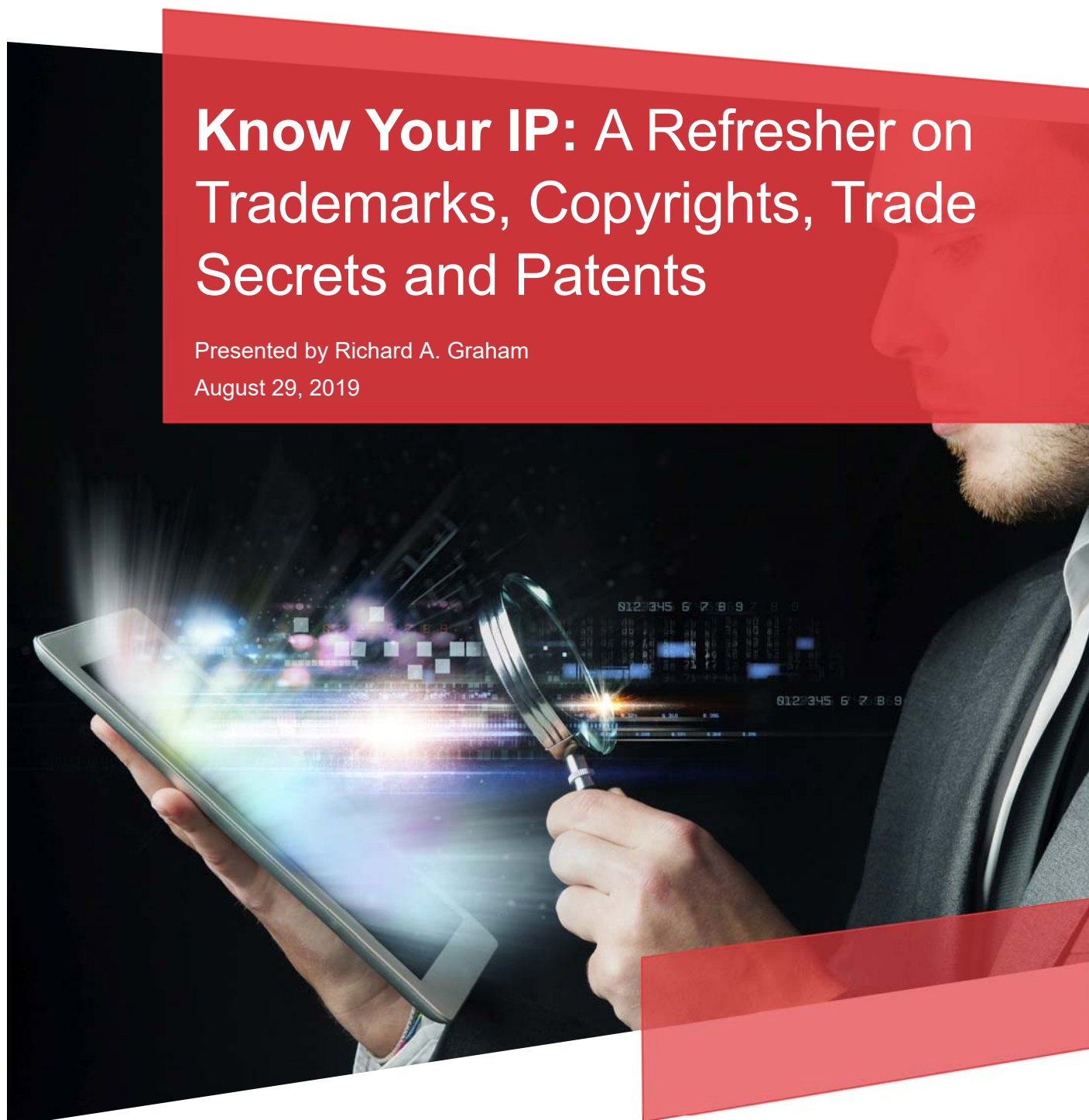


Know Your IP: A Refresher on Trademarks, Copyrights, Trade Secrets and Patents

Presented by Richard A. Graham

August 29, 2019



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Know your IP: A refresher on trademarks, copyrights, trade secrets and patents

Prepared for **ACC Western Pennsylvania**

Presented by Richard A. Graham

August 29, 2019

ReedSmith
Driving progress
through partnership

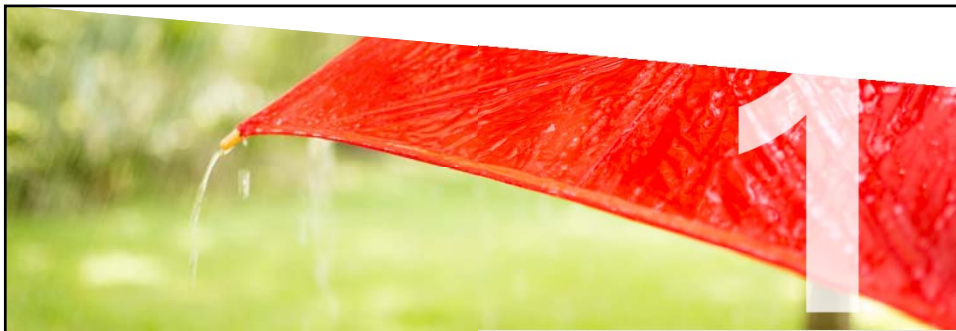
"Call the patent office, copyright the name Green Goblin, I want a quarter every time somebody says it."

- J. Jonah Jameson, *Spiderman* (2002)

Intellectual property

***“Who's on first, What's on second,
and I don't know is on third” (seems to be missing
something to this quote about third)***

- Trademark
- Copyright
- Trade secret
- Patent



Trademarks

What is a Trademark?

- A trademark is any word, name, symbol or device, or any combination thereof used by a person or entity to identify and distinguish its goods or services from those offered and sold by owners
- Trademarks can be colors, sounds, scents, product configurations, slogans or trade dress



What is a Trademark? (cont.)

Functions of a Trademark

- Indicates the source or origin of goods or services
- Assures consumers of the quality of goods bearing the mark
- Creates business goodwill and brand awareness

Trademark examples

- The word Apple®
- The name Giorgio Armani®
- The slogan Just Do It®
- The sound of the Yahoo® yodel
- The shape of a Coca-Cola bottle
- The logo for Mercedes Benz

JUST DO IT.




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Other trademark examples

- Colors



- Sounds



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What is a Service mark?

- For all practical purposes, a service mark is the same as a trademark, except that it promotes branded services and events
- The terms “trademark” and “mark” are commonly used to refer to both trademarks and service marks



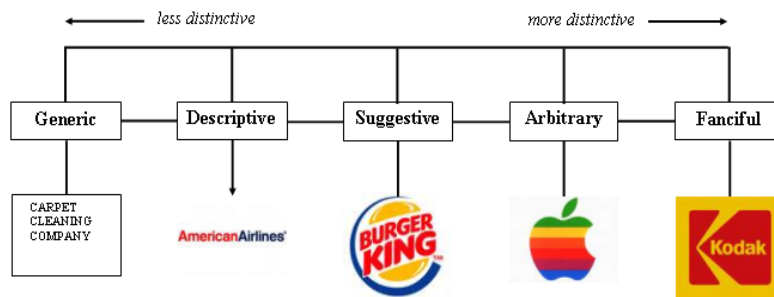
What Is a logo?

- A logo is a trademark, service mark or combination of more than one mark.
- A logo is an identifying symbol of a company.
- Common Pittsburgh Logos are:



How do I choose a mark?

Distinctiveness spectrum



- The more distinctive the mark, the greater its level of legal protectability

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Trademark ® - How do you get one?

- Can rely on common law rights (i.e., exclusive and continuous use in a geographical area)
- Can apply for federal registration to U.S. Patent & Trademark Office
 - Examines and allows or rejects
 - Ten (10) year term from date of registration
 - Renewable indefinitely as long as mark is being used

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Trademark rights: Common law vs. federal registration

- Federal registration offers several benefits
 - Notice to public of trademark ownership
 - Legal presumption of ownership nationwide
 - Exclusive right to use the mark in connection with the goods or services set forth in the registration
 - Incontestability (after 5 years)
 - Automatic right to sue in federal court
 - Right to recover up to triple damages and attorneys' fees for willful infringement
 - Basis for obtaining registration in other countries

What does the ® signify?

- The ® designates that a mark is federally registered with the U.S. Patent and Trademark Office (e.g., Highmark® insurance)
- Before the trademark is registered, either the TM or SM designation should be used
- The TM symbol designates trademarks for goods while the SM symbol designates service marks for services
- Commonly confused, the © is used to provide notice that a work is copyrighted and is not used with trademarks at all

How to use a Trademark

- While you should register your trademark in the jurisdiction in which it will be used to obtain maximum legal benefits, **any rights that are acquired are maintained through proper and continuous use of the trademark in commerce**
- Not using a trademark in a consistent form can result in lost or reduced rights
- Use caution to avoid trademarks becoming generic:
 - When the public uses a mark as a generic term, the trademark is at risk of becoming the name of a product instead of denoting the brand

Which of the following were initially registered trademarks?

- Nylon
- Kerosene
- Trampoline
- Zipper
- Cola
- Escalator
- Cellophane
- Linoleum
- Granophone
- Aerobics
- Super Glue
- Yo-Yo
- Aspirin

They All Were

Common trademark mistakes

- Failure to clear
- Selecting a highly descriptive mark
- Changing the mark
- Improper use
- Failure to police
- Improper assignment
- Failure to maintain registration



Trademark tips - Look before you leap

- Trademark rights in U.S. are obtained by first person or company to use mark in commerce for particular goods or services in particular market
 - To obtain federal registration, applicant must be first to use mark for the particular goods and services in commerce
 - Once the trademark owner obtains such rights, owner is entitled to stop other later users from using the same mark or similar marks in ways likely to cause confusion

Look before you leap (cont.)

- Someone who wishes to adopt new mark faces risk that someone else may have already obtained rights to the same or similar mark for the same goods or services in the same market or nationally
- A Trademark search is only way to assess that risk

Lesson: Have a trademark search done before adopting a new trademark or filing a new trademark application!



Look before you leap (cont.)

***Alliance Bank v. New Century Bank*, 742 F. Supp.2d 532 (E.D. Pa. 2010)**

- January 2010 – New Century Bank proposed changing its name to "Customers 1st Bank."
 - Executive VP searched the names "Customers 1st Bank" and "Customers First Bank" on Google and GoDaddy.com
 - In February 2010, New Century submitted the name "Customers 1st Bank" to its advertising agency for production of a logo.
- End of February 2010- New Century executives decided to adopt the mark Customers 1st Bank and began the process of changing its name

Look before you leap (cont.)

- March 9, 2010 - New Century requested a Trademark clearance search from its lawyer
 - Clearance search identified Plaintiff Alliance's trademark registration for the mark Customer First
 - New Century did not alter any of its plans to change the bank name after reviewing the Clearance Search and receiving the opinion of counsel (which New Century's President admitted he did not read)
- July 27, 2010 - New Century preliminary enjoined from using Customer First, Customers 1st, Customers 1st Bank, Customers First Bank
 - New Century estimated that it spent \$500,000 to change name to Customers 1st Bank and would have to spend \$500,000 to change it again

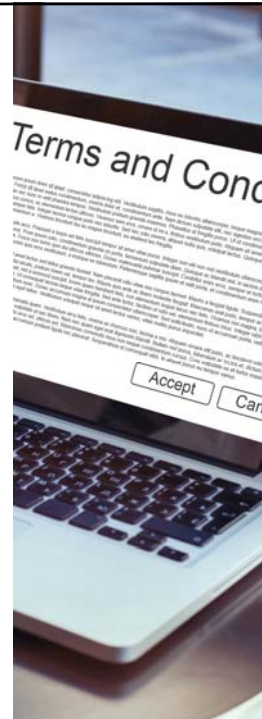
Look before you leap (cont.)

“Even before conducting a trademark clearance search or receiving any opinion from counsel as to the propriety of using Customers 1st Bank, New Century imprudently decided to adopt the mark and invest considerable sums of money on changing its name. Alliance should not be punished for New Century's precipitous behavior. After New Century executives learned about the registration of the mark Customer First, they still continued to use their mark with knowledge of the probability of this lawsuit.”

Lesson: Have a trademark search done and heed the results before adopting a new trademark or filing a new trademark application!

Trademark tips - Use It or Lose it

- Registrants must file affidavit under penalty of perjury confirming use of mark for each and every product or service covered by the registration:
 - when the trademark application is filed;
 - between fifth and sixth year following registration; and
 - after each successive ten-year term



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Use it or lose it (cont.)

- Failure to file required affidavit of use within the prescribed time will result in cancellation of a registration in its entirety
- Failure to evaluate and adjust covered goods and services to accurately reflect nature of use can render registration vulnerable to cancellation on grounds of fraud
- Cancellation action can be initiated at any time, by any party, before the TTAB or federal courts



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Use it or lose it (cont.)

Medinol Ltd. v. Neuro Vasx Inc. (TTAB 2003) (overruled)

- Registration for the mark NEUROVASX for two goods in one class: neurological stents and catheters
- Two years after registration, Medinol Ltd. initiated a cancellation proceeding claiming failure by Neuro Vasx to use its registered mark on stents
- Neuro Vasx had signed a sworn statement that trademark was in use on both stents and catheters, when it was not
- Board ordered the NEUROVASX registration canceled

Use it or lose it (cont.)

Melodrama Publishing LLC v. Santiago (S.D.N.Y. April 11, 2013)

- Cancelled registration for mark NISA SANTIAGO for series of novels, on grounds that Nisa Santiago had obtained trademark registration fraudulently
 - Admitted she never used the mark NISA SANTIAGO in commerce
 - Admitted she used plaintiff's books as specimens of use in her own NISA SANTIAGO trademark application

Lesson: Only submit affidavit of use for goods or services you are actually using!



Copyright

What Is a copyright?

- Protects the **expression** of “original works of authorship,” including literary, dramatic, musical, artistic, and certain other intellectual works
- Copyright holders have the exclusive right to:
 - Reproduce the work
 - Prepare derivative works based upon the work
 - Distribute (sell, lease, rent, license, etc.) copies of the work to the public
 - Perform the work publicly
 - Display the work publicly

What Is a copyright? (cont.)

- Registration is not required for protection and copyright owner may use the © notice even without registration
- Transfer of ownership of the underlying work (e.g., a book) does not transfer ownership of any of the exclusive copyright rights (e.g., right to reproduce the book or distribute the book).
- Assignment of copyright right must be in writing



Samples of types of copyrighted works

- Operating manuals
- Website contents
- Books
- Music, lyrics, and musical performances
- Computer code
- Marketing brochures or bulletins
- Photographs
- Videos

Samples of types of copyrighted works (cont.)

***Star Athletica, L.L.C. v. Varsity Brands, Inc.*, 137 S. Ct. 1002 (March 22, 2017)**

- Lines, chevrons, and colorful shapes appearing on the surface of cheerleading uniforms are eligible for copyright protection (separate from the uniform)



Copyright ©: How do you get one?

- **Automatically created** once material is **fixed** in a tangible medium
- Term (for works created after 2002):
 - Life of author plus 70 years after the death of author
 - Corporate authorship: 95 years from publication or 120 years from creation, whichever expires first
- Can apply for registration from U.S. Copyright Office
- Can only be enforced in Federal Court in U.S., and **only if registered**

Copyright ©: How do you get one? (cont.)

- Obtaining a Copyright
 - Registration is not required, but confers benefits, including:
 - proof of authorship of the registered work;
 - the right to bring a copyright infringement suit; and
 - the right to statutory damages and to seek attorney's fees
 - Registration is simple, inexpensive and requires submission of a form and of a copy of the work



Ownership/ work made for hire

Copyright ownership vests initially in the author except

- Regular employee:
 - Employer will automatically own the copyright to any works the employee creates
 - While the employee is employed by the employer; and
 - Within the scope of the employee's employment

Work made for hire (cont.)

- Not a regular employee (such as an independent contractor):
 - Employer or company will own work as “work made for hire” **only if** three conditions are met:
 1. Company specifically ordered or commissioned the work
 2. Written contract stating that work is a “work made for hire”
 3. Work was commissioned for use as one of a finite number of works (Note: software or computer code is not explicitly identified as one of the works)



Work made for hire (cont.)

***Berg v. CI Investments, Inc.*, No. 15 C 11534, 2017 WL 1304082 (N.D. Ill. Apr. 7, 2017)**

- Employee argued that software program was not work for hire because it included code that he had written at times when he was not an employee.
- Disagreement about employee's employment status created a genuine issue of material fact precluding summary judgment in favor of employer on ownership issue

Work made for hire (cont.)

***Berg v. CI Investments, Inc.*, No. 15 C 11534, 2017 WL 1304082 (N.D. Ill. Apr. 7, 2017)**

- To determine whether a work was made within the scope of employment, a court must consider the hiring party's right to control the manner and means by which the product is accomplished
- Relevant facts include the skill required to create the work; the source of the instrumentalities and tools; the location of the work; whether the hiring party has the right to assign additional projects to the hired party; the hired party's discretion over when and for how long to work; the method of payment; whether the work is part of the regular business of the hiring party; the provision of employee benefits; and the tax treatment of the hired party.

Work made for hire (cont.)

- Include “work for hire” and copyright assignment provisions in written independent contractor agreements
 - ensures that employer will own the copyrights even if the work is not deemed a work made for hire
- Have employees assign all copyrights in:
 - works created by the employee during employment; and
 - works created by the employee prior to employment that are used in connection with the work

Lesson: Obtain a written work-for-hire agreement that includes an assignment of all copyright rights!

Fair use exception - Not everything in life is fair (use)

- In determining whether or not a particular use is fair, the Copyright Act 17 U.S.C. § 107 lists four factors that should be taken into consideration:
 - the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes
 - The nature of the work
 - The amount and substantiality of the portion used in relation to the work as a whole
 - The effect of the use upon the potential market for or value of the copyrighted work

Not everything in life is fair (use)

- These factors are not meant to be "treated in isolation" but are designed to be "weighed together," and applied with the underlying constitutional purposes of copyright in mind

Lesson: Fair Use requires a fact intensive analysis and is a difficult standard to meet! If you have any doubts ask for permission from the copyright owner.



Not everything in life is fair (use) (cont.)

***Penguin Random House LLC et al. v. Frederick Colting d/b/a Moppet Books et.*, No. 17-cv-386 (S.D.N.Y. September 7, 2017)**

- Defendants published "a series of illustrated children's books" or "guides" with condensed, simplified versions of the novels
 - *Breakfast at Tiffany's* by Truman Capote,
 - *The Old Man and the Sea* by Ernest Hemingway
 - *On the Road* by Jack Kerouac
 - *2001: A Space Odyssey* by Arthur C. Clarke

Not everything in life is fair (use) (cont.)

- Defendants argued that the guides were fair use because:
 - They abridged the novels by substantially shortening them;
 - They modified the novels for a younger audience by removing adult themes; and
 - They added a page or two of analysis, two pages of quiz questions, and a few pages of background information to the novels.



Not everything in life is fair (use) (cont.)

- Judge Rakoff held that the books were not fair use:
 - The guides were commercial and not transformative
 - “Fair use, however, is not a jacket to be worn over an otherwise infringing outfit. One cannot add a bit of commentary to convert an unauthorized derivative work into a protectable publication”
 - The novels were fiction
 - The application of the fair use defense must be narrower for fictional and fantasy works than in the case of factual works

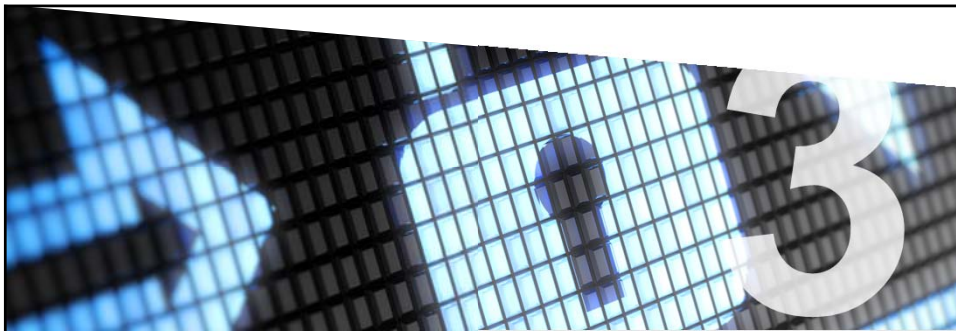
Not everything in life is fair (use) (cont.)

- Judge Rakoff held that the books were not fair use:
 - “In cases of parody, journalism, and criticism, fair use doctrine allows for more of a copyrighted work to be copied than where the purpose is less transformative”
 - But here nearly all of each guide was devoted to telling the copyrighted story, with only two pages purporting to analyze it
 - Analysis considered the effect of the guides upon:
 - the market for the original copyrighted novels, and
 - the market for potential derivative works.
 - Did not matter that plaintiff never considered doing a children’s version of the novels
 - there is a market for them and
 - the plaintiff could change its mind.

Not everything in life is fair (use) (cont.)

***Fox News Network, LLC v. TVEyes Inc.*, Case No. 15-3885 (2nd Cir. February 27, 2018)**

- TVEyes offers a search engine of video clips from Fox News Network and others
- Court found that TVEyes provides a valuable “transformative” use of Fox’s copyrighted content by allowing users to precisely search the “vast corpus” of available material
- BUT Court held “not justifiable as a fair use”:
 - “[D]eprives Fox of revenue that properly belongs to the copyright holder.”
 - “At bottom, TVEyes is unlawfully profiting off the work of others by commercially re-distributing all of that work that a viewer wishes to use, without payment or license.”



Trade Secrets

What is a trade secret?

- Can be **anything that derives independent economic value**, actual or potential, from **not being generally known** to the public or to other persons who can obtain economic value from its disclosure or use
- Must be the subject of efforts that are reasonable under the circumstances to maintain its secrecy
- More than one person or company can maintain the same trade secret
- Does not protect against independent creation or reverse engineering

What is a trade secret? (cont.)



Information



Subject of efforts to
maintain secrecy



Has value from
secrecy

Classic examples:



Other examples

- Product designs
- Software and source code
- Customer lists
- Business plans
- Pricing and cost data
- Engineering Drawings
- Manufacturing processes
- Research and development
- Blueprints and prototypes
- Competitor and marketing information

Who is misappropriating trade secrets?

- Insiders (i.e., employees or former employees)
 - Recent Symantec study: 50% of employees who leave their jobs retain employer confidential info; 40% plan to use it in new jobs – not necessarily malicious use, just think it is ok to do so
- Competitors
- Business partners (or potential)
- Customers
- Foreign governments

Impact of theft: Macro stats

According to the U.S. Chamber of Commerce:

- Trade secrets account for 65-70% of the value of U.S. public companies
 - Closer to 70-80% in knowledge intensive industries
- Value of trade secrets in public U.S. companies is \$5 trillion-dollars
- Estimated value of trade secret losses to U.S. businesses is \$300 billion/year

Trade secret: How do you get one?

- No registration with government
- No limit on time as long as it is kept secret (e.g., Coca-Cola® formula)
- Can be enforced in federal or state court in U.S.
- The Defend Trade Secrets Act of 2016 created federal civil cause of action



KISS: Keep it secret, stupid

Trade secret protection can be lost if:

- The trade secret holder fails to maintain secrecy
- The information is independently discovered
- The information becomes released or otherwise becomes generally known



KISS: Keep it secret, stupid (cont.)

Trade Secret Holder Should:

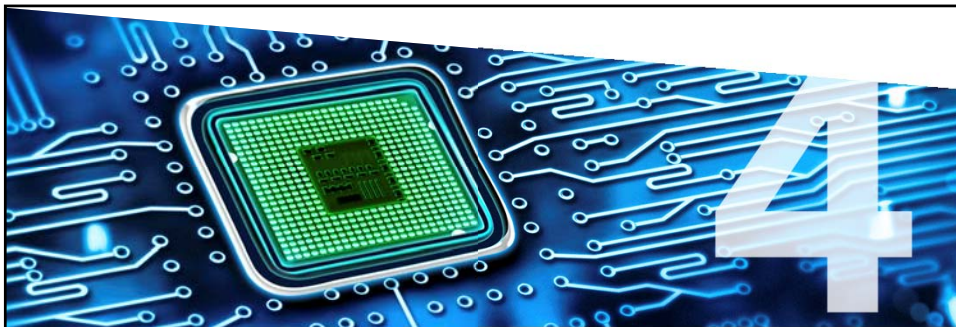
- Limit disclosure of trade secret inside the company to only those who need to know
- Require confidentiality and non-disclosure agreements from employees and third parties who need to know (including plant visitors)
- Physically protect the trade secret
 - Locked rooms, locked files, safes
 - Passwords and encryption for electronic versions
 - Block views or cover prototypes or processes from plant visitors

KISS: Keep it secret, stupid (cont.)

***Raben Tire Co., LLC v. McFarland*, 16-cv-00141, 2017 U.S. Dist. LEXIS 26051 (W.D. Ky. Feb. 24, 2017)**

- Plaintiff tire seller sued two of its former employees and their new employer under Federal Defend Trade Secrets Act
 - alleged employees transferred “confidential and proprietary information”, including sales commission reports and the names of the individuals responsible for tire purchases
- Defendant’s motion to dismiss granted
 - complaint was “entirely devoid of any allegations of how [plaintiff] protected the information in question from dissemination”

Lesson: Take measures to keep trade secrets secret!



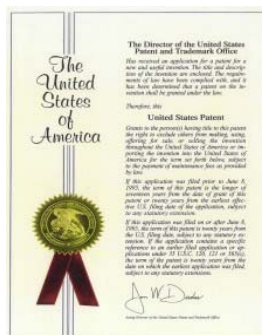
Patents

What is a patent?

- Gives **exclusive** right (i.e., a monopoly) to make, use, offer to sell, and sell **invention** in return for disclosure of invention (quid-pro-quo)
- Types of Patents:
 - *Utility patent*: a patent granted for any new, useful, and nonobvious process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof
 - *Design patent*: a patent granted for a new, original, and ornamental design for an article of manufacture.
 - *Plant Patent*: a patent granted for any distinct and new variety of plant.
- Patentability of software and “methods of doing business” has been restricted

What is a patent?(cont.)

- Enforced in Federal Court or ITC in US
- **BUT**, a patent **does NOT** confer a right to actually practice the claimed invention, as the claimed invention might infringe upon another party's patent



Patents: How do I get one?

- Must apply to U.S. Patent & Trademark Office (USPTO) and include:
 - Technical Drawings
 - Detailed description of the invention
 - Claims – set the “meets and bounds” of the invention
- Scope of patent claims is negotiated with the USPTO in a process known as “prosecution”
- Can take years and cost tens of thousands of dollars to obtain a patent, depending on the length and complexity of the application and ensuing prosecution

Patent tips: If you ain't first, you're last

- America Invents Act transitioned the U.S. patent system:
 - Previously: **First person to invent** gets the patent
 - Now: **First inventor to file a patent application** gets the patent
- Effective for patent applications filed after March 16, 2013



Patent tips: If you ain't first, you're last (cont.)

- If A invents an invention before B but B files a patent application before A, B is entitled to the patent
- If a third party C discloses the invention to the public in a publication, publically uses it, or sells it anywhere in the world before A or B file a patent application, neither A or B is entitled to a patent

Lesson: File as soon as possible (unless you elect to maintain invention as a trade secret)!

Don't sell out (unless you file)

***Helsinn Healthcare v. Teva Pharmaceuticals* (Fed. Cir. May 1, 2017)**

- The Federal Circuit affirmed the long-settled rule that a sale by an inventor more than one year before the inventor files a patent application can invalidate the resulting patent even if the sale does not disclose the details of the invention.
 - Helsinn was barred from getting a patent because a sale agreement was disclosed to the public in a marketing partner's 8-K filing with the SEC made two years before the patent application was filed
 - The agreement specified the price, method of payment, and method of delivery but did not provide details of the invention.

Don't sell out (unless you file) (cont.)

- The details of the invention need not be disclosed in the terms of sale to invalidate a patent.
- Even if there is a one-year grace period to file a patent after the inventor sells or discloses the invention, the first inventor to file an application will get the patent.

Lesson: File before you sell or offer to sell an invention!

All businesses need to think about IP if they:

- Make or develop anything
- Have a logo
- Store customer data
- Have a name
- Have business information that they keep from competitors
- Use technology of any kind



Questions?



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Richard has supported multiple patent litigation matters involving software, computer hardware, photonics and mechanical technologies. Richard's practice also includes drafting and prosecuting patents largely in the software and data storage spaces including secure software patents. As an electrical engineer with a strong background in the software industry Richard brings a unique perspective to his legal practice.

Richard also has an active pro bono practice, advising clients on various intellectual property matters. Richard also manages Reed Smith's Housing Rights pro-bono program, representing indigent tenants in public housing rights case in state court actions.

Prior to earning his law degree, Richard worked as an engineer for Intergraph Corporation, acting as the lead software system integrator for large federal security programs. Richard lead a team of software engineers to integrate the command and control software and hardware systems in a nationwide 911 emergency and security surveillance system for the Kingdom of Jordan for the Anti-terror Administration of the U.S. Department of State. Prior to working for Intergraph Corporation Richard worked for the Raytheon Company writing signal processing and embedded system code for large phased array radar systems. He also enlisted in the U.S. Army and served as an Airborne, Non-Commissioned Officer in South Korea, North Carolina and Georgia from 1997 to 2003.

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Driving progress
through partnership

 KeyCite Yellow Flag - Negative Treatment
Distinguished by [Peoples Federal Savings Bank v. People's United Bank](#), D.Mass., August 9, 2010

742 F.Supp.2d 532
United States District Court,
E.D. Pennsylvania.

ALLIANCE BANK, Plaintiff,
v.
NEW CENTURY BANK, Defendant.

Civil Action No. 10–2249.

July 27, 2010.

Synopsis

Background: Financial institution brought action against competitor institution, alleging claims of trademark infringement, false designation of origin, and unfair competition under Lanham Act, violation of Pennsylvania law, and also moved for preliminary injunction.

Holdings: The District Court, [Slomsky, J.](#), held that:

[1] institution's "CUSTOMER FIRST" mark was suggestive, as required for trademark infringement claim;

[2] institution's "CUSTOMER FIRST" mark was entitled to prima facie presumption that mark was valid and protectable under Lanham Act;

[3] institution was likely to succeed on merits of claim of marketplace confusion, as required for entry of preliminary injunction;

[4] equitable considerations warranted issuance of preliminary injunction; and

[5] balance of harms weighed in favor of entry of preliminary injunction.

Motion granted.

West Headnotes (28)

[1] **Injunction**

 **Extraordinary or unusual nature of remedy**

The grant of injunctive relief is an extraordinary remedy, which should be granted only in limited circumstances.

[Cases that cite this headnote](#)

[2] **Injunction**

 **Clear showing or proof**

In order to be granted a preliminary injunction, the moving party must establish its entitlement to a preliminary injunction by clear evidence on the merits of its claim.

[Cases that cite this headnote](#)


[3] **Injunction**

 **Grounds in general; multiple factors**

In determining whether to grant a motion for preliminary injunction, a court considers: (1) the likelihood that the moving party will succeed on the merits of its claim; (2) the extent to which the moving party will suffer irreparable harm without injunctive relief; (3) the extent to which the nonmoving party will suffer irreparable harm if the injunction is issued; and (4) the public interest.

[1 Cases that cite this headnote](#)

[4] **Trademarks**

 **Infringement**

To prove trademark infringement under the Lanham Act, a plaintiff must demonstrate: (1) it has a valid and legally protectable mark; (2) it owns the mark; and (3) the defendant's use of

the mark to identify goods or services causes a likelihood of confusion. Lanham Act, §§ 32(1), 43(a), 15 U.S.C.A. §§ 1114(1), 1125(a).

[1 Cases that cite this headnote](#)

[5]

Trademarks

🔑 Capacity to Distinguish or Signify; Distinctiveness

Whether a mark is actually valid and legally protectable under the Lanham Act is tied to its distinctiveness. Lanham Act, §§ 32(1), 43(a), 15 U.S.C.A. §§ 1114(1), 1125(a).

[1 Cases that cite this headnote](#)

[6]

Trademarks

🔑 Levels or categories of distinctiveness in general; strength of marks in general

Trademark law recognizes four separate categories of marks based on their level of inherent distinctiveness, which are, from most distinctive to least distinctive: (1) arbitrary or fanciful terms, which bear no logical or suggestive relation to the actual characteristics of the goods or services; (2) suggestive terms, which suggest rather than describe the characteristics of the goods or services; (3) descriptive terms, which describe a characteristic or ingredient of the article or service to which it refers; and (4) generic terms, which function as the common descriptive name of a product or service class.

[Cases that cite this headnote](#)

[7]

Trademarks

🔑 Descriptive Terms or Marks

A term is “descriptive,” thereby making it protectible under Lanham Act, if it forthwith conveys an immediate idea of the ingredients,

qualities or characteristics of the goods, thereby directly giving some reasonably accurate or tolerably distinct knowledge of the characteristics of a product or service. Lanham Act, § 1 et seq., 15 U.S.C.A. § 1051 et seq.

[Cases that cite this headnote](#)

[8]

Trademarks

🔑 Suggestive terms or marks

Financial institution’s “CUSTOMER FIRST” mark, under “imagination test,” was at least suggestive and therefore inherently distinctive, as required for trademark infringement claim under Lanham Act; mark did not provide any direct information regarding institution’s banking services, did not convey what service was at issue and to whom service was directed, and consumer would not immediately connect mark with community banking services as those provided by institution. Lanham Act, § 5, 15 U.S.C.A. § 1055.

[Cases that cite this headnote](#)

[9]

Trademarks

🔑 Validity, ownership, and use

Trademarks

🔑 Goods or services underlying mark; class

Registration of a mark on the Principal Register of the United States Patent and Trademark Office (USPTO) constitutes prima facie evidence of the validity of the registered mark and of the registrant’s ownership of the mark, and of the registrant’s exclusive right to use the mark in commerce on or in connection with the goods or services specified in the certificate of registration.

[4 Cases that cite this headnote](#)

[10]

Trademarks

🔑 Nature or type of mark; distinctiveness and

[strength](#)

If the mark has not achieved incontestability, prima facie validity of the mark exists only if the registered mark is inherently distinctive or if proof of secondary meaning is established.

[1 Cases that cite this headnote](#)

[11]

Trademarks

🔑Capacity to Distinguish or Signify;
Distinctiveness

Trademarks

🔑Acquired distinctiveness; secondary meaning

In trademark cases, marks that are distinctive and marks that are descriptive with secondary meaning amount to the same thing.

[Cases that cite this headnote](#)

[12]

Trademarks

🔑Validity, ownership, and use

Trademarks

🔑Nature or type of mark; distinctiveness and strength

Financial institution's registered mark "CUSTOMER FIRST" was entitled to prima facie presumption that mark was valid and protectable under Lanham Act; institution had continuously used mark for years to identify its banking services and to identify one of its products, mark was registered in Patent and Trademark Office, and was entitled to prima facie presumption that its mark was distinctive or descriptive with secondary meaning. Lanham Act, § 5, 15 U.S.C.A. § 1055.

[1 Cases that cite this headnote](#)

[13]

Fraud

🔑Intent

A central element of fraud is an intent to defraud.

[Cases that cite this headnote](#)

[14]

Trademarks

🔑Similarity or dissimilarity in general

In trademark infringement case, the single most important factor in determining likelihood of confusion is mark similarity; the marks need not be identical, only confusingly similar.

[Cases that cite this headnote](#)

[15]

Trademarks

🔑Examination and comparison; construction as entirety

When comparing two marks in trademark infringement action, each must be viewed in its entirety, although one feature of a mark may be more significant than other features, and it is proper to give greater force and effect to that dominant feature.

[Cases that cite this headnote](#)

[16]

Trademarks

🔑Levels or categories of distinctiveness in general; strength of marks in general

To determine the strength of a mark, courts look to: (1) the inherent features of the mark contributing to its distinctiveness or conceptual strength, and (2) the factual evidence of the mark's commercial strength or of marketplace recognition of the mark.

[Cases that cite this headnote](#)

[17] **Trademarks**
 🔑 “Reverse” confusion

When applying the strength of mark factor in a reverse confusion trademark infringement case, the lack of commercial strength of the smaller senior user’s mark is to be given less weight in the analysis because it is the strength of the larger, junior user’s mark which results in reverse confusion.

[Cases that cite this headnote](#)

[18] **Trademarks**
 🔑 Intent; knowledge of confusion or similarity

In trademark infringement action, evidence of intentional, willful and admitted adoption of a mark closely similar to the existing mark weighs strongly in favor of finding a likelihood of confusion; however, intent of defendant is not a prerequisite to a finding of likelihood of confusion.

[Cases that cite this headnote](#)

[19] **Trademarks**
 🔑 Actual confusion
Trademarks
 🔑 Actual confusion

In trademark infringement action, evidence of actual confusion is difficult to find because many instances are unreported; while proof of actual confusion is often deemed the best evidence of possible future confusion, it is not considered essential.

[1 Cases that cite this headnote](#)

[20] **Trademarks**
 🔑 Similarity; likelihood of confusion

For the purposes of a preliminary injunction motion in trademark infringement action, the holder of a trademark need only show likelihood of confusion, not actual confusion.

[1 Cases that cite this headnote](#)

[21] **Trademarks**
 🔑 Trade channels; sales, advertising, and marketing
Trademarks
 🔑 Persons confused; circumstances of sale

In trademark infringement action, the greater the similarity in advertising and marketing campaigns, the greater the likelihood of confusion; similarly, when the parties target their sales efforts to the same group of consumers, there is a greater likelihood of confusion between the two marks.

[1 Cases that cite this headnote](#)

[22] **Trademarks**
 🔑 Similarity; likelihood of confusion

Financial institution was likely to succeed on merits of claim that marketplace confusion, in violation of Lanham Act, was likely between financial institution’s registered “CUSTOMER FIRST” mark and “CUSTOMERS 1ST BANK” mark used by competitor institution, as required for entry of preliminary injunction prohibiting competitor institution from using mark; marks were similar, there was similarity in channels of trade as well as consumers targeted by parties, institution’s mark was relatively strong, and competitor’s intent in adopting its mark weighed in favor of likelihood of confusion. Lanham Act, § 5, 15 U.S.C.A. § 1055.

[Cases that cite this headnote](#)

[23] **Injunction**

🔑 Irreparable injury

Injunction

🔑 Availability and Adequacy of Other Remedies

In order to prove irreparable harm so as to justify entry of preliminary injunctive relief, movant must demonstrate potential harm which cannot be redressed by a legal or an equitable remedy following a trial.

[Cases that cite this headnote](#)

[24]

Injunction

🔑 Unclear, unlikely, doubtful or speculative injury

In seeking a preliminary injunction, the movant's claimed injury cannot merely be possible, speculative, or remote.

[1 Cases that cite this headnote](#)

[25]

Trademarks

🔑 Grounds and Subjects of Relief

Equitable considerations warranted issuance of preliminary injunction prohibiting competitor financial institution from using "CUSTOMERS 1ST BANK" mark, which was similar to other institution's "CUSTOMER FIRST" mark; over prior four years institution had built reputation in relevant market by providing community banking services under "CUSTOMER FIRST" mark, and had spent considerable time, money and effort developing its services and relationships with customers under "hub" of "CUSTOMER FIRST."

[Cases that cite this headnote](#)

[26]

Trademarks

🔑 Grounds and Subjects of Relief

Balance of harms weighed in favor of entry of preliminary injunctive relief in favor of financial institution with "CUSTOMER FIRST" mark, prohibiting competitor institution from using "CUSTOMERS 1ST BANK" mark; although issuance of injunction would cost competitor bank hundreds of thousands of dollars it expended on changing its name, costs for competitor to rename bank, revise advertising materials and create a new mark were compensable by money damages and did not constitute irreparable harm, and competitor bank adopted its infringing name when its executives had knowledge of institution's registration and established use of mark "CUSTOMER FIRST."

[Cases that cite this headnote](#)

[27]

Trademarks

🔑 Alphabetical listing

CUSTOMER FIRST.

[Cases that cite this headnote](#)

[28]

Trademarks

🔑 Alphabetical listing

CUSTOMERS 1ST BANK.

[Cases that cite this headnote](#)

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SLOMSKY, District Judge.

OPINION

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***537 I. INTRODUCTION**

Before the Court is Plaintiff Alliance Bank’s Motion for Preliminary Injunction (Doc. No. 2). On May 14, 2010, Plaintiff Alliance Bank (“Alliance”) commenced this action against Defendant New Century Bank (“New Century”) alleging claims for trademark infringement, false designation of origin, and unfair competition under

the Lanham Act, [15 U.S.C. § 1051](#), *et seq.*, and for violations of state law of the Commonwealth of Pennsylvania. These claims arise from New Century’s recent adoption and use of the name CUSTOMERS 1ST BANK in connection with banking and financial services. On the same day that Alliance filed the Verified Complaint (Doc. No. 1), Alliance also filed a Motion for Preliminary Injunction pursuant to [Federal Rule of Civil Procedure 65\(a\)](#).

On June 2, 2010, Defendant New Century filed a

Response in Opposition to the Motion for Preliminary Injunction (Doc. No. 16). On June 9, 2010, Alliance filed a Reply in Support of the Motion (Doc. No. 17). On June 17 and 18, 2010, the Court held a hearing on the Motion for Preliminary Injunction.¹ In addition, on June 29, 2010, the Court held oral argument on the Motion. After considering the testimony and exhibits offered by the parties at the hearings and their filings and arguments in this case, and for the reasons that follow, the Court will grant Alliance's Motion for Preliminary Injunction.

II. FINDINGS OF FACT

A. The Parties

Plaintiff Alliance Bank is a Pennsylvania corporation with its principal place of business located at 541 Lawrence Road, Broomall, Pennsylvania. (Verified Complaint at ¶ 3; Testimony of Dennis Cirucci ["Cirucci"], Plaintiff's President and CEO, Transcript of Hearing, June 17, 2010 ["Tr. 06/17/10"], at 5:15–16.) Alliance is a wholly owned subsidiary of Alliance Bank Corp. of Pennsylvania, and renders community banking services to individuals and businesses. (*Id.* at 5:6–7, 17–24; 43:7–8.) Alliance has branches in Delaware County and Chester County, Pennsylvania. Branches are located in the towns of Lawrence Park, Concordville, Havertown, Springfield, Lansdowne, Secane, Newtown Square, Upper Darby, and Paoli. (Plaintiff's Declaration of Dennis Cirucci (Doc. No. 11) Exhibit ["Cirucci Ex."] 45.) Customers of Alliance are located in forty-one (41) states and in Puerto Rico. (Cirucci, Tr. 06/17/10 at 28:12–16.) A large percentage of Alliance's business is conducted over the internet. (*Id.* at 32:1–3.)

Defendant New Century, d/b/a Customers 1st Bank, is a Pennsylvania corporation with its principal place of business located at 99 Bridge Street, Phoenixville, Pennsylvania. (Plaintiff's Hearing Exhibit ["Pl. Ex."] 46 at ¶ 3.) New Century also offers *538 community banking services to individuals and businesses. (Testimony of Warren Taylor ["Taylor"], Defendant's Executive Vice President and President of Community Banking, Tr. 06/17/10 at 291:22–24.) Like Alliance, New Century has branches in Delaware County and Chester County, Pennsylvania. Branches are located in the towns of Phoenixville, Kimberton, Newtown Square, Wayne, and Malvern. (Pl. Ex. 46 at ¶ 3.) With the exception of the Newtown Square branch, which is directly across the street from a branch of Alliance, all of New Century's

branches are located more than three and one half (3.5) miles away from an Alliance branch. (Taylor, Tr. 06/17/10 at 203:9–17; Cirucci, Tr. 06/17/10 at 31:6–12.) New Century also provides on-line banking services. (Testimony of Richard Ehst ["Ehst"], Defendant's President and COO, Tr. 06/17/10 at 173:20–22.) Approximately seventy-five percent (75%) of New Century's customers reside within one-mile of a branch location, and the other twenty-five percent (25%) "could be just about anywhere." (*Id.* at 203:8.)

B. Alliance's Products and Services

Alliance is a "community bank," which is a financial institution formed to serve the constituents of the communities in which it exists. (Cirucci, Tr. 06/17/10 at 45:17–46:1.) Alliance provides a full range of banking services, including checking and savings accounts, certificates of deposits, online banking, loan products such as mortgage loans, home equity loans, commercial loans and lines of credit, and other related products and services customary in the banking industry. (*Id.* at 5:17–24; 6:3–9.) Alliance's customers consist of individuals and businesses residing in Delaware and Chester Counties, as well as individuals residing in Bucks County, Pennsylvania. (*Id.* at 28:14–16.) These customers include small and large businesses, non-profit entities, municipalities, governmental units, families, seniors and retirees. (*Id.* at 43:17–44:3.)

Alliance offers three (3) types of checking accounts: (1) "Affordable Checking," (2) "Customer First Checking," and (3) "Off To College Checking." (*Id.* at 53:9–18.) The "Customer First Checking" account is Alliance's primary retail product. (*Id.* at 8:25–9:1.) Currently, Alliance has approximately four thousand (4,000) "Customer First Checking" accounts in use with deposits of approximately \$45,000,000. (*Id.* at 9:8–14.) In total, from 2007 until March 2010, Alliance's deposits have grown by \$56,000,000 or sixteen percent (16%). (Testimony of Cirucci, Transcript of Hearing, June 18, 2010 ["Tr. 06/18/10"] at 10:8–12.)

C. Alliance's Mark CUSTOMER FIRST

i. Advertising CUSTOMER FIRST

Since March 2006, Alliance has been using the mark CUSTOMER FIRST in two respects: (1) to identify all of its banking services as a whole and (2) to identify one of its products, “Customer First Checking.” (Cirucci, Tr. 06/17/10 at 7:14–8:8.) A Customer First Checking Account gives consumers a preferred rate on other products of Alliance. (*Id.* at 17:17–23.) Mr. Cirucci provided extensive and creditable testimony as to how the Customer First Checking Account “serves as the hub for all of [Alliance’s] other related products,” and how it “acts as a bridge and brings them together.” (*Id.* at 8:24–9:7; 17:3–23; 22:23–23:6; 62:12–21.) As he explained, Alliance uses the Customer First Checking Account as the centerpiece of the bank, and all other banking products act as “spokes” stemming from the center. (*Id.* at 153:1–14.) For example, products such as safety deposit boxes, home equity loans, *539 and mortgage loans are tied to a consumer’s Customer First Checking Account. If a customer rents a safety deposit box, the yearly fee would be paid from the Customer First Checking Account. If a customer has an ATM or debit card, it would be tied to the Customer First Checking Account. If a customer has a home equity or mortgage loan, payments would be made from the Customer First Checking Account. (*Id.* at 17:7–23.)

Alliance considers the mark to be a valuable symbol of the bank’s representation to its customers and goodwill. (*Id.* at 11:7–10.) CUSTOMER FIRST is spelled using an ordinary font, and Alliance often uses a blue and yellow color scheme in conjunction with its general advertising and this specific mark. (*Id.* at 60:5–9.) Sometimes Alliance advertises in black and white rather than in color. (*Id.* at 60:16–17.)

Alliance has publicized CUSTOMER FIRST in a variety of ways. For example, in 2006, Alliance placed advertisements promoting its CUSTOMER FIRST banking services on four-foot (4’) by five-foot (5’) posters at about two-dozen bus shelters throughout the Delaware Valley. (*Id.* 24:16–25:19; 162:5–8; Pl. Ex. 2.) Bus shelter advertisements featured the slogan, “Customer First Banking Just Hit Home.” (Pl. Ex. 2; Cirucci, Tr. 06/17/10 at 24:22–25:14.) These advertisements were displayed for at least one year and cost \$5,300 every month. (*Id.* at 25:2–14; Pl. Ex. 6–37.)

Over the past four (4) years, Alliance has also promoted CUSTOMER FIRST in local newspapers, such as the Philadelphia Inquirer, Delaware County Times, News of Delaware County, and the Daily Local News. (*Id.* at 12:19–24; 15:10–18; 21:17–22:4; 103:24–104:3.) In addition, Alliance has sent direct mailings to advertise the

bank and its mark through a company called “ValPak.” (*Id.* at 13:3–18.) ValPak is a direct mail marketing company that does mailings to households across the United States, including the Delaware Valley. (*Id.*)

Alliance also operates and maintains a website, through which it distributes news and information regarding its banking services and products, and where the mark CUSTOMER FIRST is prominently displayed. (*Id.* at 12:11–14; Pl. Ex. 6–4.) Finally, Alliance has publicly displayed the mark CUSTOMER FIRST in connection with its banking services and checking account in and around its branches and operations, through signage, television screen shots and promotional items. For approximately eighteen (18) months, until the fall 2007, Alliance required lapel pins labeled CUSTOMER FIRST to be worn by employees who personally served the public, such as customer service representatives, bank tellers, branch managers and assistant managers. (*Id.* at 11:22–25; 12:1–6; 13:19–15:8; 25:15–19; 26:2–23; 37:1–38:18; 66:22–25; Pl. Ex. 24.)

Alliance extensively promotes CUSTOMER FIRST in brochures available to the public. In one brochure, an entire page is dedicated to the Customer First Checking Account. The page reads:

Choosing the right checking account is easy at Alliance Bank.

Customer First™ Checking - At Alliance Bank, we believe in putting the customer first. After all life can be complicated, choosing what type of checking account to open shouldn’t be. Our Customer First™ Checking gives you all you want from a checking account in one easy package.

(Pl. Ex. 6–1 at 4.) In a tri-fold brochure that describes the different accounts offered by Alliance, one page features the phrase “Customer First Checking” multiple times. (Pl. Ex. 6–2.) This tri-fold *540 brochure is often distributed at area events to promote Alliance’s products. (Cirucci, Tr. 06/17/10 at 12:2–6.) In another document, a one-page advertisement mailed to over one-hundred thousand (100,000) households, a description of “Customer First™ Checking” covers a substantial portion of the page. (*Id.* at 13:4–6; Pl. Ex. 6–8.) In yet another one-page advertisement, the center of the page reads “Customer First™ Checking” and is followed by rates offered on Customer First Checking Accounts. (Pl. Ex. 6–19.) In many advertisements, a small “TM” or “®,” indicating a protectable trademark, is featured after the mark CUSTOMER FIRST.

In 2006, Alliance spent approximately \$310,000 on

advertisements that include either the term “Customer First Checking” or the slogan “Customer First Banking Just Hit Home.” (Pl. Exs. 6, 1–36.) In total, over the past four (4) years, Alliance has spent more than \$500,000 on advertising and marketing throughout its trade area in order to promote its CUSTOMER FIRST banking services and the Customer First Checking Account. (Cirucci, Tr. 06/17/10 at 8:9–19.) Alliance continues to advertise under the mark CUSTOMER FIRST for banking services. (*Id.* at 8:20–23.) All advertisements featuring CUSTOMER FIRST also include the housemark ALLIANCE BANK (in a larger font) and several advertisements also feature the slogan “We Build Relationships That Last.” (*Id.* at 61:25–62:7; 115:12–15; 125:3–6.) However, Alliance considers CUSTOMER FIRST to be the “defining characteristic” of the bank. (*Id.* at 51:19.)

ii. Registration of Mark CUSTOMER FIRST

On August 1, 2005, Alliance filed an application for registration of the mark CUSTOMER FIRST in the United States Patent and Trademark Office (“USPTO”). As part of the application, Mr. Cirucci signed a Statement of Use which declared that the term CUSTOMER FIRST was in use in connection with all of the following services: “Services customary in the banking industry, namely, banking, banking consultation, investment banking services, mortgage and personal banking services, namely, origination, acquisition servicing, securitization, and brokerage of commercial and personal mortgage loans and online banking services.” (Cirucci, Tr. 06/17/10 at 7:8–13.) On October 16, 2007, the mark was approved and registered in the USPTO on the Principal Register under Certificate of Registration No. 3,313,156. (Verified Compl. at ¶¶ 11–13; Pl. Ex. 23.)

D. New Century’s Products and Services

New Century has been conducting business in the same area where Alliance does business since 1997. (Pl. Ex. 46 at ¶ 4.) Like Alliance, New Century is a community bank that provides services that are customary in the banking industry. (Ehst, Tr. 06/17/10 at 173:2–174:16.) New Century offers two (2) types of checking accounts: (1) “Free Checking” and (2) “Platinum Checking.” (Taylor, Tr. 06/17/10 at 252:23–253:1.) New Century provides

personal banking and commercial mortgage services. It does not provide residential mortgage banking services. (Ehst, Tr. 06/17/10 at 173:12–19.) Richard Ehst, New Century’s current President and COO, testified that he considers New Century’s customers to be sophisticated and particularly knowledgeable on the products and services the bank offers. (*Id.* at 206:13–207:16.)

From 2008 until early 2010, New Century had not been a profitable enterprise. (*Id.* at 179:23–180:4.) Mr. Ehst described New Century as a “troubled company” *541 with “significant legacy issues.” (*Id.* at 186:1–5.) To overcome this problem, in the third quarter of 2009, New Century recruited a new management team and began redefining its business model. The new management team included Mr. Ehst, Mr. Taylor, and Jay Sidhu, who assumed the position of Chairman and CEO. The three executives previously worked together at Sovereign Bank. (*Id.* at 183:24–184:6; 187:16–188:25.) Their new business model included a high-tech, high-touch customer service commitment. (Taylor, Tr. 06/17/10 at 184:23–185:24.)

Since the arrival of this new leadership, New Century has raised over \$67,000,000 in new equity capital. New Century now holds over \$884,000,000 in total deposits and loans. (Ehst, Tr. 06/17/10 at 189:18–190:2.) In addition, customer deposits have increased one-hundred-twelve percent (112%), and since June 2009 its loans have increased over sixty percent (60%). (*Id.*) In May 2010, New Century raised over \$500,000. (*Id.*)

E. New Century’s Mark CUSTOMERS 1ST BANK

i. Advertising CUSTOMERS 1ST BANK

In June or July 2009, discussions began at New Century about a name change. (Taylor, Tr. 06/17/10 at 232:25–233:7.) The reasons offered at the evidentiary hearing for changing the name of the bank were: (1) a desire to start fresh with a new management team, and (2) a desire to distance the name of the bank from negative publicity associated with the 2007 failure of New Century Mortgage of Irvine, California. The failure of New Century Mortgage was reported on ABC News, and Defendant New Century’s logo was incorrectly used in reporting the story. (*Id.* at 235:1–10; Ehst, Tr. 06/17/10 at 188:19–189:6.)²

Around January 2010, Mr. Ehst proposed the name “Customers 1st Bank.” (*Id.* at 191:10–19.) Subsequently, Mr. Taylor searched the names “Customers 1st Bank” and “Customers First Bank” on Google and GoDaddy.com, a website that sells internet domain names. (Taylor, Tr. 06/17/10 at 241:3–18.) In February 2010, New Century submitted the name “Customers 1st Bank” to its advertising agency for production of a logo. (Ehst, Tr. 06/17/10 at 191:23–192:13.) By the end of February 2010, Mr. Taylor presented designs and logos to New Century’s executive team for approval. After receiving a positive response, the executive team decided to adopt the mark CUSTOMERS 1ST BANK as its new name, and New Century began the process of changing its name (Taylor, Tr. 06/17/10 at 298:11–22.), with the exception of the New Century name on permanent signs at existing branches. These will not be changed until August 2010, when a shareholder vote on the name change is scheduled. (Ehst, Tr. 06/17/10 at 167:17–24.)

Currently, the mark CUSTOMERS 1ST is used on virtually all of New Century’s *542 advertising and marketing materials. (Pl. Ex. 17.) The logo, however, is not used in connection with one of New Century’s internet domain names (e.g., www.customersfirst.com) and in connection with employee email addresses (e.g., joemsmith@customersfirst.com). Both online references contain the words: “customers” and “first.” New Century also owns other domain names and email addresses (e.g., www.customers1stbank.com). (Taylor, Tr. 06/17/10 at 265:1–21; Ehst, Tr. 06/17/10 at 205:13–23.)

New Century Bank does ninety-nine percent (99%) of its advertising through three (3) trade channels: (1) a direct mail magazine identified as Clipper Magazine; (b) its website and other industry websites; and (c) signs displayed in branches. Some households, including Mr. Cirucci’s, receive both ValPak and Clipper Magazine mailings. (Cirucci, Tr. 06/17/10 at 162:1–4.) New Century has rarely advertised in newspapers, and it does not advertise on buses or at bus shelters. (Taylor, Tr. 06/17/10 at 270:22–271:6.)

The CUSTOMERS 1ST BANK logo has a red and black color scheme. The words “Customers” and “Bank” are written in a black font. The word “1st” is featured inside a red ball with a white font. A small “SM” to signify a service mark is sometimes featured in the upper-right hand corner of the logo. (*Id.* at 239:7–240:4; Pl. Exs. 17, 19.)

ii. Attempted Registration of Mark CUSTOMERS 1ST BANK and Similar Marks

On or about March 9, 2010, New Century requested its lawyer to commission a Trademark Clearance Search (the “Clearance Search”) from Thomson Compumark for the mark “Customers First Bank” and its equivalent (i.e., “Customers 1st Bank”) for banking services. A Clearance Search Report was issued and reviewed by officials at New Century in March 2010. (Ehst, Tr. 06/17/10 at 193:25–194:11.) At that time, New Century and its executive team became aware of Alliance’s trademark registration for the mark CUSTOMER FIRST because it was listed on the Clearance Search. (*Id.* at 172:13–173:1; 194:18–21.) After learning about the conflict in marks, Messrs. Ehst and Taylor discussed the possibility that Alliance might challenge New Century on its adoption and use of CUSTOMERS 1ST BANK. (*Id.* at 174:23–177:3; Taylor, Tr. 06/17/10 at 294:16–295:1.)

Shortly thereafter, New Century received an opinion of counsel on the marks, but Mr. Ehst did not read the opinion. (Ehst, Tr. 06/17/10 at 200:1–2.) In any event, New Century did not alter any of its plans to change the bank name after reviewing the Clearance Search and receiving the opinion of counsel. (*Id.* at 200:23–25; Taylor, Tr. 06/17/10 at 242:16–18.)

On March 5, 2010, New Century filed several applications with the USPTO to register five variants of the mark CUSTOMERS 1ST BANK for “banking and financing services”: Application Serial No. 77/952,242 (for the standard character mark CUSTOMERS 1ST BANK); Application Serial No. 77/952,243 (for the standard character mark CUSTOMERS FIRST BANK); Application Serial No. 77/952,254 (for the stylized mark YOU’RE FIRST CUSTOMERS FIRST BANK (and design)); Application Serial No. 77/952,250 (for the stylized mark CUSTOMERS 1ST BANK (and design)); and 77/952,252 (for the stylized mark CUSTOMERS 1ST BANK (and design)).³ (*Id.* at 288:25–291:2; Pl. Exs. 7, 8, 9, 30, 31.)

*543 On April 20, 2010, the USPTO refused each of New Century’s five applications to register variants of the mark CUSTOMERS 1ST BANK because the marks depicted in the applications so resemble Alliance’s mark CUSTOMER FIRST as to be likely to cause confusion or mistake or to deceive under Section 2(d) of the Lanham Act, 15 U.S.C. § 1052(d). (Ehst, Tr. 06/17/10 at 214:25–215:6; Pl. Exs. 7, 8, 9, 30, 31.)⁴

F. New Century's Name Change

On April 23, 2010, it was reported in the media that a bank with the name "New Century Bank" located in Chicago, Illinois, had been seized and placed into receivership. When Chairman Jay Sidhu learned of this takeover and the similarity of the name to his own bank, he directed Messrs. Taylor and Ehst to immediately change the name of their bank from New Century to Customers 1st Bank. (*Id.* at 190:25–191:6.) On April 26, 2010, New Century formally announced in a press release that it was changing its name to Customers 1st Bank. (Cirucci, Tr. 06/17/10 at 28:20–29:5; Ehst, Tr. 06/17/10 at 166:16–167:2; Pl. Ex. 14.) The bottom of the press release tersely stated: "New Century Bank Is Now Customers 1st Bank." (*Id.*) When the press release was issued on April 26, 2010, the executive team at New Century knew that Alliance owned a registered trademark for CUSTOMER FIRST. (Ehst, Tr. 06/17/10 at 168:24–169:4.)

When apprised of the April 26th press release, Mr. Cirucci, Alliance's President, directed attorney Paul F. D'Emilio ("D'Emilio") to send a cease and desist letter to New Century. (Cirucci, Tr. 06/17/10 at 29:20–24.) On April 30, 2010, Mr. D'Emilio sent the cease and desist letter to Mr. Taylor. (Pl. Ex. 3.) After receiving this letter, New Century continued to use Customers 1st Bank as the new name of its bank, and at no time has this use ceased. (*Id.* at 29:25–30:5).⁵

On May 21, 2010, a few days after New Century received a second wave of registration rejections from the USPTO, Mr. Taylor visited an Alliance branch in Paoli, Pennsylvania. (Taylor, Tr. 06/17/10 at 253:12–18.) While speaking with a customer service representative, Mr. Taylor was told that two types of checking accounts would fit his requirements: (1) Customer First Checking, which pays interest, and (2) Affordable Checking, which does not pay interest. The customer service representative also handed Mr. Taylor four (4) pieces of marketing material, including the tri-fold brochure described above that features the phrase "Customer First™ Checking" multiple times. (*Id.* at 254:7–25; Pl. Ex. 6–2.) Mr. Taylor testified that he reviewed the tri-fold brochure and noticed the trademark symbol after the mark CUSTOMER FIRST. (Taylor, Tr. 06/17/10 at 305:23–25.) Mr. Taylor also reviewed a buck slip advertisement for home equity loans that bore the trademark symbol "®" after the phrase CUSTOMER FIRST. (*Id.* at 306:21–307:16; Def. Ex. 1.)

"Customers 1st Bank" will not become the legal name of New Century until August *544 2010. (Ehst, Tr. 06/17/10 at 167:3–7.) Despite the absence of requisite approval at a shareholder meeting, New Century has already made changes to the name on signs at existing branches by

using cloth covers over the New Century name. (*Id.* at 167:8–16.) New Century has changed substantially all of its internal and external materials to reflect the new name and logo. (*Id.* at 201:12–202:10.) Permanent signs have not yet been installed, but have been ordered. New Century does not intend to install them until shareholders have approved the name change. (*Id.* at 167:17–21.) Although a complete name change has not been finalized at all branches, changing the name has already cost over \$500,000. (*Id.* at 166:12–15; 167:3–17; 208:10–12.) Mr. Taylor testified that in order to reverse the changes already made, the cost would be at least another \$500,000. A reversal would also affect New Century's integrity and reputation. (Taylor, Tr. 06/17/10 at 274:20–275:22.)

G. Commonality of "Customer" and "First" in the Banking and Financial Industries

On May 14, 2010, Alliance commenced this action by filing a Verified Complaint. After receiving the Complaint, New Century requested counsel to commission a Trademark Dilution Search (the "Dilution Search") from Thomson Compumark in order to determine the use of the marks CUSTOMERS FIRST and CUSTOMERS 1ST BANK in the banking and financial industries. The purpose of the Dilution Search is to determine the number of companies using the terms, which may be evidence of how "diluted" the terms are in the industry. Mr. Taylor reviewed the Dilution Search on or about May 20, 2010. (*Id.* at 282:20–283:9; Def. Ex. 15.)

The Dilution Search revealed at least four (4) other institutions registered in Pennsylvania using the term "customer first" in their corporate name: "Customer First Financial Services LLC," "Customer First Mortgage, Inc.," "Customers 1st Mortgage, Inc." and "Exit Realty Customers First." (Def. Ex. 15.) One business, "Customer First Mortgage, Inc.," is located in Media, Pennsylvania, approximately three and eight-tenths (3.8) miles from Alliance's Springfield Branch, and approximately four and two-tenths (4.2) miles from Alliance's Lawrence Park Branch. (Def. Exs. 10, 15.) However, these organizations do not have their name registered with the USPTO, and no banking institution in Pennsylvania has registered "customer first" or any variation of that phrase with the USPTO. (Ehst, Tr. 06/17/10 at 221:15–18.)

At some point, Mr. Taylor conducted an internet search on Google, and found a bank named "Customer First Bank" in Plano, Texas. Mr. Taylor testified that this

Texas bank owns the domain name www.customerfirstbank.com, but is not yet doing business. (Taylor, Tr. 06/17/10 at 241:3–10.) Mr. Taylor also testified that “with the exception of the Plano, Texas, bank that wasn’t really a bank yet, I couldn’t find another bank that had that name.” (*Id.* at 303:16–18.) Further, during the period Alliance has been using the mark CUSTOMER FIRST, there was no other use of the mark for banking services in Pennsylvania or neighboring states. (Cirucci, Tr. 06/17/10 at 9:15–10:17.)

III. LEGAL STANDARD

A. Jurisdiction

The Court has jurisdiction over the parties and subject matter of this case pursuant to 28 U.S.C. § 1338(a) (acts of Congress relating to trademarks), 15 U.S.C. § 1121 (actions arising under the Lanham *545 Act), 15 U.S.C. § 1125(a) (cause of action for false designations of origin), 28 U.S.C. § 1338(b) (providing for federal jurisdiction over unfair competition claims when joined with a substantial and related claim under federal trademark laws), and 28 U.S.C. § 1367 (providing for supplemental jurisdiction over state law claims that are so related to federal law claims that they form part of the same case or controversy). Venue is proper under 28 U.S.C. § 1391(b) and (c).

B. Preliminary Injunction

[1] [2] “[T]he grant of injunctive relief is an ‘extraordinary remedy, which should be granted only in limited circumstances.’ ” *Instant Air Freight Co. v. C.F. Air Freight, Inc.*, 882 F.2d 797, 800 (3d Cir.1989) (citing *Frank’s GMC Truck Ctr., Inc. v. Gen. Motors Corp.*, 847 F.2d 100, 102 (3d Cir.1988)). “A primary purpose of a preliminary injunction is maintenance of the status quo until a decision on the merits of a case is rendered.” *Acierno v. New Castle County*, 40 F.3d 645, 647 (3d Cir.1994). “[P]laintiffs must demonstrate that, regardless of their past harm, they are likely to suffer harm in the future.” *Sullivan v. DB Investments, Inc.*, 613 F.3d 134, 156 (3d Cir.2010). In order to be granted a preliminary injunction, the moving party must establish its entitlement to a preliminary injunction by clear evidence on the merits of its claim. *ECRI v. McGraw-Hill, Inc.*, 809 F.2d

223, 226 (3d Cir.1987).

[3] In determining whether to grant a motion for preliminary injunction, a court considers the following factors:

- (1) the likelihood that the moving party will succeed on the merits;
- (2) the extent to which the moving party will suffer irreparable harm without injunctive relief;
- (3) the extent to which the nonmoving party will suffer irreparable harm if the injunction is issued; and
- (4) the public interest.

McNeil Nutritionals, LLC v. Heartland Sweeteners, LLC, 511 F.3d 350, 356–57 (3d Cir.2007) (quoting *Shire U.S. Inc. v. Barr Labs. Inc.*, 329 F.3d 348, 352 (3d Cir.2003)). “[W]hile the burden rests upon the moving party to make [the first] two requisite showings, the district court” should also look to factors three and four when relevant. *Heritage Community Bank v. Heritage Bank, N.A.*, No. 08–4322, 2008 WL 5170190, *2 (D.N.J. Dec. 9, 2008) (quoting *Acierno*, 40 F.3d at 653). “All four factors should favor preliminary relief before the injunction will issue.” *S & R Corp. v. Jiffy Lube Int’l, Inc.*, 968 F.2d 371, 374 (3d Cir.1992).

IV. CONCLUSIONS OF LAW

In Count One of the Verified Complaint, Plaintiff alleges trademark infringement by Defendant in violation of § 32(1) of the Lanham Act, which provides in relevant part:

Any person who shall, without the consent of the registrant—

- (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
- (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services *546

on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1114(1).

In Count Two of the Verified Complaint, Plaintiff alleges false designation of origin in violation of § 43(a) of the Lanham Act, which provides in relevant part:

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person ... shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a).

One fundamental objective of trademark law is to prevent another from copying a source-identifying mark. *Qualitex Co. v. Jacobson Prods., Co., Inc.*, 514 U.S. 159, 163–64, 115 S.Ct. 1300, 131 L.Ed.2d 248 (1995); see also *Fisons Horticulture, Inc. v. Vigoro Indus., Inc.*, 30 F.3d 466, 472 (3d Cir.1994) (“The law of trademark protects trademark owners in the exclusive use of their marks when use by another would be likely to cause confusion.”) (internal quotations omitted); 15 U.S.C. § 1055 (“If first use of a mark by a person is controlled by the registrant or applicant for registration of the mark with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant or applicant, as the case may be.”).⁶

A. Alliance is Likely to Succeed on the Merits of its Trademark Claim

^[4] To prove trademark infringement under the provisions of the Lanham Act quoted above, “a plaintiff must demonstrate that (1) it has a valid and legally protectable mark; (2) it owns the mark; and (3) the defendant’s use of the mark to identify goods or services causes a likelihood

of confusion.” *A & H Sportswear, Inc. v. Victoria’s Secret Stores, Inc.*, 237 F.3d 198, 210 (3d Cir.2000).

i. Alliance Owns a Valid and Legally Protectable Service Mark⁷

^[5] ^[6] Whether a mark is actually valid and legally protectable is tied to its distinctiveness. *547 *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992). Trademark law recognizes four separate categories of marks based on their level of inherent distinctiveness. From most distinctive to least distinctive, the four categories are:

[1] arbitrary (or fanciful) terms, which bear no logical or suggestive relation to the actual characteristics of the goods [or services]; [2] suggestive terms, which suggest rather than describe the characteristics of the goods [or services]; [3] descriptive terms, which describe a characteristic or ingredient of the article [or service] to which it refers[;] and [4] generic terms, which function as the common descriptive name of a product [or service] class.

E.T. Browne Drug Co. v. Cococare Prods., Inc., 538 F.3d 185, 191 (3d Cir.2008) (quoting *A.J. Canfield Co. v. Honickman*, 808 F.2d 291, 296 (3d Cir.1986)); see also *Two Pesos*, 505 U.S. at 768, 112 S.Ct. 2753. “Although these categories are often separated by only the finest of lines, ‘the distinctions are crucial’ ” because:

If we hold a term arbitrary or suggestive, we treat it as distinctive, and it automatically qualifies for trademark protection at least in those geographic and product areas in which the senior user applies it to its goods. If we hold a mark descriptive, a claimant can still establish trademark rights, but only if it proves that consumers identify the term with the claimant, for that identification proves secondary meaning....Finally, if we hold a designation generic, it is never protectable because even complete “success ... in securing public identification ... cannot deprive competing manufacturers of the product of the right to call an

article by its name.”

Dranoff-Perlstein, 967 F.2d at 855 (quoting *Honickman*, 808 F.2d at 297).

^[7] In other words, the Lanham Act protects “arbitrary or fanciful” terms, like “Kodak,” because these terms are inherently distinctive. Suggestive terms, like “Coppertone,” are protected “[i]f information about the product or service given by the term ... is indirect or vague.” 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* (4th Ed.2010) § 11:19. Descriptive terms, like “Security Center,” however, are only protected if they have acquired secondary meaning.⁸ A term is descriptive “if it forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods,” *Honickman*, 808 F.2d at 297, thereby “directly giv[ing] some reasonably accurate or tolerably distinct knowledge of *548 the characteristics of a product [or service].” 2 *McCarthy* § 11:19. A generic term, like “Diet Chocolate Fudge Soda,” receives no trademark protection. *Honickman*, 808 F.2d at 308.

Indeed, “[t]he descriptive-suggestive borderline is hardly a clear one.” *McCarthy* § 11:66. As the Seventh Circuit has explained, the distinction between suggestive and descriptive marks “is, undoubtedly, often made on an intuitive basis rather than as the result of a logical analysis susceptible of articulation.” *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366, 379 (7th Cir.1976), *superceded on other grounds by statute as stated in Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423 (7th Cir.1985).

The most popular test for determining whether a mark is descriptive or suggestive is the “imagination test.” *McCarthy* § 11:67. The Third Circuit has described the “imagination test” as follows: “A term is suggestive if it requires imagination, thought or perception to reach a conclusion as to the nature of goods. A term is descriptive if it forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods.” *Honickman*, 808 F.2d at 297 (internal quotation omitted). In other words, suggestive marks are those which “suggest rather than describe the characteristics of the goods” or services. *Id.* at 296. Courts also consider “whether sellers of similar products [or services] are likely to use, or actually do use, the term in connection with their goods.” *Sec. Ctr., Ltd. v. First Nat’l Sec. Ctrs.*, 750 F.2d 1295, 1299 (5th Cir.1985); *see Dranoff-Perlstein*, 967 F.2d at 858 (“Frequent use of a term by sellers of similar products or services tends to indicate that the term is descriptive or generic rather than suggestive.”).

^[8] In applying the “imagination test” described above, it appears that Alliance’s mark CUSTOMER FIRST is at least “suggestive” and therefore inherently distinctive. The mark does not provide any direct information regarding Alliance’s banking services, and the mark does not “forthwith convey” what service is at issue and to whom the service is directed. A consumer would not immediately connect CUSTOMER FIRST with community banking services. *See McCarthy* § 11:67 (“If the mental leap between the word and the product’s attributes is not almost instantaneous, this strongly indicates suggestiveness, not direct descriptiveness.”) Because the mark CUSTOMER FIRST requires imagination and thought to reach a conclusion as to the nature of the service provided, CUSTOMER FIRST is a suggestive mark.

^[9] ^[10] Moreover, in general, registration of a mark on the Principal Register of the USPTO “constitutes prima facie evidence of the validity of the registered mark and ... of the registrant’s ownership of the mark, and of the registrant’s exclusive right to use the mark in commerce on or in connection with the goods or services specified in the certificate [of registration].” *Commerce Bancorp, Inc. v. BankAtlantic*, 285 F.Supp.2d 475, 483–84 (D.N.J.2003). If the mark has not achieved incontestability⁹, prima facie validity of the mark exists only if the registered *549 mark is inherently distinctive or if proof of secondary meaning is established. *Fisons*, 30 F.3d at 472 (citing *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 291 (3d Cir.1991)); *see also Sav. Bank Life Ins. Co. of Mass. v. SBLI USA Mutual Life Ins. Co., Inc.*, No. 00–3255, 2000 WL 1758818, *15 (E.D.Pa. Nov. 29, 2000) (“SBLI”) (“Because Plaintiff is the owner of a contestable federal registration of ‘SBLI,’ there is only a *rebuttable* presumption that it has exclusive rights to use the trademark throughout the United States ...”) (emphasis in original).

^[11] Importantly, several courts have found that if a plaintiff owns a registered mark, then it is entitled to a strong prima facie presumption that its registered mark is distinctive or it is descriptive and “secondary meaning is presumed.” *A & H Sportswear Co., Inc. v. Victoria’s Secret Stores, Inc.*, 167 F.Supp.2d 770, 776 (E.D.Pa.2001) (*A & H II*). In trademark cases, marks that are distinctive and marks that are descriptive with secondary meaning amount to the same thing. *Id.*; *see also Borinquen Biscuit Corp. v. M.V. Trading Corp.*, 443 F.3d 112, 117 (1st Cir.2006) (when USPTO registers a mark without requiring secondary meaning, the mark is presumed to be inherently distinctive); *Lane Capital Mgmt., Inc. v. Lane Capital Mgmt., Inc.*, 192 F.3d 337, 345 (2d Cir.1999) (“Registration by the PTO without proof of secondary

meaning creates the presumption that the mark is more than merely descriptive, and, thus, that the mark is inherently distinctive.”); *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1534 (4th Cir.1984) (explaining the significance of registration without proof of secondary meaning); *Playboy Enters., Inc. v. Chuckleberry Publ'g, Inc.*, 687 F.2d 563, 567 (2d Cir.1982) (finding that registration indicates that “the mark is not merely descriptive and gives to it a strong presumption of validity”).

^[12] Here, even though Alliance’s mark is contestable, the registered mark CUSTOMER FIRST is entitled to a prima facie presumption that the mark is valid and protectable. As described above, Alliance has continuously used CUSTOMER FIRST since 2006 to identify its banking services and to identify one of its products, “Customer First Checking.” On October 16, 2007, the mark was registered in the USPTO on the Principal Register as Certificate of Registration No. 3,313,156. (Verified Compl. at ¶¶ 11–13.) Moreover, Alliance is entitled to a prima facie presumption that its registered mark is distinctive or descriptive with secondary meaning. Alliance never received a rejection from the USPTO for lack of distinctiveness of CUSTOMER FIRST, and Alliance was never required to prove secondary meaning to obtain Registration No. 3,313,156.

To rebut the presumption of validity, New Century set forth a number of arguments as to why Alliance’s mark should be cancelled: (1) Alliance fraudulently obtained the mark; (2) extensive third-party usage of the words “customer” and “first” in the business and financial industries shows that CUSTOMER FIRST is merely a descriptive term that lacks secondary meaning; (3) the registered mark has not been used in commerce in connection with goods or services (doctrine of non-use); (4) the mark applied for does not match the mark as it is actually used in commerce (doctrine of mutilation); and (5) the mark has been discontinued with no intent to resume (doctrine of abandonment). None of these arguments persuade the Court that the registration of the mark CUSTOMER FIRST by Alliance should be declared invalid.

***550 a. Alliance Did Not Fraudulently Obtain the Mark**

First, New Century argues that the registration of CUSTOMER FIRST with the USPTO should be cancelled because Alliance fraudulently obtained the

mark. In its Response in Opposition to the Motion for Preliminary Injunction (Doc. No. 16, at 8) New Century contended that in the application for the mark CUSTOMER FIRST, Alliance’s counsel represented that the mark was being used in connection with numerous services for which it was not actually being used, and the USPTO relied on such misrepresentations in issuing the registration. (Pl. Ex. 10; Cirucci, Tr. 06/17/10 at 138:12–139:25.) At the hearings held on June 17 and 18, 2010, and at the oral argument held on June 29, 2010, New Century refined its contention by arguing that Alliance was not providing, nor has it ever provided, “investment banking” or “mortgage” services in connection with the mark CUSTOMER FIRST. (*Id.* at 58:5–59:17.) Consequently, New Century asserts that since the USPTO relied on Alliance’s false statements regarding use, Registration No. 3,313,156 must be cancelled. The Court is not persuaded by New Century’s argument.

In conjunction with its trademark application, Alliance submitted the following Statement of Use explaining that Alliance was using CUSTOMER FIRST for “Services customary in the banking industry, namely, banking, banking consultation, investment banking services, mortgage and personal banking services, namely, origination, acquisition servicing, securitization, and brokerage of commercial and personal mortgage loans and online banking services.” (Pl. Ex. 10.)

As explained in the findings of fact, *supra*, Alliance is using the mark CUSTOMER FIRST in conjunction with many of the services offered by the bank. As Mr. Cirucci explained, the CUSTOMER FIRST mark is most prominently featured on one checking account offered to Alliance’s customers; however, that checking account “serves as the hub for all of [their] other related products. And it sort of acts as a bridge and brings them together.” (Cirucci, Tr. 06/17/10 at 9:2–7.) For example, products such as safety deposit boxes, home equity loans, and mortgage loans are tied to a consumer’s Customer First Checking Account. If a customer rents a safety deposit box, the yearly fee would be paid from the Customer First Checking Account. The manner and means of use of the mark in conjunction with its products is fully set forth above in section II(C)(i).

New Century’s interpretation of the words contained in the Statement of Use is simply too confining. A registrant is afforded a certain amount of discretion in use of its mark. A registrant is permitted to use the mark as it sees fit within the overall descriptions so long as its use furthers an appropriate business purpose. The Statement of Use in the application merely puts the USPTO on

notice of the generic categories in which the mark is used.

Additionally, Alliance advertised the slogan “Customer First Banking Just Hit Home” on various bus shelters throughout the Delaware Valley in 2006. Alliance employees even wore lapel pins that stated CUSTOMER FIRST. These are customary, permissible uses of a mark. They are not specifically listed in the Statement of Use, but they refer to all banking services offered by Alliance. Accordingly, the Court is not convinced that Alliance did not use the mark CUSTOMER FIRST for various banking services performed by the bank when the Statement of Use was filed.

Furthermore, New Century’s argument that Alliance committed fraud, made intentional *551 false statements, and engaged in inequitable conduct in obtaining the mark also fails. Recently, the Federal Circuit discussed the doctrine of inequitable conduct in trademark cases:

“Fraud in procuring a trademark registration or renewal occurs when an applicant knowingly makes false, material representations of fact in connection with his application.” *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed.Cir.1986). A party seeking cancellation of a trademark registration for fraudulent procurement bears a heavy burden of proof. *W.D. Byron & Sons, Inc. v. Stein Bros. Mfg. Co.*, 54 C.C.P.A. 1442, 377 F.2d 1001, 1004 (1967). Indeed, “the very nature of the charge of fraud requires that it be proven ‘to the hilt’ with clear and convincing evidence. There is no room for speculation, inference or surmise and, obviously, any doubt must be resolved against the charging party.” *Smith Int’l, Inc. v. Olin Corp.*, 209 U.S.P.Q. 1033, 1044 (T.T.A.B.1981).

In re: Bose Corp., 580 F.3d 1240, 1243 (Fed.Cir.2009).

In that case, the court explained that “[m]ere negligence is not sufficient to infer fraud or dishonesty.” *Id.* at 1245 (quoting *Symbol Techs., Inc. v. Opticon, Inc.*, 935 F.2d 1569, 1582 (Fed.Cir.1991)). The court concluded, “[t]hus, we hold that a trademark is obtained fraudulently under the Lanham Act only if the applicant or registrant knowingly makes a false, material misrepresentation with the intent to deceive the PTO.” *Id.*

^[13] In this case, it is clear that New Century has failed to meet its “heavy burden of proof” required to prove fraud. A central element of fraud is an intent to defraud. *Marshak v. Treadwell*, 58 F.Supp.2d 551, 566 (D.N.J.1999) (“[F]raud requires proof of a willful intent to deceive.”). New Century has failed to demonstrate any intent on Alliance’s part to deceive or to knowingly make a false material statement to the USPTO. In this regard,

the Court finds that Mr. Cirucci provided truthful testimony about the use of the mark at the time registration was sought and had no intent to deceive the USPTO. Through the use of the Customer First Checking Account and its other uses of the mark CUSTOMER FIRST, Alliance has shown that it is using the mark CUSTOMER FIRST as part of its overall banking services. Consequently, New Century’s argument that Alliance’s mark must be cancelled because it was fraudulently obtained must fail.

b. Third Party Usage

Next, New Century argues that the mark CUSTOMER FIRST is weak and descriptive and that Alliance has failed to offer proof of secondary meaning. New Century contends that the terms “customer” and “first” are ubiquitous in banking and financial industries. New Century also maintains that the mark cannot be considered inherently distinctive because of extensive third party use of the term.

Third party registrations are relevant to prove that the marks both parties are using have a commonly understood and well-recognized meaning, leading to the conclusion that the mark is relatively weak. *McCarthy* § 85. The Third Circuit has noted that “[f]requent use of a term by sellers of similar products or services tends to indicate that the term is descriptive or generic rather than suggestive.” *Dranoff-Perlstein*, 967 F.2d at 858; *see also Citizens Fin. Group, Inc. v. Citizens Nat. Bank of Evans City*, 383 F.3d 110, 123 (3d Cir.2004) (finding that “as a general rule, widespread use of even a distinctive mark may weaken the mark”); *First Sav. Bank*, 101 F.3d at 654 (recognizing *552 “the well-established principle that extensive third-party use of the disputed term indicates that the term itself deserves only weak protection”).

New Century has submitted the following evidence in support of its contention of widespread use of CUSTOMER FIRST: (1) printouts of a list from the USPTO’s Trademark Electronic Search System of live applications and registrations in International Class 36 containing the term CUSTOMER or the term FIRST; (2) printouts from twelve (12) third party websites purporting to show trademark use of the term CUSTOMER FIRST; and (3) the Dilution Search conducted on May 19, 2010, which shows listings of federal and state registrations of CUSTOMER FIRST marks. (Def. Exs. 5, 6, 15.)¹⁰ Based on these items, New Century argues that the mark

CUSTOMER FIRST is invalid and subject to cancellation because the mark is merely descriptive and Alliance has failed to show secondary meaning.

The Court finds New Century's argument unpersuasive. While evidence of third party use of similar marks on similar goods may be relevant to show that a mark is relatively weak, courts and commentators have recognized that the significance and evidentiary impact of third party marks turns entirely upon their *usage* (not likely usage) and the impact that such use has had on the minds of consumers. *See Scarves by Vera, Inc. v. Todo Imports Ltd. (Inc.)*, 544 F.2d 1167, 1173 (2d Cir.1976) ("The significance of third-party trademarks depends wholly upon their usage. Defendant introduced no evidence that these trademarks were actually used by third parties, that they were well promoted or that they were recognized by consumers ... [T]he existence of [third party] registrations is not evidence of what happens in the market place or that customers are familiar with their use."); *Olde Tyme Foods, Inc. v. Roundy's, Inc.*, 961 F.2d 200, 203–04 (Fed.Cir.1992) (third party registrations "may not be given *any* weight" as to the strength of a mark) *553 (emphasis in original); *McCarthy* § 11:88 (noting that "merely introducing a list of third party uses alone is not particularly persuasive. To present a more compelling case, defendant should go further to show how extensive these uses are and how long they have continued.").

Here, New Century has failed to show that third party use of the mark CUSTOMER FIRST in the banking industry is so widespread that Alliance's mark should be deemed weak and descriptive. New Century has submitted evidence that there are at least four (4) other financial services firms using the term "customer first" in their corporate name registered in Pennsylvania. None, however, provide banking services. Moreover, no evidence is offered as to how these third party registrations are used and how they are perceived by consumers. New Century did introduce evidence of Mr. Taylor's internet search where he found a bank named "Customer First Bank" in Plano, Texas. This bank owns the domain name www.customerfirstbank.com, but it is merely a bank that has not yet started to operate. (Taylor, Tr. 06/17/10 at 241:3–10.) Mr. Taylor testified that "with the exception of the Plano, Texas, bank that wasn't really a bank yet, I couldn't find another bank that had that name." (*Id.* at 303:16–18.) Consequently, merely listing the number of third party registrations without showing the extent of individual use or consumer perception is not particularly persuasive. For this reason, New Century's argument that Alliance's mark cannot be considered inherently distinctive because of extensive third party use

of the terms fails.

c. The Doctrines of Non-Use, Mutilation, and Abandonment are Inapplicable

New Century argues that Alliance's mark CUSTOMER FIRST is invalid and subject to cancellation because the mark has never been used in commerce in connection with "investment banking" or "mortgage services." *See* 15 U.S.C. § 1127 (defining "commerce"); *McCarthy* § 17:9 ("It is actual usage of a symbol as a 'trademark' in the sale of goods which creates and builds up rights in a mark.").

It is undisputed that Alliance offers a product named "Customer First Checking Account" and does not offer products named, for example, "Customer First Investment Banking" or "Customer First Mortgage Services." However, as explained above in regard to the claim of fraud, the Court is persuaded that Alliance is using the mark CUSTOMER FIRST for many of the services offered by the bank. As Mr. Cirucci explained, the CUSTOMER FIRST mark is most prominently featured on one checking account offered to Alliance's customers; however, that checking account "serves as the hub for all of [their] other related products. And it sort of acts as a bridge and brings them together." (Cirucci, Tr. 06/17/10 at 9:2–7.) Products such as safety deposit boxes, home equity loans, and mortgage loans are tied to a consumer's Customer First Checking Account, *see* section II(C)(i). Consequently, New Century's argument that Alliance's mark must be cancelled for non-use must fail.

Next, New Century argues that Alliance's mark is subject to cancellation because the mark comprises a mutilation of the mark as used in commerce. New Century argues that the only mark used in commerce is "Customer First Checking," even though Alliance applied for and registered the mark CUSTOMER FIRST for several other uses. For the reasons noted already, the Court is persuaded that Alliance is using the mark CUSTOMER FIRST for many services offered by the bank. Accordingly, New Century's mutilation argument is not persuasive.

*554 Finally, New Century argues that Alliance's mark must be cancelled because the mark CUSTOMER FIRST has been abandoned by Alliance. In particular, New Century contends that the only way that Alliance has used the mark independent of the Customer First Checking

Account is in connection with a lapel pin that its employees stopped wearing thirty (30) months ago. New Century further argues that Alliance has shown no intent to resume use of the mark apart from the name of the checking account since that time. Clearly, in light of the Court's findings discussed above, New Century's argument fails. Alliance has presented substantial evidence pertaining to its use of the mark CUSTOMER FIRST and its intent to continue to use the mark for many services associated with the bank.¹¹

In sum, New Century's position ignores the tenet that while "[a] mark might be weak in the national market, [it] might still be strong in the senior user's geographical and product area and thus deserving of protection." *CNB Fin. Corp. v. CNB Community Bank (IO)*, No. 03–6945, 2004 WL 2434878, *10 (E.D.Pa. Sept. 30, 2004) (quoting *Ameritech, Inc. v. Am. Info. Techs. Corp.*, 811 F.2d 960, 967 (6th Cir.1987)). For all these reasons, Alliance has proven that it owns a valid and legally protectable mark. The Court will now turn to the final prong of the "likelihood of success on the merits" test applicable to a Lanham Act trademark action.

ii. *New Century's Use of the Name Customers 1st Bank Creates a Likelihood of Confusion*

"A likelihood of confusion exists when 'consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark.'" *A & H*, 237 F.3d at 211 (quoting *Dranoff–Perlstein*, 967 F.2d at 862).¹² "Proof of actual confusion is not necessary; likelihood is all that need be shown." *Ford Motor Co.*, 930 F.2d at 292 *555 (quoting *Opticians Ass'n of Am. v. Indep. Opticians of Am.*, 920 F.2d 187, 195 (3d Cir.1990)). "Absent a likelihood of confusion, therefore, no cause exists to enjoin the non-registrant's use of the mark." *Members First Fed. Credit Union v. Members 1st Fed. Credit Union*, 54 F.Supp.2d 393, 400 (M.D.Pa.1999).

In determining whether likelihood of confusion exists, the Third Circuit requires district courts to consider the following factors, which are referred to as the *Lapp* factors:

(1) the degree of similarity between the owner's mark and the alleged infringing mark;

(2) the strength of the owner's mark;

(3) the price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase;

(4) the length of time the defendant has used the mark without evidence of actual confusion arising;

(5) the intent of the defendant in adopting the mark;

(6) the evidence of actual confusion;

(7) whether the goods, competing or not competing, are marketed through the same channels of trade and advertised through the same media;

(8) the extent to which the targets of the parties' sales efforts are the same;

(9) the relationship of the goods in the minds of consumers, whether because of the near-identity of the products, the similarity of function, or other factors; [and]

(10) other facts suggesting that the consuming public might expect the prior owner to manufacture both products, or expect the prior owner to manufacture a product in the defendant's market, or expect that the prior owner is likely to expand into the defendant's market.

A & H, 237 F.3d at 215 (citing *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 463 (3d Cir.1983)); *Sabinsa Corp. v. Creative Compounds, LLC*, 609 F.3d 175, 183–84 (3d Cir.2010). These *Lapp* factors can be applied to both competing and noncompeting goods.¹³ *Id.* at 213. In *A & H*, the Third Circuit noted that "the *Lapp* test is a qualitative inquiry. Not all factors will be relevant in all cases; further, the different factors may properly be accorded different weights depending on the particular factual setting. A district court should utilize the factors that seem appropriate to a given situation." *Id.* at 215; see also *First Keystone Fed. Sav. Bank v. First Keystone Mortg., Inc.*, 923 F.Supp. 693, 704 (E.D.Pa.1996) ("A party need not show every factor to succeed on an infringement claim, nor does every factor weigh the same amount."); *Checkpoint Sys., Inc. v. Check Point Software Techs., Inc.*, 269 F.3d 270, 280 (3d Cir.2001) ("None of these factors is determinative in the likelihood of confusion analysis and each factor must be weighed and balanced one against the other."). The Court now will turn to these *Lapp* factors.

a. Factor 1: *Similarity of the Marks*

[14] “The single most important factor in determining likelihood of confusion is mark similarity.” *A & H*, 237 F.3d at 216. *556 “The marks need not be identical, only confusingly similar.” *Fisons*, 30 F.3d at 477 (quoting *Merchant & Evans, Inc. v. Roosevelt Bldg. Prods. Co.*, 963 F.2d 628, 636 (3d Cir.1992)). “Where the goods ... are directly competitive, the degree of similarity required to prove a likelihood of confusion is less than in the case of dissimilar products.” *Kos*, 369 F.3d at 713 (quotation omitted).

The test for determining the similarity of the marks is “whether the labels create the same overall impression when viewed separately.” *A & H*, 237 F.3d at 216 (internal citations omitted); see *Ford Motor Co.*, 930 F.2d at 293 (“[I]f the overall impression created by the marks is essentially the same, ‘it is very probable that the marks are confusingly similar.’”) (internal quotations omitted); *Kos*, 369 F.3d at 713 (“The proper test is ‘not side-by-side comparison’ but ‘whether the labels create the same overall impression when viewed separately.’”) (quoting *Fisons*, 30 F.3d at 477); *Sabinsa*, 609 F.3d at 183 (“Marks are confusingly similar ‘if ordinary consumers would likely conclude that [the two products] share a common source, affiliation, connection or sponsorship.’”) (quoting *Fisons*, 30 F.3d at 477). Courts must “compare the appearance, sound and meaning of the marks” in assessing similarity. *Checkpoint*, 269 F.3d at 281 (quotation omitted).

[15] When comparing two marks each must be viewed in its entirety, although “one feature of a mark may be more significant than other features, and ... it is proper to give greater force and effect to that dominant feature.” *Giant Food, Inc. v. Nation’s Foodservice, Inc.*, 710 F.2d 1565, 1570 (Fed.Cir.1983). “When the dominant portions of the two marks are the same, confusion is likely.” *Country Floors, Inc. v. A Partnership Composed of Gepner and Ford*, 930 F.2d 1056, 1065 (3d Cir.1991); see also *Sabinsa*, 609 F.3d at 183–85 (finding an overall impression of similarity between the marks “ForsLean” and “Forsthin”).

Here, New Century has adopted and used the mark CUSTOMERS 1ST BANK that is substantially identical in sound and commercial meaning to Alliance’s mark CUSTOMER FIRST. Most obvious is the striking similarity of the sound of the marks. The “dominant feature” of both marks is a variation of “customer first.” Moreover, the addition of “S” to CUSTOMER and the generic term BANK do not avoid a finding of confusing similarity. See *Fisons*, 30 F.3d at 477 (“[A] subsequent user may not avoid likely confusion by appropriating

another’s entire mark and adding descriptive or non-descriptive matter to it.”); *Heritage Community Bank*, 2008 WL 5170190, at *4 (granting preliminary injunction and finding Heritage Bank, N.A. to be confusingly similar to Heritage Community Bank); *CNB Fin. Corp.*, 2004 WL 2434878, at *9 (granting preliminary injunction because “CNB Community Bank” is confusingly similar to “CNB”).¹⁴

Importantly, even though the words “First” and “1st” look different, the two words are pronounced exactly the same way. See *In re: 1st USA Realty Profs, Inc.*, 84 U.S.P.Q.2d 1581, 1586 (T.T.A.B.2007) (holding that the mark 1st USA and *557 its design for real estate brokerage and listing services are likely to cause confusion with First USA); *Axiom Corp. v. Axiom, Inc.*, 27 F.Supp.2d 478, 495–96 (D.Del.1998) (“[T]rademarks, like small children, are not only seen but heard.”) (internal quotation omitted). Moreover, the CUSTOMERS 1ST BANK logo does not appear in that form in one of New Century’s internet domain names (e.g., www.customersfirst.com) and in connection with employee email addresses (e.g., joesmith@customersfirst.com). This is evidence not only of an intent to use a strikingly similar mark to CUSTOMER FIRST, but also evidence of the aural resemblance of “First” and “1st.” The distinguishing features of an “S” at the end of “customer” and the addition of the word “Bank” do not dispel the overall similarity of the marks and likelihood of confusion.

As to appearance, New Century employs a red and black color scheme, and the bank’s logo features a red ball encompassing the word “1st.” In contrast, Alliance employs a blue and yellow color scheme (when advertising in color), and the logo is written in ordinary font. In addition, New Century argues that Alliance’s frequent use of its housemark ALLIANCE BANK along with the mark CUSTOMER FIRST in its advertising avoids any possibility of confusion between Alliance’s mark and New Century’s mark CUSTOMERS 1ST BANK. The Third Circuit in *A & H* stated that “affixing a well-known housemark ... can help diminish the likelihood of confusion.” 237 F.3d at 218.

The disparities argued by New Century are trumped, however, by the similarity in sound between the two marks. See *Palantir Techs. Inc. v. Palantir.net, Inc.*, 85 U.S.P.Q.2d 1764, 1768 (N.D.Cal.2008) (“The marks are identical. They sound the same and have the same meaning. While the fonts used by the companies are different, this distinction is meaningless, especially since these companies are essentially marketing services, not mass production goods.”); *Blumenfeld Dev. Corp. v.*

Carnival Cruise Lines, Inc., 669 F.Supp. 1297, 1320 (E.D.Pa.1987) (“When the dominant portions of two marks sound the same when spoken by consumers, there is likely to be confusion. Any differences in the design of the marks does not dispel this confusion.”); *CNB Fin. Corp.*, 2004 WL 2434878, at *9 (“The fact that the parties’ marks are different colors and CNB (IO)’s logo contains a leaf-overlay does not diminish the similarity of the competing marks and the potential for confusion.”).

Finally, Alliance and New Century offer competing services as community banks in the same region. For this reason, the degree of similarity required to prove likelihood of confusion is less than in a case of dissimilar products. *Analytic Recruiting, Inc. v. Analytic Res., LLC*, 156 F.Supp.2d 499, 515 (E.D.Pa.2001) (where both parties offered competing services, and relied heavily on electronic media and word of mouth advertising, court found it “even more likely that confusion will arise”). In sum, when viewed and heard separately, the overall impression of the two marks is essentially the same, which is a primary factor to consider when determining whether there is a likelihood of confusion. Accordingly, the first *Lapp* factor weighs overwhelmingly in favor of Alliance.¹⁵

*558 b. Factor 2: Strength of the Mark

^[16] “To determine the strength of the mark, courts look to (1) the inherent features of the mark contributing to its distinctiveness or conceptual strength and (2) the factual evidence of the mark’s commercial strength or of marketplace recognition of the mark.” *Sabinsa*, 609 F.3d at 185; see also *Fisons*, 30 F.3d at 479 (“Distinctiveness on the scale of trademarks is one measure of a mark’s strength ... Commercial strength, or marketplace recognition of the mark, is another.”).

In regard to the first feature or distinctiveness of CUSTOMER FIRST, the Court has already found that Alliance’s mark is suggestive and is entitled to trademark protection, see section IV(A)(i). The Court will now consider the second feature or commercial strength and marketplace recognition of CUSTOMER FIRST to determine the strength of the mark and how this *Lapp* factor weighs in the likelihood of confusion analysis.

^[17] In this case, Alliance, the purported “senior” user of the mark, is also the smaller user because New Century is a larger bank. Both banks operate as community banks.

However, it appears that New Century operates with more capital, more accounts, and serves a greater number of consumers. Consequently, this case implicates the doctrine of “reverse confusion,” which is pertinent to trademark litigation. In *Fisons, supra*, the Third Circuit adopted the doctrine of “reverse confusion” and explained:

Ordinarily, one expects that the new or junior user of the mark will use to its advantage the reputation and good will of the senior user by adopting a similar or identical mark. Reverse confusion occurs when a larger, more powerful company uses the trademark of a smaller, less powerful senior owner and thereby causes likely confusion as to the source of the senior user’s goods or services....

In reverse confusion, the junior user saturates the market with a similar trademark and overwhelms the senior user. The public comes to assume the senior user’s products are really the junior user’s or that the former has become somehow connected to the latter. The result is that the senior user loses the *559 value of the trademark—its product identity, corporate identity, control over its goodwill and reputation and ability to move into new markets....

Without the recognition of reverse confusion, smaller senior users would have little protection against larger, more powerful companies who want to use identical or confusingly similar trademarks.

Fisons, 30 F.3d at 474–75 (citing cases). When applying the strength of mark factor in a reverse confusion case, “the lack of commercial strength of the smaller senior user’s mark is to be given less weight in the analysis because it is the strength of the larger, junior user’s mark which results in reverse confusion.” *Commerce Nat’l Ins. Servs.*, 214 F.3d at 444.

In this case, even though New Century is the larger and junior user of the disputed mark, Alliance has furnished sufficient evidence of the marketplace strength and recognition of its own mark. Indeed, Alliance has used CUSTOMER FIRST to identify one of its checking products that is used in association with other banking services and the mark serves as a hub for Alliance’s other related banking products and services. Alliance also advertises this service on its handouts to the public and in other ways noted above.

Since 2006, Alliance’s advertising of CUSTOMER FIRST has been significant. Over the past four (4) years, Alliance has placed advertisements promoting CUSTOMER FIRST banking services on large posters in

various bus shelters throughout the Delaware Valley and through direct mailings. Alliance regularly advertises its mark in local newspapers, including the Philadelphia Inquirer and Daily Local. Alliance also maintains a website, on which it distributes news and information about banking services and products and the mark CUSTOMER FIRST is prominently displayed. Finally, over the years Alliance has used the mark in connection with banking services and the checking account, in and around its branches and operations, and in various brochures, signage, television screen shots and promotional items, such as the lapel pins worn by Alliance employees who interacted with the public.

In total, Alliance has spent more than \$500,000 in advertising and marketing CUSTOMER FIRST. *See A & H*, 237 F.3d at 224 (advertising expenditures are “clearly relevant” to a commercial strength inquiry). Notably, the geographic area in which Alliance operates is relatively small, encompassing areas in and around Chester and Delaware Counties, which overlaps with the area in which New Century does business. That Alliance has spent a considerable amount of money in a concentrated geographic area is probative evidence of the commercial strength and marketplace recognition of its mark. For all these reasons, the Court finds that CUSTOMER FIRST is a strong mark and this factor weighs in favor of Alliance.

c. Factor 3: Care and Attention Expected of Consumers

In *McNeil*, the Third Circuit discussed the third *Lapp* factor, consideration of the sophistication of consumers. Quoting *Versa Prods., Co., Inc. v. Bifold Co. (Mfg.) Ltd.*, 50 F.3d 189, 204–05 (3d Cir.1995), the Third Circuit explained:

The following non-exhaustive considerations should guide a court’s determination of the standard of ordinary care for a particular product. Inexpensive goods require consumers to exercise less care in their selection than expensive ones. The more important the use of a product, the more care that must be exercised in its selection. In addition, the degree of caution used depends on the

relevant buying class. That is, some buyer classes, for example, professional *560 buyers will be held to a higher standard of care than others. *Where the buyer class consists of both professional buyers and consumers, the standard of care to be exercised by the reasonably prudent purchaser will be equal to that of the least sophisticated consumer in the class.*

McNeil, 511 F.3d at 363–64 (emphasis added); *see also Sabinsa*, 609 F.3d at 186 (“[W]here the group of buyers is a combination of professionals and ordinary consumers, the class as a whole is not held to the higher standard of care.”).¹⁶

Here, New Century contends that a consumer of banking services exercises a great deal of care when making a financial and investment decision and such consumers are “sophisticated.” For this reason, New Century argues that confusion is unlikely in this case. This conclusion, however, is not supported by the evidence because the Court finds persuasive the testimony of Mr. Cirucci regarding the diversity of customers of community banks like Alliance and New Century. (Cirucci, Tr. 06/17/10 at 141:22–143:20.) Mr. Cirucci testified that customers are a mixed buyer class, consisting of individuals and businesses residing in Delaware and Chester Counties, as well as individuals residing in Bucks County, Pennsylvania. (*Id.* at 28:14–16; 43:19–22.) Businesses, both small and large, non-profit entities, municipalities, governmental units, families, seniors and retirees are customers of Alliance. (*Id.* at 43:17–44:3.)

Under the *McNeil* test, “[c]onsumers of both banks, therefore, would be expected to exercise the care of a routine banking customer in making decisions about banking services, which is more limited than what might be expected of sophisticated banking customers or financial service professionals.” *Heritage Community Bank*, 2008 WL 5170190, at *7. Since customers for community banking services are the target of both parties in overlapping geographic areas, there is potential for confusion in the future. This factor weighs in favor of Alliance, albeit not as much as Factors (1) and (2), *supra*.

d. Factor 4: *Length of Time Defendant Has Used the Mark*

Alliance began using the mark CUSTOMER FIRST in March 2006 and on October 16, 2007, the mark was approved and registered with the USPTO on the Principal Register. In contrast, New Century announced that it had changed its name to Customers 1st Bank on April 26, 2010. (Pl. Ex. 14.) In the few months that New Century has used the name Customers 1st Bank, there has been no evidence of consumer confusion as to the source of the banking products. (Cirucci, Tr. 06/17/10 at 52:23–53:1; 146:13–148:4.) However, New Century has not yet replaced all of its old signs with Customers *561 1st Bank signs, and it does not plan to replace the old signs until the shareholders approve the name change. (Ehst, Tr. 06/17/10 at 167:8–21.) Accordingly, the Court finds that there has been an insufficient amount of time during which both marks were used to be able to apply this factor and infer that customers will or will not be confused by the marks. *See Kos*, 369 F.3d at 717 (“Per the fourth *Lapp* factor, two parties’ concurrent use of ‘similar marks for a sufficient period of time without evidence of consumer confusion about the source of the products’ allows ‘an inference that future customers will not be confused either.’”) (quoting *Fisons*, 30 F.3d at 476). Consequently, this factor is given minimal weight and does not weigh in favor of or against a finding of likelihood of confusion.

e. Factor 5: *Intent of Defendant*¹⁷

[18] “[E]vidence of ‘intentional, willful and admitted adoption of a mark closely similar to the existing mark[]’ weighs strongly in favor of finding [a] likelihood of confusion.” *Checkpoint*, 269 F.3d at 286 (quotation omitted). However, intent of defendant is not a prerequisite to a finding of likelihood of confusion. *Sabinsa*, 609 F.3d at 187–88. As the Court of Appeals for the Second Circuit has observed, “intent is largely irrelevant in determining if consumers likely will be confused as to source. The history of advertising suggests that consumer reactions usually are unrelated to manufacturer intentions.” *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 875 (2d Cir.1986).

In *Fisons*, the Third Circuit remanded the case to the district court to determine whether defendant “conducted an adequate name search for other companies marketing similar goods under trademarks including the name ‘Fairway,’ and whether it followed through with its investigation *562 when it found there were such companies.” *Fisons*, 30 F.3d at 480. In so doing, the court

noted that in certain cases, a defendant “may have acted innocently, [but] was careless in not conducting a thorough name search for American uses of the name.” *Id.* (quoting *Lapp*, 721 F.2d at 463). *See also Commerce Nat’l Ins. Servs.*, 214 F.3d at 444 (explaining that in a reverse confusion case, the intent inquiry must “focus on whether the defendant was aware of the senior user’s use of the mark in question, or whether the defendant conducted an adequate name search for other companies marketing similar goods or services under that mark”); *Kos*, 369 F.3d at 721 (“The adequacy and care with which a defendant investigates and evaluates its proposed mark, and its knowledge of similar marks or allegations of potential confusion, are highly relevant.”); *Morgenstern Chem. Co., Inc. v. G.D. Searle & Co.*, 253 F.2d 390, 394 (3d Cir.1958) (finding that defendant “trod a very narrow course when it adopted the name Mictine with full knowledge of the prior use of the name Micturin by the plaintiff”). A defendant that “persisted in its plan” to adopt a mark “after being warned of too close resemblance between” a proposed mark and plaintiff’s mark is not “blameless.” *Kos*, 369 F.3d at 721 (quoting *Telechron, Inc. v. Telicon Corp.*, 198 F.2d 903, 908 (3d Cir.1952)).

In this case, Messrs. Ehst and Taylor testified that they first thought to change the name of New Century Bank in June or July 2009. In January 2010, Mr. Ehst conceived the idea of naming the bank “Customers 1st Bank.” Shortly thereafter, in March 2010, New Century first became aware of Alliance’s trademark registration for the mark CUSTOMER FIRST because it was listed on the Clearance Search commissioned by New Century’s counsel. (Ehst, Tr. 06/17/10 at 172:13–173:1; 194:18–21.) It is clear, however, that New Century did not alter any of its plans to change the bank name after reviewing the Clearance Search and receiving an opinion of counsel (which Mr. Ehst did not read). (*Id.* at 200:1–25; Taylor, Tr. 06/17/10 at 242:16–18.) Rather, after receiving the Clearance Search, Messrs. Ehst and Taylor discussed the possibility that Alliance might challenge New Century on its adoption and use of CUSTOMERS 1ST BANK, but Mr. Taylor did not believe that Alliance would sue. (Ehst, Tr. 06/17/10 at 174:23–177:3; Taylor, Tr. 06/17/10 at 294:16–295:1.)

New Century executives were aware that on April 20, 2010, the USPTO refused each of the five applications to register variants of the mark CUSTOMERS 1ST BANK on the basis that the marks depicted in the applications so resemble Alliance’s mark CUSTOMER FIRST as to be likely to cause confusion or mistake or to deceive in violation of Section 2(d) of the Lanham Act, 15 U.S.C. § 1052(d). (Ehst, Tr. 06/17/10 at 214:25–215:6; Pl. Exs. 7, 8,

9, 30, 31.)¹⁸ Moreover, on April 30, 2010, Mr. D’Emilio, counsel for Alliance, sent a cease and desist letter to Mr. Taylor. (Pl. Ex. 3.) Despite receipt of this letter, New Century did not agree to stop using CUSTOMERS 1ST BANK as the name of its bank, and it is still using this name today. (Cirucci, Tr. 06/17/10 at 29:25–30:5.)

The catalyst driving New Century to suddenly change its name to Customers 1st Bank was the failure of New Century Bank of Chicago, Illinois, on April 23, 2010. *563 Upon hearing the news that a “New Century Bank” had been seized and placed into receivership, Mr. Sidhu directed Messrs. Taylor and Ehst to immediately change the name of the bank from New Century to CUSTOMERS 1ST BANK. (Ehst, Tr. 06/17/10 at 190:25–191:6.) This impetuous decision is at odds with New Century’s original plan to transition to the name CUSTOMERS 1ST BANK over the summer of 2010. Originally, New Century did not intend to change signs in existing branches to CUSTOMERS 1ST BANK until August 2010, after a shareholder vote on the name change. It seems that CUSTOMERS 1ST BANK still will not officially become the legal name of New Century until late July or August 2010. (*Id.* at 167:3–24.) Contrary to this plan, New Century impulsively issued a press release on April 26, 2010, publicizing its new name.

Regardless of New Century’s motivation to abruptly change course and whether it acted in good faith, New Century acted hastily in an effort to separate itself from the negative publicity surrounding the failure of New Century Bank of Chicago. Even before conducting a trademark clearance search or receiving any opinion from counsel as to the propriety of using CUSTOMERS 1ST BANK, New Century imprudently decided to adopt the mark and invest considerable sums of money on changing its name. Alliance should not be punished for New Century’s precipitous behavior. After New Century executives learned about the registration of the mark CUSTOMER FIRST, they still continued to use their mark with knowledge of the probability of this lawsuit. Under these circumstances, the factor “Intent of Defendant” weighs in favor of Alliance.

f. Factor 6: *Evidence of Actual Confusion*

^[19] ^[20] Evidence of actual confusion “is difficult to find ... because many instances are unreported.” *Checkpoint*, 269 F.3d at 291. While proof of actual confusion is “often deemed the best evidence of possible future confusion,” it

is not considered essential. *Attrezzi, LLC v. Maytag Corp.*, 436 F.3d 32, 40 (1st Cir.2006). For the purposes of a preliminary injunction motion, the holder of a trademark need only show likelihood of confusion, not actual confusion. *Versa Prods.*, 50 F.3d at 205; *Borinquen*, 443 F.3d at 120–21.

As discussed above in relation to Factor 4 (the length of time Defendant has used the mark), there has been no evidence of actual confusion since April 26, 2010, the date on which New Century announced that it had changed its name to Customers 1st Bank. However, New Century’s transformation to Customers 1st Bank is not complete, and permanent signs displaying the name Customers 1st Bank at its branches have not yet replaced signs with the name New Century Bank. Because Alliance Bank need only show likelihood of confusion and not evidence of actual confusion to prevail on a motion for preliminary injunction, and because not enough time has elapsed during which both marks were used, this Court will not afford any weight to *Lapp* Factor 6.

g. Factor 7: *Whether Goods Are Marketed Through the Same Channels* and Factor 8: *Extent to Which Targets of the Parties’ Sales Efforts are the Same*

^[21] “[T]he greater the similarity in advertising and marketing campaigns, the greater the likelihood of confusion.” *Checkpoint*, 269 F.3d at 288–89 (quoting *Axiom*, 27 F.Supp.2d at 502). Similarly, when the parties target their sales efforts to the same group of consumers, there is a greater likelihood of confusion between the two marks. *Id.* This is a “fact intensive inquiry” that requires a court to examine the “media the parties use in marketing *564 their products as well as the manner in which the parties use their sales forces to sell their products to consumers.” *Id.* at 289.

As to Factor 7, Alliance and New Century both offer community banking services in overlapping geographical markets and over the internet. Both parties provide banking services through area branches and target consumers in Chester and Delaware Counties in Pennsylvania. Accordingly, Factor 7 clearly weighs in favor of Alliance and in favor of a finding of likelihood of confusion.

As to Factor 8, the types of advertising media used by each party also overlap. To date, a large part of the

marketing by both parties has been over the Internet, through direct mailings to households in Chester and Delaware Counties and with promotional signage in and around bank branches. Despite the fact that Alliance advertises in direct mailings through ValPak, and New Century advertises through Clipper, it is a fair inference that some households receive both promotional offerings. Moreover, Alliance advertises on bus shelters and in newspapers in Chester and Delaware Counties, where New Century also does business and advertises. Even New Century's in-store signs have the potential to confuse consumers, considering the proximity of two branch locations of New Century to branch locations of Alliance.¹⁹ Consequently, given all these circumstances, Factor 8 also weighs in favor of a finding of likelihood of confusion.

h. Factor 9: *Relationship of the Goods in the Minds of Consumers*

When considering Factor 9, “[t]he question is how similar, or closely related, the products are.” *Kos*, 369 F.3d at 722–23. “The closer the relationship between the products ... the greater the likelihood of confusion.” *Lapp*, 721 F.2d at 462. “The near-identity of the products” or their “similarity of function” are key to assessing whether consumers may see the products as related. *A & H*, 237 F.3d at 215. In other words, “the question is whether the consumer might ... reasonably conclude that one company would offer both of these related products.” *Fisons*, 30 F.3d at 481; see also *Checkpoint*, 269 F.3d at 286 (a court may consider “whether buyers and users of each parties’ goods are likely to encounter the goods of the other, creating an assumption of common source[,] affiliation or sponsorship”).

As discussed at length above, the banking and financial products offered by Alliance and New Century are closely-related, in competition and nearly identical. Consequently, this factor weighs in favor of finding a likelihood of confusion.

i. Factor 10: *Other Facts Suggesting the Public Might Expect the Prior Owner to Manufacture Both Products*

“In making this final determination under the *Lapp* test,

courts should ‘look at the nature of the products or the relevant market, the practices of other companies in the relevant fields, [and] any other circumstances that bear on whether consumers might reasonably expect both products to have the same source.’ ” *Sabinsa*, 609 F.3d at 189 (quoting *Kos*, 369 F.3d at 724). “Under this factor we look not only to evidence that a plaintiff has actually moved into the defendant’s market, but also to ‘other facts suggesting that the consuming public might expect the prior owner to manufacture a product in defendant’s market, *565 or that it is likely to expand into that market.’ ” *Checkpoint*, 269 F.3d at 290 (quoting *Lapp*, 721 F.2d at 463).

This factor encompasses the discussion of prior *Lapp* factors, *supra*. No other facts need to be added to support the conclusion that New Century’s mark CUSTOMERS 1ST BANK creates the likelihood of confusion and the strong inference that the mark infringes on Alliance’s mark CUSTOMER FIRST.

j. *Balancing of Factors*

^[22] Once each of the relevant *Lapp* factors has been considered, a court must balance the factors and “determine whether in the totality of the circumstances marketplace confusion is likely.” *Checkpoint*, 269 F.3d at 296. Under the totality of the circumstances in this case, the Court finds confusion is more than likely. The similarity of the marks (Factor 1), the most important factor in the likelihood of confusion analysis, and the similarity of the parties’ services (Factor 9), weigh heavily in favor of a finding of likelihood confusion. Furthermore, the similarity of the channels of trade (Factor 7), the consumers targeted by the parties (Factor 8), the relative strength of Alliance’s mark (Factor 2), and New Century’s intent in adopting its mark (Factor 5) also weigh in favor of a likelihood of confusion. The factors relating to consumer care (Factor 3), actual confusion (Factor 6), and length of time New Century used its mark without actual confusion (Factor 4) are relatively neutral and are not given considerable weight in the likelihood of confusion analysis. On balance, it is clear that New Century’s use of CUSTOMERS 1ST BANK is likely to cause confusion, and Alliance is likely to succeed on the merits of this case.

B. Irreparable Harm to Alliance

^[23] ^[24] In order to prove irreparable harm, Plaintiff must “demonstrate potential harm which cannot be redressed by a legal or an equitable remedy following a trial.” *Acierno*, 40 F.3d at 653 (quoting *Instant Air Freight Co.*, 882 F.2d at 801). “Economic loss does not constitute irreparable harm.” *Acierno*, 40 F.3d at 653. “[T]he injury created by a failure to issue the requested injunction must ‘be of a peculiar nature, so that compensation in money cannot atone for it[.]’ ” and the word irreparable connotes “ ‘that which cannot be repaired, retrieved, put down again [or] atoned for.’ ” *Id.* (internal quotations omitted). The claimed injury cannot merely be possible, speculative or remote. *Heritage Community Bank*, 2008 WL 5170190, at *2. “The requisite for injunctive relief has been characterized as a ‘clear showing of immediate irreparable injury,’ or a ‘presently existing actual threat; an injunction may not be used simply to eliminate a possibility of a remote future injury.’ ” *Acierno*, 40 F.3d at 655 (quoting *Cont’l Group, Inc. v. Amoco Chems. Corp.*, 614 F.2d 351, 358 (3d Cir.1980)).

In a trademark infringement case, the Third Circuit explained:

“Grounds for irreparable injury include loss of control of reputation, loss of trade, and loss of good will.” Lack of control over one’s mark “creates the potential for damage to ... reputation [, which] constitutes irreparable injury for the purpose of granting a preliminary injunction in a trademark case.” Thus, “trademark infringement amounts to irreparable injury as a matter of law.” “[O]nce the likelihood of confusion caused by trademark infringement has been established, the inescapable conclusion is that there was also irreparable injury.”

Kos, 369 F.3d at 726 (internal citations omitted); see also *McCarthy* § 30:47 (explaining that potential damage to reputation *566 constitutes irreparable injury for the purpose of granting a preliminary injunction in a trademark case); *S & R Corp.*, 968 F.2d at 378 (“Finally, and most importantly for this case, trademark infringement amounts to irreparable injury as a matter of law.”).

Since this Court has concluded that there is a likelihood of confusion between the marks, see section IV(A)(ii), there likewise would be irreparable injury to Plaintiff if a preliminary injunction is not granted at this time.

^[25] Furthermore, equitable considerations warrant the issuance of a preliminary injunction in this case. See *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 392–93, 126 S.Ct. 1837, 164 L.Ed.2d 641 (2006). Over the past

four (4) years, Alliance has built a reputation in the relevant market by providing community banking services under the mark CUSTOMER FIRST. Alliance has spent considerable time, money, and effort developing its services and relationships with customers under the “hub” of CUSTOMER FIRST. New Century’s use of CUSTOMERS 1ST BANK as a name and mark in connection with nearly identical community banking services has and will irreparably harm Alliance by precluding it from exercising full control over its business reputation and good will. See *Opticians*, 920 F.2d at 195 (“[T]he most corrosive and irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendants’ goods.”) (internal citations omitted). Accordingly, this factor weighs in favor of Alliance.

C. Irreparable Harm to New Century

In evaluating claims of irreparable harm to the defendant if the injunction is issued, the Third Circuit has looked to evidence of potential financial loss, whether the financial loss was self-imposed based on the choice of business name, and whether the defendant had any prior knowledge of the potential infringement. See *Opticians*, 920 F.2d at 197 (finding that a party “can hardly claim to be harmed, since it brought any and all difficulties occasioned by the issuance of an injunction upon itself”); *Novartis Consumer Health, Inc. v. Johnson & Johnson–Merck Consumer Pharm. Co.*, 290 F.3d 578, 596 (3d Cir.2002). In describing irreparable harm, the Supreme Court has explained:

The key word in this consideration is irreparable. Mere injuries, however substantial, in terms of money, time and energy necessarily expended in the absence of a stay, are not enough. The possibility that adequate compensatory or other corrective relief will be available at a later date, in the ordinary course of litigation, weighs heavily against a claim of irreparable harm.

Sampson v. Murray, 415 U.S. 61, 90, 94 S.Ct. 937, 39 L.Ed.2d 166 (1974) (quoting *Virginia Petroleum Jobbers Ass’n v. FPC*, 259 F.2d 921, 925 (D.C.Cir.1958)).

^[26] New Century estimates that the issuance of an injunction would cost the bank hundreds of thousands of dollars it expended on changing its name to Customers 1st Bank. (Taylor, Tr. 06/17/10 at 274:20–275:22.) However, “District Courts should consider financial damages when establishing and setting the bond for an injunction, not when deciding whether to grant it.” *Kos*, 369 F.3d at 728. The costs for New Century to rename the bank, revise advertising materials, and create a new mark are compensable by money damages and do not constitute irreparable harm as a matter of law. New Century also argues that enjoining it from changing its name to Customers 1st Bank will affect its reputation and goodwill. As noted above, the Court has found that the *567 transition from New Century to Customers 1st Bank is still in progress, the legal name of the bank will not change until about August 2010, and New Century adopted CUSTOMERS 1ST BANK when its executives had knowledge of Alliance’s registration and established use of the mark CUSTOMER FIRST. Consequently, the balance of harm in this case supports Alliance’s entitlement to injunctive relief.

D. The Public Interest

“Public interest can be defined a number of ways, but in a trademark case, it is most often a synonym for the right of the public not to be deceived or confused.” *Opticians*, 920 F.2d at 197. “Where a likelihood of confusion arises out of the concurrent use of a trademark, the infringer’s use damages the public interest.” *S & R Corp.*, 968 F.2d at 379. Since this Court has concluded that there is a likelihood of confusion between the marks, *see* section IV(A)(ii), there likewise would be harm to the public interest if a preliminary injunction is not granted at this time.

V. ALLIANCE IS REQUIRED TO POST A BOND

Fed.R.Civ.P. 65(c) states in relevant part: “The court may issue a preliminary injunction or a temporary restraining order only if the movant gives security in an amount that the court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained.” Accordingly, the Court will require that Plaintiff post a bond in the amount of \$150,000.

VI. CONCLUSION

After evaluating the *Lapp* factors, this Court concludes that there is a likelihood of confusion between Alliance’s mark CUSTOMER FIRST and New Century’s mark CUSTOMERS 1ST BANK. As a result, this Court finds that Alliance is likely to succeed on the merits of this trademark infringement case under the Lanham Act, and Alliance will be irreparably harmed if a preliminary injunction is not granted. Similarly, the likelihood of confusion would result in harm to the public if a preliminary injunction does not issue.

Alliance’s request for a preliminary injunction prohibiting Defendant New Century Bank from using the name “Customers 1st Bank” or any similar name in commerce, and ordering Defendant New Century Bank to retract and impound all labels, signs, prints, packages, and advertisements bearing the name “Customers 1st Bank” or any variation will be granted. Accordingly, for the foregoing reasons, the Court will grant Plaintiff Alliance Bank’s Motion for Preliminary Injunction. An appropriate Order follows.

PRELIMINARY INJUNCTION ORDER

AND NOW, this 27th day of July 2010, upon consideration of Plaintiff’s Motion for Preliminary Injunction (Doc. No. 2), Defendant’s Response in Opposition to the Motion for Preliminary Injunction (Doc. No. 16), Plaintiff’s Reply in Support of the Motion (Doc. No. 17), the filings of the parties and the evidence presented at the hearing held before this Court on June 17 and 18, 2010, and the oral argument held on June 29, 2010, and for the reasons set forth in the Court’s Opinion dated July 27, 2010, it is **ORDERED** as follows:

1. Plaintiff Alliance Bank’s Motion for a Preliminary Injunction is **GRANTED**.

2. Defendant New Century Bank, its officers, directors, principals, agents, servants, affiliates, employees, representatives, successors and assigns, and all those in privity or acting in concert or participation with Defendant, and each and all of *568 them are hereby enjoined and restrained, pending the final hearing and determination of this action, from using CUSTOMER FIRST, CUSTOMERS 1ST, CUSTOMERS 1ST BANK,

CUSTOMERS FIRST BANK or any phonetic equivalents, as a mark or name, or as a component of a mark, name or domain name, on and in connection with any banking and financial services not originating from or authorized by Plaintiff.

3. Defendant shall immediately cease and refrain from using in commerce, publishing or otherwise disseminating in any and all media (including, without limitation, Internet, television, radio, newspaper and other print, and direct mail) any advertising or promotion that uses or features CUSTOMERS 1ST and/or CUSTOMERS 1ST BANK or any other logo, trade name, or trademark which incorporates the mark CUSTOMERS 1ST and/or CUSTOMERS 1ST BANK.

4. Defendant shall immediately modify all signage on, in and around its branches to eliminate all use of CUSTOMERS 1ST and/or CUSTOMERS 1ST BANK in connection with banking services.

5. Defendant shall recall and destroy any and all marketing and promotional materials and packaging that contain the mark CUSTOMERS 1ST and/or CUSTOMERS 1ST BANK or any derivative, simulation, reproduction, counterfeit, copy, or colorable imitation thereof.

6. Pursuant to 15 U.S.C. § 1116(a), Defendant is further ordered to file with the Court and serve upon Plaintiff

within thirty (30) days of service of this Order, a report in writing and under oath setting forth in detail the manner and form in which Defendant has fully complied with the instant injunction.

7. This injunction maybe enforced by proceedings to punish for contempt, or otherwise, by this Court, or by any other United States District Court in whose jurisdiction Defendant and its officers, agents, servants, employees, affiliates, all persons in active concert or participation with, and/or any who receive actual notice of the Order by personal service or otherwise, may be found.

8. Plaintiff is required to post a bond in the amount of \$150,000.

9. This **ORDER** is effective immediately upon service to Defendant.

10. This **ORDER** shall remain in effect until final resolution of this matter.

All Citations

742 F.Supp.2d 532, 98 U.S.P.Q.2d 1292

Footnotes

¹ At the hearing, Plaintiff Alliance Bank presented testimony from Dennis Cirucci, President and Chief Executive Officer ("CEO") of Alliance Bank. Defendant New Century Bank presented testimony from Richard Ehst, President and Chief Operating Officer ("COO") of New Century, and Warren Taylor, Executive Vice President and President of Community Banking of New Century.

² In 2007, a mortgage company in Irvine, California, named "New Century Mortgage Company" filed for Chapter 11 bankruptcy. (Ehst, Tr. 06/17/10 at 169:5–19; 187:16–20.) Mr. Ehst testified that the failure of New Century Mortgage Company in California, which has no association with Defendant in this action, created confusion among an investor pool. (*Id.*) By 2009, Defendant New Century was still feeling the effects of New Century Mortgage Company's failure. ABC News, a national broadcasting company, while reporting the New Century Mortgage Company failure, erroneously featured a picture of New Century Bank's Phoenixville, Pennsylvania branch and, as noted, New Century Bank's logo during a televised news segment. (*Id.* at 188:19–25.) New Century decided to change its name to Customers 1st Bank in part to avoid confusion and association with New Century Mortgage Company. (*Id.* at 169:23–170:3.)

³ The difference between Application Serial Nos. 77/952,250 and 77/952,252 is that in the latter Serial No., the stylization of the mark is such that the word CUSTOMER is "stacked" on top of the words 1st and Bank; in the former Serial No., the words appear in the same line. Otherwise, the marks shown in these applications are the same.

⁴ On May 19, 2010, after New Century filed a response to the declinations, the USPTO once again refused to register New Century's Application Serial No. 77/952,243, Application Serial No. 77/952,250, and Application Serial No. 77/952,252 because of the likelihood of confusion with the mark of Alliance Bank.

⁵ Alliance has never authorized or consented to the use of the mark CUSTOMERS 1ST BANK by New Century. (*Id.* at 30:3–8.)

- 6 Under 15 U.S.C. § 1111, “a registrant of a mark registered in the [USPTO] may give notice that his mark is registered by displaying with the mark ... the letter R enclosed within a circle, thus ® ...” The designations TM and SM are also used for trademarks and service marks, and serve as informal notices to the public that a word, logo, slogan, design, etc. is being used as a mark and reflects the owner’s intent to claim trademark rights in that mark.
- 7 “A service mark is a word, name, symbol, device, or any combination thereof used ‘to identify and distinguish the services of one person, including a unique service, from the services of others, and to indicate the source of the services.’” *First Sav. Bank, F.S.B. v. First Bank Sys., Inc.*, 101 F.3d 645, 651 n. 7 (10th Cir.1996) (quoting the Lanham Act, 15 U.S.C. § 1127).
“Under the Lanham Act, service marks, which are used to identify the source of services, are entitled to the same legal protection as trademarks, which are used to identify the source of goods ... Although technically distinct, the terms are often used interchangeably, with no significant legal consequences.” *Dranoff–Perlstein Assocs. v. Sklar*, 967 F.2d 852, 855 (3d Cir.1992) (internal citation omitted); see also *Park ‘N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 192 n. 1, 105 S.Ct. 658, 83 L.Ed.2d 582 (1985) (explaining that the same principles concerning registration and protection apply to trade and service marks).
- 8 One commentator defines “secondary meaning” as: “When a particular business has used words publici juris for so long or so exclusively or when it has promoted its product to such an extent that the words do not register their literal meaning on the public mind but are instantly associated with one enterprise, such words have attained a secondary meaning. That is to say, a secondary meaning exists when in addition to their literal, dictionary meaning, words connote to the public a product from a unique source.” *McCarthy* § 11:25 (internal citations omitted); see also *Commerce Nat’l Ins. Servs., Inc. v. Commerce Ins. Agency, Inc.*, 214 F.3d 432, 438 (3d Cir.2000) (“Secondary meaning exists when the mark ‘is interpreted by the consuming public to be not only an identification of the product or services, but also a representation of the origin of those products or services.’”) (quoting *Scott Paper Co. v. Scott’s Liquid Gold, Inc.*, 589 F.2d 1225, 1228 (3d Cir.1978)). As noted above, suggestive marks, like arbitrary or fanciful marks, are “protected without any necessity for proving secondary meaning.” *McCarthy* § 11:62.
- 9 “A mark becomes incontestable after the owner files affidavits stating that the mark has been registered, and that it has been in continuous use for five consecutive years subsequent to registration. In addition, the owner must show that there is no proceeding contesting the owner’s rights to registration, and that there has been no adverse decision regarding the registrant’s ownership or right to registration.” *Commerce Bancorp.*, 285 F.Supp.2d at 484 n. 5 (citing *Fisons*, 30 F.3d at 472 n. 7). Alliance does not contend here that the mark is incontestable.
- 10 On June 15, 2010, Alliance filed a Motion in Limine to Preclude New Century from offering or presenting testimony or evidence relating to the May 19, 2010, Dilution Search Report (Doc. No. 23). The Dilution Search Report was commissioned by New Century’s counsel to demonstrate third party use of the mark CUSTOMER FIRST in connection with the present Motion for Preliminary Injunction. On June 16, 2010, New Century filed a Response in Opposition to the Motion in Limine (Doc. No. 25). The Court heard argument on the Motion at several points during the June 17 and June 18, 2010, hearing, as well as at the June 29, 2010, oral argument. The Court held the Motion under advisement until the issuance of this Opinion. For the following reasons, Plaintiff Alliance’s Motion in Limine (Doc. No. 23) will be denied.
Alliance’s main argument to preclude admission of the May 19 Report is that it is hearsay. However, Alliance’s argument is unavailing in light of *Kos Pharm., Inc. v. Andrx Corp.*, 369 F.3d 700 (3d Cir.2004). In *Kos*, the Third Circuit explained that “[i]t is well established that ‘a preliminary injunction is customarily granted on the basis of procedures that are less formal and evidence that is less complete than in a trial on the merits.’” 369 F.3d at 718 (quoting *Univ. of Texas v. Camenisch*, 451 U.S. 390, 395, 101 S.Ct. 1830, 68 L.Ed.2d 175 (1981)). The court further explained that “many of our sister Circuits have recognized that ‘[a]ffidavits and other hearsay materials are often received in preliminary injunction proceedings.’” *Kos*, 369 F.3d at 718; see also *Heritage Community Bank*, 2008 WL 5170190, at *9 n. 7 (citing cases). Therefore, the Court will consider the Dilution Search Report for the purposes of deciding the Motion for Preliminary Injunction.
Alliance’s remaining argument regarding the probative value of the Dilution Search Report merely goes to the weight of the evidence, not to its admissibility. Consequently, the Court will not preclude this evidence and will give the evidence such weight as deemed appropriate in considering the parties’ claims.
- 11 On July 2, 2010, Alliance filed a Response to New Century’s Proposed Conclusions of Law (Doc. No. 34). Although the Court had instructed the parties not to file responses to the proposed Findings of Fact and Conclusions of Law, Alliance argues that it was compelled to file a response after New Century allegedly failed to follow the Court’s directive that New Century’s proposed Conclusions of Law should be tailored specifically to New Century’s proposed Findings of Fact and should not contain rebuttal to the Findings of Fact and Conclusions of Law filed by Alliance. On July 7, 2010, New Century filed a Motion to Strike Alliance’s Response to the Proposed Conclusions of Law because Alliance did not

seek leave of Court to present additional legal argument (Doc. No. 35). On July 12, 2010, Alliance filed a Response in Opposition to the Motion to Strike (Doc. No. 37). Finally, on July 14, 2010, New Century filed a Reply in support of the Motion to Strike (Doc. No. 38).

After a review of these filings, the Court concludes that Alliance's Response to New Century's Conclusions of Law (Doc. No. 34) did not contain new legal argument or any discussion of substance that had not been covered extensively in the parties' pleadings, the preliminary injunction hearing held on June 17 and 18, 2010, the oral argument held on June 29, 2010, and Alliance's proposed Findings of Fact and Conclusions of Law. Consequently, Alliance's submission did not prejudice New Century, and it will not be stricken from the record. Accordingly, New Century's Motion to Strike (Doc. No. 35) will be denied.

- 12 The Supreme Court long ago discussed the amorphous test for confusion in *McLean v. Fleming*, 96 U.S. 245, 251, 24 L.Ed. 828 (1878): "What degree of resemblance is necessary to constitute an infringement is incapable of exact definition, as applicable to all cases. All that courts of justice can do, in that regard, is to say that no trader can adopt a trade-mark, so resembling that of another trader, as that ordinary purchasers, buying with ordinary caution, are likely to be misled."
- 13 The court in *Lapp* explained that "[w]here the trademark owner and the alleged infringer deal in competing goods or services, the court need rarely look beyond the mark itself." 721 F.2d at 462 (internal citations omitted). However, the Third Circuit explained in *A & H* that "consideration of the *Lapp* factors ... can be quite useful for determining likelihood of confusion even when the goods compete directly." 237 F.3d at 212. Thus, even though the parties deal in competing services, the Court will address the *Lapp* factors to determine likelihood of confusion.
- 14 The Court is also persuaded that consumers often drop the word "bank" when referring to a financial institution, e.g., referring to PNC Bank as simply "PNC" or Wachovia Bank as simply "Wachovia." See, e.g., *Heritage Community Bank*, 2008 WL 5170190, at *4 (noting that it is common in business practice for commercial bank names to be shortened to its dominant portion, such as "Chase" for J.P. Morgan Chase & Co. or "WaMu" for Washington Mutual).
- 15 As noted above, on April 20, 2010, the USPTO refused each of New Century's five applications to register variants of the mark CUSTOMERS 1ST BANK on the basis that the marks depicted in the applications so resemble Alliance's mark CUSTOMER FIRST (Registration No. 3,313,156) as to be likely to cause confusion or mistake or to deceive under Section 2(d) of the Lanham Act, 15 U.S.C. § 1052(d). The Third Circuit has expressed on numerous occasions that the determination of the USPTO regarding trademark registrability is relevant but need not be given much weight when considering likelihood of confusion. See *A & H*, 237 F.3d at 220–21 ("[A]lthough an initial [US]PTO determination by an examining attorney may be considered, it need not be given weight when the PTO attorney did not review all the evidence available to the District Court."); *Kos*, 369 F.3d at 715 (finding that the court would give "no weight" to a "low-level preliminary decision").
- The USPTO applies Section 2(d) of the Lanham Act to determine whether a mark which is the subject of an application for registration is likely to cause confusion with a previously used or registered mark. As discussed at oral argument, in making this determination, the USPTO uses a thirteen-factor test set forth in *In re: E.I. DuPont DeNemours & Co.*, 476 F.2d 1357, 1361 (C.C.P.A.1973). It appears that the thirteen-factor *DuPont* test is similar to the ten-factor *Lapp* test applied by the courts in the Third Circuit.
- It also appears that the USPTO's determination was not a "low-level preliminary decision" because the analysis of the trademark examining attorney was thorough and resulted in a response by New Century. (Pl. Exs. 8, 30, 31.) It is unclear, however, to what extent the trademark examining attorney had access to the plethora of evidence presented in this case. Consequently, the Court finds the examining attorney's determination relevant, but entitled to little weight. However, the Court will give weight to the existence of the USPTO's determination and New Century's awareness of the determination when considering the fifth *Lapp* factor, the intent of Defendant, discussed *infra*.
- 16 In *Citizens Banking Corp.*, the district court found persuasive the testimony of an expert witness regarding the sophistication of commercial banking customers. In that case, the court found that most banking consumers do not change banks frequently and when they do select a new bank, consumers "take great care in evaluating a bank and its services." *Citizens Banking Corp. v. Citizens Fin. Group, Inc.*, No. 07–11514, 2008 WL 1995104, *11 (E.D.Mich. May 6, 2008). Similarly, in *SBLI*, the district court found that, "Particularly in the financial services area, where consumers take greater care than in many others, such differences are sufficient to reduce any confusion." 2000 WL 1758818, at *18. This Court, however, is persuaded by Mr. Cirucci's testimony that community bank customers consist of professional buyers and ordinary consumers. (Cirucci, Tr. 06/17/10 at 141:22–143:20.) Consequently, this Court will apply the standard of care equal to that of the least sophisticated consumer in the class, as directed by the Third Circuit in *McNeil*, *Versa Prods.*, and *Sabinsa*.
- 17 On June 10, 2010, Alliance filed a Motion to Preclude New Century from offering testimony or evidence relating to New Century's adopting or using the mark CUSTOMERS 1ST BANK (or CUSTOMERS FIRST BANK) in good faith (Doc. No.

20). On June 16, 2010, New Century filed a Response in Opposition to this Motion to Preclude (Doc. No. 24). The Court heard argument on the Motion at several points at the June 17 and 18, 2010, hearing, as well as at the June 29, 2010, oral argument. The Court took the Motion under advisement until the issuance of this Opinion. For the following reasons, Alliance's Motion to Preclude (Doc. No. 20) will be denied.

As noted above, New Century maintains that it sought the opinion of counsel in March 2010 as evidence of good faith on New Century's part. This evidence is relevant to the fifth [Lapp](#) factor concerning intent of Defendant. New Century, however, has invoked the attorney-client and work product privileges and has not produced the formal opinion of counsel. Alliance argues that New Century should be precluded from offering evidence of this good faith because counsel's opinion is unknown and it is unknown if New Century followed counsel's advice.

Although New Century has not produced the opinion of counsel here, no bad faith inference will be drawn from such a strategy. See [Lucent Info. Mgmt., Inc. v. Lucent Techs., Inc.](#), 186 F.3d 311, 318 (3d Cir.1999) (finding that no adverse inference could be drawn from defendant's refusal to produce the opinion of counsel in a trademark dilution case). The cases Alliance offers in support of its position concern factual disputes arising either at trial or on the eve of trial, and involve matters such as willful infringement and damages. See, e.g., [Dorr–Oliver Inc. v. Fluid–Quip, Inc.](#), 834 F.Supp. 1008 (N.D.Ill.1993) (Motion for Summary Judgment stage); [Trouble v. Wet Seal, Inc.](#), 179 F.Supp.2d 291 (S.D.N.Y.2001) (Motion in Limine prior to commencement of trial). These cases are not persuasive authority here. Because this case is merely at the preliminary injunction stage, the Court will consider New Century's testimony pertaining to the good faith adoption of CUSTOMERS 1ST BANK and will weigh this evidence in light of the fact that the substance of the opinion of counsel is unknown to the Court. Consequently, Plaintiff's Motion to Preclude (Doc. No. 24) will be denied.

18 On May 19, 2010, after a response was filed by New Century to the declinations, the USPTO once again refused to approve for registration the marks sought in New Century's Application Serial No. 77/952,243, Application Serial No. 77/952,250, and Application Serial No. 77/952,252. The refusal was based on the same reasons for the original decision.

19 The closest New Century branch to an Alliance branch is located in Newtown Square, where the two are directly across the street from one another. Also, a New Century branch in Wayne is three and one half (3.5) miles away from an Alliance branch in Paoli. (Cirucci, Tr. 06/17/10 at 31:4–12.)

2013 WL 1700929
Only the Westlaw citation is currently available.
United States District Court,
S.D. New York.

MELODRAMA PUBLISHING, LLC, Plaintiff,
v.
Danielle SANTIAGO, Defendant.

No. 12 Civ. 7830(JSR).
|
April 11, 2013.

MEMORANDUM ORDER

JED S. RAKOFF, District Judge.

*1 Plaintiff Melodrama Publishing, LLC (“Melodrama”), a book publisher, brings this action against defendant Danielle Santiago under the Lanham Act seeking a declaratory judgment of cancellation of a trademark registration, damages for fraudulent registration of a trademark, attorney’s fees, and a permanent injunction. Melodrama alleges that Santiago fraudulently registered the trade name “Nisa Santiago,” which Melodrama previously used in commerce in connection with the promotion and sale of a series of novels, and which Santiago has never used in commerce and does not own. Melodrama further alleges that Santiago and her former counsel, Jeffrey M. Wooten, Esq., of Wooten & Walker PC, used this fraudulent registration to threaten baseless litigation against Melodrama and to disrupt Melodrama’s relationships with its distributors. Santiago has filed an answer to Melodrama’s complaint, in which she has admitted certain crucial allegations against her, including that she has never used the mark “Nisa Santiago” in commerce. Melodrama now moves for judgment on the pleadings under [Federal Rule of Civil Procedure 12\(c\)](#). Upon consideration, the Court hereby grants the motion in its entirety and refers the case to Magistrate Judge for a damages inquest.

“The standard for addressing a [Rule 12\(c\)](#) motion for judgment on the pleadings is the same as that for failure

to state a claim.” [Cleveland v. Caplaw Enterprises](#), 448 F.3d 518, 521 (2d Cir.2006). “In a challenge under [Rule 12\(c\)](#), the Court must accept as true the non-movant’s allegations and draw all reasonable inferences in the non-movant’s favor.” [In re Bakery & Confectionery Union & Indus. Int’l Pension Fund Pension Plan](#), 865 F.Supp.2d 469, 471 (S.D.N.Y.2012). “Judgment is appropriate if, based on the pleadings, the moving party is entitled to judgment as a matter of law.” [Chevron Corp. v. Salazar](#), 807 F.Supp.2d 189, 194 (S.D.N.Y.2011).

The facts alleged in the complaint and admitted in the answer, taken in the light most favorable to Santiago, are as follows. The course of dealings between Melodrama and Santiago began in June 2007, when the parties began negotiating a publishing agreement. Compl. ¶ 7; Ans. ¶ 7. In July 2007, the parties signed two contracts providing for Santiago to write two novels, *Cartier Cartel* and *Cartier Cartel—The Sequel*, which were to be published by Melodrama under the pseudonym “Nisa Santiago.” Compl. ¶ 11; Ans. ¶ 11. The parties dispute which side came up with this pseudonym. Compl. ¶ 12; Ans. ¶¶ 12, 112. In any event, the parties agreed that Santiago would receive royalties and an advance of \$5,000, with half due upon execution of the contracts and the other half due upon delivery of the manuscripts to Melodrama. Compl. ¶ 11; Ans. ¶ 11. Importantly, paragraph 31 of the each of the contracts provides that nothing therein “shall give [Santiago] any right in or to any trademark, trade name, logo, imprint or other identification now or hereafter used by publisher, nor shall [Santiago] use any such identification during the term of this agreement or thereafter.” Compl. ¶ 75; Ans. ¶ 75.

*2 The contracts obligated Santiago to send a complete draft of the manuscript for the first novel to Melodrama by April 1, 2008. Compl. ¶ 14; Ans. ¶ 14. Santiago, however, failed to deliver a full manuscript by that date, or any time thereafter, Compl. ¶ 16; Ans. ¶ 16, although Santiago alleges that she did send Melodrama “at least two full written chapters, and a synopsis of the stories and characters.” *Id.* ¶ 113. In any event, on August 7, 2008, Melodrama terminated the publishing agreements and demanded repayment of the \$2,500 advance. Compl. ¶ 16; Ans. ¶ 16. Santiago acknowledged the termination of the agreements and repaid the advance on October 17, 2008. Compl. ¶ 17; Ans. ¶ 17.

Several months later, in April 2009, Melodrama published a novel entitled *Cartier Cartel* under the pseudonym “Nisa Santiago.” Compl. ¶ 22; Ans. ¶ 22. Since then, Melodrama has published *Return of the Cartier Cartel* and five additional titles under the same pseudonym, the

most recent of which was published in 2012. Compl. ¶¶ 23–24; Ans. ¶¶ 23–24. These novels were written by third-party ghostwriters, although Santiago alleges that her draft chapters and synopsis were “used in [Melodrama’s] creation of the ‘Cartier Cartel’ series of novels.” Compl. ¶ 39; Ans. ¶¶ 39, 113. Santiago also alleges that she “participated in the creation and selection of the cover art that was used for the novel ‘Cartier Cartel.’” *Id.* ¶ 114.

On May 11, 2011, Santiago commenced an action against Melodrama in this Court, *Santiago v. Melodrama Publishing, LLC*, No. 11 Civ. 3180(JSR), alleging copyright infringement and related claims arising from Melodrama’s publication of *Cartier Cartel* and *Return of the Cartier Cartel*. Compl. ¶ 26; Ans. ¶ 26. In that action, Santiago did not assert any state or federal trademark or related claims against Melodrama. Compl. ¶ 28; Ans. ¶ 28. On July 7, 2011, this Court granted Melodrama’s motion to dismiss the complaint. Compl. ¶ 29; Ans. ¶ 29. No appeal was taken.

On June 7, 2011—the same day Melodrama filed its motion to dismiss the prior action—Santiago’s former attorney, Mr. Wooten, filed an application with the U.S. Patent and Trademark Office (“PTO”) on Santiago’s behalf seeking registration of the mark “Nisa Santiago.” Compl. ¶¶ 34–36; Ans. ¶¶ 34–36. The application identifies Santiago as the owner of the mark, and identifies “a series of books and written articles in the field of fiction” as the relevant goods and services sold under the mark. Compl. ¶ 34; Ans. ¶ 34; Trademark/Service Mark Application (“Application”), ex. D to Affidavit of Robert J. Shapiro (“Shapiro Aff.”).¹ The application also states that the earliest date of Santiago’s “first use anywhere” was “at least as early as 06/07/2007,” the date around which Santiago and Melodrama began negotiating a publishing agreement. Compl. ¶ 37; Ans. ¶ 37; Application. Further, the application states that Santiago’s “first use in commerce” was “as early as 04/28/2009,” the date on which Melodrama first published *Cartier Cartel*. Compl. ¶ 38; Ans. ¶ 38; Application. As a specimen, Santiago included an image of the cover of *Cartier Cartier* with her application. *Id.* As required by Section 1(a)(3) of the Lanham Act, the application also includes a declaration signed by Wooten stating that, to the best of his knowledge, Santiago is the owner of the mark, no other entity has the right to use the mark in commerce, and all statements in the application are true and correct. Compl. ¶ 34; Ans. ¶ 34; Application.

^{*3} Santiago now repeatedly admits in her answer that she has never used the mark “Nisa Santiago” in commerce.

Compl. ¶¶ 42, 61, 68, 81; Ans. ¶¶ 42, 61, 68, 81. Santiago also now admits that Melodrama has been using that mark in commerce since 2007 in connection with selling works of fiction both in New York and in interstate commerce. Compl. ¶ 57; Ans. ¶ 57. Further still, Santiago now admits that she knew that she did not put into commerce *Cartier Cartel*, *Return of the Cartier Cartel*, or any other book published by Melodrama under the pseudonym “Nisa Santiago.” Compl. ¶ 43; Ans. ¶ 43. Nevertheless, Santiago’s trademark application did not identify Melodrama as an entity holding the right to use the mark.

On September 22, 2011, the PTO issued an Office Action regarding Santiago’s trademark application, requesting, *inter alia*, that she provide evidence that the mark is used in connection with a fictional series rather than merely a single work. In response, on Santiago’s behalf, Wooten submitted images of the covers of Melodrama’s publications of *Cartier Cartel* and *Return of the Cartier Cartel*, which identify the author of those novels as “Nisa Santiago.” Shapiro Aff., ex. E. Several months later, on May 1, 2012, the PTO approved Santiago’s application and issued a registration. Compl. ¶ 60; Ans. ¶ 60; Shapiro Aff., ex. F.

Thereafter, in a letter dated September 25, 2012, Wooten notified Melodrama of the trademark registration and asserted that “[t]his registration constitutes conclusive evidence of [Santiago’s] ownership of the Nisa Santiago Mark as well as [Santiago’s] exclusive right to use the mark.” Compl. ¶¶ 49, 50; Ans. ¶¶ 49, 50; Shapiro Aff., ex. H. The letter further asserts that Melodrama’s use of the “Nisa Santiago” name “constitute[s] an infringement of [Santiago’s] trademark rights” and demands that Melodrama “immediately cease and desist all uses of the mark Nisa Santiago effective immediately,” under threat of “injunctive action” and “money damages including, but not limited to your profits derived from the use of the mark and attorney fees.” *Id.* The next month, Wooten sent a letter to at least one of Melodrama’s book distributors, notifying the distributor of the cease and desist letter sent to Melodrama and warning the distributor of potential trademark infringement and dilution claims if they continued to distribute and sell Melodrama’s titles. Compl. ¶¶ 51–55; Ans. ¶¶ 51–55; Shapiro Aff., ex. J; *see also* Shapiro Aff. ¶ 12 (stating that Melodrama’s counsel “has been informed by Amazon that it would not continue selling Plaintiff’s titles as a result of Defendant’s litigation threats until this lawsuit is resolved”).

Melodrama filed its complaint in this action on October 19, 2012. Represented by Mr. Wooten, Santiago filed an answer on November 12, 2012. Melodrama then filed its motion for judgment on the pleadings on December 19,

2012. On December 31, 2012, while Melodrama's motion was pending, Mr. Wooten filed a motion to withdraw as defense counsel for health reasons. On January 4, 2013, at an in-court conference that Santiago attended by telephone, the Court granted Wooten's motion to withdraw, and gave Santiago two weeks to obtain new counsel. After repeated extensions of Santiago's time to obtain new counsel, Santiago's present counsel filed an appearance on March 1, 2013, and filed Santiago's opposition to Melodrama's motion the same. After receiving reply papers from Melodrama, the Court held oral argument on this motion on March 18, 2013.

*4 The first four counts of Melodrama's complaint seek a declaratory judgment cancelling Santiago's federal trademark registration on four grounds: lack of use in commerce, lack of ownership, likelihood of confusion with a previously used mark, and fraud.² Although Melodrama prevails if it establishes any one of these grounds for cancellation, the Court is persuaded here that all four are met.

As to the argument that Santiago has not used the mark in commerce, Section 1 of the Lanham Act permits registration of marks only by "[t]he owner of a trademark used in commerce." 15 U.S.C. 1051(a); see also *Int'l Mobile Machines Corp. v. Int'l Tel. & Tel. Corp.*, 800 F.2d 1118, 1119 (Fed.Cir.1986) (noting that, under 15 U.S.C. § 1064(1), "cancellation of a mark's registration within the initial five years of registration may be based upon any ground which could have prevented registration initially"). Here, it is plain from the pleadings that Santiago has never used the "Nisa Santiago" mark in commerce, and, consequently, is not the owner of the mark.

To begin with, Santiago's answer straightforwardly admits, four separate times, that she has never used the mark "Nisa Santiago" in commerce. In two instances, Santiago qualifies her admission by-conceding only that she "personally has not used the mark in commerce," see Ans. ¶¶ 61, 68, but in the other two instances, she admits the fact outright and without reservation. See Compl. ¶ 42 ("Upon information and belief, Defendant has never used the mark 'Nisa Santiago' in commerce."); Ans. ¶ 42 ("The Defendant admits the allegations set forth in Paragraph 42 of Plaintiff's Complaint."); Compl. ¶ 81 (similar); Ans. ¶ 81 (similar). The Second Circuit has "held repeatedly that facts admitted in an answer, as in any pleading, are judicial admissions that bind the defendant throughout the litigation." *N.L.R.B. v. Consol. Bus Transit, Inc.*, 577 F.3d 467, 474 (2d Cir.2009) (per curiam). Santiago thus cannot now avoid the consequences of her binding admissions. And because

Santiago has not used the mark in commerce, she cannot be the mark's owner. See *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 146 (2d Cir.2007) (noting the "well-established principle" that trademark rights derive from use in commerce).

At oral argument, Santiago's present counsel (not Mr. Wooten) requested leave to amend the answer to enable Santiago to argue that she has in fact used the mark in commerce. But it is well settled that leave to amend a pleading, though "freely give[n] ... when justice so requires," *Fed.R.Civ.P. 15(a)(2)*, may properly be denied where it would cause "undue prejudice to the opposing party." *Foman v. Davis*, 371 U.S. 178, 182 (1962); see also *Ruotolo v. City of New York*, 514 F.3d 184, 191 (2d Cir.2008) (noting that "prejudice to the opposing party [is] the most important factor and the most frequent reason for denying leave to amend") (internal quotation marks omitted)). In the typical case, a defendant seeks leave to file an amended answer in order to assert an omitted affirmative defense. See, e.g., *Evans v. Syracuse City Sch. Dist.*, 704 F.2d 44, 45 (2d Cir.1983). Here, however, Santiago seeks to withdraw her repeated admission of a crucial factual allegation, which has now been the subject of a fully briefed and argued motion. Moreover, consideration of that motion has already been greatly delayed by Santiago's repeated failure to promptly obtain new counsel. In these circumstances, forcing Melodrama to endure the time and expense of filing and briefing a new motion based on a new answer would be highly prejudicial. This is especially so given that at least one of Melodrama's distributors has indicated that it will not resume selling Melodrama's titles until this case is resolved. See Shapiro Aff. ¶ 12.

*5 Even more fundamentally, granting Santiago leave to amend her answer would be entirely futile. See *Ruotolo*, 514 F.3d at 182 (noting that leave to amend may be denied for futility). Through her new counsel, Santiago argues that she in fact used the "Nisa Santiago" mark in commerce in two ways—in her negotiations and subsequent contracts with Melodrama, and in the two draft chapters and plot synopsis she allegedly sent to Melodrama. But neither of these alleged uses constitutes a "use in commerce" under the Lanham Act. The "talismanic test" for whether a given use of a mark constitutes a statutory "use in commerce" is "whether or not the use was 'sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark.'" *Marvel Comics Ltd. v. Defiant, a Div. of Enlightened Entm't Ltd.*, 837 F.Supp. 546, 548 (S.D.N.Y.1993) (quoting *New England Duplicating Co. v. Mendes*, 190 F.2d 415, 417 (1st Cir.1951)). Here, the uses Santiago

points to—her negotiations, her contract, and her draft chapters and synopsis—are not alleged to have been disseminated to anyone other than Melodrama, a single intermediary in the market for works of fiction. There is thus no indication that Santiago’s alleged “uses” ever reached even a single end consumer in the relevant market, much less a sufficient portion of the consuming public to identify the mark with a particular source of goods. Santiago’s request for leave to amend is thus denied, and her binding admissions remain in place.

Independently, Santiago’s trademark registration must also be cancelled because the mark is confusingly similar—indeed, identical—to Melodrama’s own mark. See 15 U.S.C. § 1052(d). As Melodrama points out, Santiago admits in her answer that Melodrama first used the mark in commerce in 2007, making Melodrama the senior user and owner of the mark. Compl. ¶ 57; Ans. ¶ 57. In addition, the two marks are identical and are to be used in connection with the same class of goods (novels) sold through the same channels of commerce (bookstores). Furthermore, novels are relatively inexpensive, and thus are likely to be bought on impulse rather than after extensive research. These facts are more than sufficient to conclude that “the purchasing public would mistakenly assume that the applicant’s goods originate from the same source as, or are associated with, the goods of [the senior user].” *In re Majestic Distilling Co., Inc.*, 315 F.3d 1311, 1314–15 (Fed.Cir.2003) (affirming PTO’s denial of a registration application on these grounds).

Finally, Melodrama also seeks cancellation of Santiago’s registration on grounds of fraud. See 15 U.S.C. § 1064(3). To prevail on this claim, Melodrama “must establish misstatements that ‘indicate a deliberate attempt to mislead the [PTO]’ and were ‘with respect to a material fact—one that would have affected the PTO’s action on the application.’” *City of New York v. Tavern on the Green, L.P.*, 427 B.R. 233, 242 (S.D.N.Y.2010) (quoting *Orient Exp. Trading Co., Ltd. v. Federated Dept. Stores, Inc.*, 842 F.2d 650, 653 (2d Cir.1988)). Here, Melodrama contends that Santiago’s application contains four misrepresentations justifying cancellation. First, Santiago’s application states that she first used the mark in commerce “at least as early as 04/28/2009,” but she now admits that she has never used the mark in commerce. Second, Santiago submitted Melodrama’s book covers to the PTO as specimens without mentioning that the book covers were Melodrama’s rather than her own. Third, she represented that she owned the mark, even though she now admits that she never used it in commerce and the July 2007 contracts she signed expressly disclaim giving her any right to the mark. And

fourth, Santiago knew that Melodrama had used the mark in commerce and that Melodrama had not given Santiago any contractual right to use the mark, but never mentioned to the PTO that Melodrama had a right to use the mark. See *Tavern on the Green*, 427 B.R. at 243 (“The deliberate omission in a trademark application regarding another’s right to use the mark applied for is a material omission justifying cancellation of the mark.”).

*6 In response, Santiago notes that a claim for cancellation on grounds of fraud cannot rest on mere negligence or even gross negligence, but rather requires a showing of a deliberate “intent to deceive.” *In re Bose Corp.*, 580 F.3d 1240, 1244 (Fed.Cir.2009). Santiago asserts that she believed in good faith that she had used the “Nisa Santiago” mark in commerce in her negotiations and contracts with Melodrama, as well as in the draft chapters and plot synopsis that she sent to Melodrama, and that these uses preceded Melodrama’s first use in commerce.

But as Melodrama points out in reply, there is a fatal conflict between the uses Santiago now argues in her opposition brief and the uses she represented to the PTO in her trademark application. Santiago now relies on her negotiations, contracts, and writing samples, but she never mentioned those supposed uses of the mark in any of her submissions to the PTO. Instead, Santiago’s application fraudulently sought registration of the mark in connection with “a series of books and written articles in the field of fiction.” Even assuming that Santiago reasonably believed that she had a right to the mark that superseded Melodrama’s rights, it is undisputed that she never used the mark in connection with any article or book, let alone a series. Furthermore, and most damningly, Santiago fraudulently submitted images of the covers of three of Melodrama’s books to the PTO as supposed examples of her own use of the mark, without ever mentioning that she had not written the books, and, indeed, had no connection to them beyond her then-terminated publishing contracts with Melodrama. In these circumstances, the conclusion that Santiago procured her trademark registration by fraud is inescapable.

Accordingly, on each and all of these bases, Melodrama’s motion for a declaratory judgment cancelling Santiago’s trademark registration is granted.

In addition to seeking cancellation of Santiago’s trademark registration, Melodrama also seeks damages for fraudulent registration of a mark. The Lanham Act provides that “[a]ny person who shall procure registration in the [PTO] of a mark by false or fraudulent declaration or representation, oral or in writing, or by any false

means, shall be liable in a civil action by any person injured thereby for any damages sustained in consequence thereof.” 15 U.S.C. § 1120.

As explained above, the pleadings in this case clearly establish that Santiago procured her trademark registration by fraud. Moreover, Santiago’s fraudulent registration harmed Melodrama by forcing it to bear the costs of bringing this action for cancellation, and by using the registration to threaten Melodrama’s distributors, resulting in lost profits and reputational injury.

The Court thus grants Melodrama’s motion for judgment of liability on its claim for damages for fraudulent registration. However, because the amount of damages Melodrama has suffered is unclear at this stage, the Court refers this claim to the designated Magistrate Judge for an inquest into damages. With regard to that inquest, the Court observes that, on the present record, while it is clear that Santiago’s registration was procured by fraud and that Melodrama was harmed thereby, it is not clear to what extent the unlawful conduct originated with Santiago herself or with her former counsel, Mr. Wooten. Indeed, it was apparently Wooten who submitted the fraudulent trademark application to the PTO, deceitfully supported that application with images of Melodrama’s book covers, and sent the baseless threatening letters to Melodrama and its distributors. Accordingly, at the inquest, the Magistrate Judge is free to inquire into the state of mind of Santiago and of Wooten. To the extent he finds it relevant, the Magistrate Judge may consider those states of mind in determining the appropriate measure of damages to be awarded.

*7 Melodrama also seeks attorney’s fees under 15 U.S.C. § 1117(a), which provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” The Second Circuit has interpreted “exceptional cases” to mean instances of “fraud or bad faith, or willful infringement.” *Patsy’s Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 221 (2d Cir.2003) (internal quotation marks and citations omitted). As explained above, this case clearly involves fraud. Accordingly, judgment of liability in Melodrama’s favor is also granted on the claim for attorney’s fees, with the amount of fees awarded to be determined by the Magistrate Judge in the damages inquest.

Finally, Melodrama seeks a permanent injunction requiring her to cease and desist from using the “Nisa Santiago” mark. “To obtain a permanent injunction, a plaintiff must succeed on the merits and show the absence of an adequate remedy at law and irreparable harm if the relief is not granted.” *Roach v. Morse*, 440 F.3d 53, 56 (2d Cir.2006) (internal quotation marks omitted). A party’s “pre-lawsuit behavior may serve as a basis for a permanent injunction, as it may indicate that defendant’s intentions are in doubt.” *Gucci Am., Inc. v. Guess?, Inc.*, 868 F.Supp.2d 207, 256 (S.D.N.Y.2012) (citing *Register.com, Inc. v. Verio, Inc.*, 356 F.3d 393, 405 (2d Cir.2004)). Here, Santiago has already brought one action against Melodrama arising out of their dealings concerning the Nisa Santiago novels, but this Court’s dismissal of that action with prejudice did not dissuade her and Mr. Wooten from fraudulently procuring a trademark registration and using it as the basis for sending threatening letters to Melodrama and its distributors. Fraud, baseless threats of vexatious litigation, and unlawful interference with Melodrama’s business relationships are more than sufficient to justify the injunction Melodrama seeks. The permanent injunction is therefore granted.³

Accordingly, for the foregoing reasons, the Court grants Melodrama’s motion for judgment on the pleadings in its entirety. The Court hereby (1) enters a declaratory judgment in favor of Melodrama ordering the cancellation of Santiago’s registration for the U.S. Trademark “Nisa Santiago,” Registration No. 4,134,392, (2) enters judgment of liability in favor of Melodrama on its claim for fraudulent registration of a trademark, (3) awards attorney’s fees to Melodrama, (4) permanently enjoins Santiago from using, directly or indirectly, the mark “Nisa Santiago,” and (5) refers the case to the Magistrate Judge for an inquest into the amount of damages and attorney’s fees to be awarded.

SO ORDERED.

All Citations

Not Reported in F.Supp.2d, 2013 WL 1700929

Footnotes

¹ Because Santiago’s trademark application and the supporting materials she submitted are referenced and relied upon in the complaint, the Court may consider them on the instant motion. See *In re Bakery & Confectionery Union*, 865 F.Supp.2d at 472 (holding that, in resolving a motion for judgment on the pleadings, a court “may review any document incorporated in one of the pleadings,” as well as any “document not specifically incorporated by reference but on which the complaint heavily relies and which is integral to the complaint”).

- 2 This Court is authorized to cancel a trademark registration under the Lanham Act. See [15 U.S.C. § 1119](#) ("In any action involving a registered mark the court may determine the right to registration, order the cancelation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action. Decrees and orders shall be certified by the court to the Director, who shall make appropriate entry upon the records of the Patent and Trademark Office, and shall be controlled thereby.").
- 3 Under the heading "Affirmative Defenses," Santiago's answer alleges that she created and owns the "Nisa Santiago" mark and that Melodrama later used it in commerce. Ans. ¶¶ 112–14, 116, 119–20. To the extent that these allegations are construed as a counterclaim for trademark infringement, that counterclaim is barred as res judicata, since it arises from the same facts as Santiago's earlier action filed against Melodrama, but was not raised in that action. See [Channer v. Dep't of Homeland Sec.](#), [527 F.3d 275](#), [280 \(2d Cir.2008\)](#). In any event, since, as discussed above, Santiago has never used the "Nisa Santiago" mark in commerce, any counterclaim for trademark infringement is meritless, and is hereby dismissed.

2017 WL 1304082

Only the Westlaw citation is currently available.
United States District Court, N.D. Illinois, Eastern
Division.

Elizabeth BERG as trustee FOR the bankruptcy
estate of John WIESNER, Plaintiff,

v.

CI INVESTMENTS, INC., Defendant.

15 C 11534

Signed 04/07/2017

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MEMORANDUM OPINION

Charles P. Kocoras, United States District Judge

*1 Now before the Court is Defendant CI Investments, Inc.'s ("CI") motion for partial summary judgment on Counts IV-V of Plaintiff Elizabeth Berg's ("Berg") Second Amended Complaint pursuant to [Federal Rule of Civil Procedure 56](#); Berg's motion to strike certain paragraphs of Claudio Bufi's ("Bufi") Declaration pursuant to [Federal Rule of Civil Procedure 12\(f\)](#); CI's motion to strike Berg's Local Rule 56.1 Materials pursuant to [Federal Rule of Civil Procedure 12\(f\)](#); and CI's motion to strike the affidavit of Ian Hamilton ("Hamilton") and additional statements 46-48, which rely on the affidavit pursuant to [Federal Rule of Civil Procedure 12\(f\)](#). For the following reasons, the Court grants in part and denies in part the motions presented.

BACKGROUND

The following facts taken from the record are undisputed, except where otherwise noted. CI, a Canadian corporation, runs one of the largest investment fund companies in Canada. In 2009, CI began developing a new line of funds called the G5|20 mutual funds which were the first mutual funds of their type in Canada. The G5|20 funds were unique because they guaranteed to pay out for twenty years and that guarantee was backed by the Bank of Montreal ("BMO"). To reduce the cost of obtaining the guarantee from BMO, CI decided to contract with a third party to provide risk management overlay services ("hedging services"). This reduced the risk that the fund's net assets would decline to such an extent due to market volatility so as to trigger a transfer of the fund's assets from CI to a protection portfolio managed by BMO. The head of the G5|20 fund project was Claudio Bufi, Vice President of Product Development and management at CI. Bufi began discussions in 2009 with Charles Gilbert ("Gilbert"), founder and co-owner of Nexus Risk Management, Inc. ("Nexus"), regarding the possibility of engaging Nexus to provide hedging services for the G5|20 fund. In 2011, Nexus made several presentations at CI's offices regarding its ability to provide the hedging services for the G5|20 fund and in late 2011, CI decided to go forward with Nexus. At the time CI decided to go forward with Nexus, Nexus's risk management hedging strategy was not tailored to the G5|20 fund's requirements and required extensive modification. The first G5|20 fund went live on October 1, 2013. The G5|20 fund that launched October 1, 2013, was the first fund in the G5|20 fund series. A new fund in the series was created each quarter.

A. Wiesner's Involvement with Nexus

Gilbert met John Wiesner ("Wiesner") in late 2008 or in 2009. At the time, Wiesner was a risk management strategist for the Chicago Board Options Exchange ("CBOE"). On March 17, 2010, Nexus contacted Wiesner for his expertise on an hourly payment basis as an independent contractor. Parties dispute when Wiesner became a Nexus employee. According to CI, Wiesner became a Nexus employee in November 2010. However, Berg contends that Wiesner was an independent contractor for Nexus from March 2010, until August 24, 2012, and did not become an employee until August 24, 2012—when Wiesner signed an employment contract with Nexus. Berg further claims that Wiesner stopped

working for Nexus and focused only on his work as an independent contractor for the CBOE in late October or in early November 2012. According to Berg, Wiesner returned to his employment at Nexus on February 28, 2013. CI disputes Berg's timeline, and maintains that Wiesner was an employee from November 2010 until his termination from Nexus on November 12, 2013.

*2 Wiesner had many different duties at Nexus and he worked on various software programming projects for several Nexus clients, including CI. Some of the duties Wiesner engaged in, aside from programming, included preparing presentations for potential clients, and creating materials for hedging and risk management courses that Nexus taught. Wiesner, as president of Nexus's Chicago office and managing director, negotiated, drafted, and signed several contracts on behalf of Nexus including the lease for Nexus's Chicago office, errors and omissions insurance ("E&O contract"), and contracts with data providers. Parties disagree over Wiesner's involvement in negotiating and drafting contracts between Nexus and CI, such as the January 2013 Loan Agreement and the parties' June 2013 Sub-Advisory Agreement.

B. Development of the Hedging Strategy and Nexus Software

From 2011 through October 2013, Wiesner worked to develop the hedging strategy and software. Wiesner was joined in his efforts by various Nexus employees including Gilbert, Jonathan Hede, Patrick Dunham, and Gilbert LaCoste. CI employees Bufi, Ryan Son-Kee, and John Murray also worked on the project. The parties dispute the type of software created and when it was created. CI claims Nexus, including Wiesner, created software that consisted of a C++ software program and several Excel spreadsheets known as the "Giant Spreadsheet," the "Realized Historical VIX," the "Weez-a-Tron," the "Validation Tool," and the "Live Trading Sheet" (the C++ program and spreadsheets are referred to collectively as the "Nexus Software"). According to CI, the Giant Spreadsheet was created in March 2011. It contained the hedging strategy for the G5|20 fund and served as the first prototype of the Nexus Software. Beginning sometime between March 2011 and June 2012 and continuing until the launch of the G5|20 fund, CI received a prototype of the Nexus Software. Nexus would make changes to the software based on CI's response and send it back to CI for further testing and feedback. Nexus and CI employees held telephonic or in-person meetings nearly every week to discuss the software and the changes needed to make the hedging

strategy useable. Wiesner worked on the CI project at Nexus's offices at least part of the time and communicated with CI through his Nexus email account.

In June 2013, CI and Nexus executed the Sub-Advisory Agreement which memorialized the terms of CI's engagement of Nexus and set forth each party's obligations and representations. The parties spent more than six months negotiating and drafting the agreement. While the parties dispute Wiesner's involvement in drafting and negotiating the Sub-Advisory Agreement, it is not disputed that Wiesner signed the Sub-Advisory Agreement on Nexus's behalf. The Sub-Advisory Agreement expressly represented that Nexus owned the Nexus Software. CI contends that the agreement also discussed the parties' Software License Agreement, which granted CI a license to use the software. Berg disagrees. In addition to executing these documents, CI received a copy of the Nexus Software source code. Providing CI with the software license was meant to prevent interruption in hedging services and ensure that the G5|20 would continue to receive such services if Nexus was unable to provide them in the future. CI argues that Wiesner raised no objections to these documents or providing the source code to CI.

In August 2013, Wiesner prepared and delivered the final pieces of the Nexus Software to CI in the form of two Excel spreadsheets known as the "Validation Tool" and "Live Trading Sheet." CI claims the Validation Tool's only use occurred in August 2013 when Wiesner used it to identify differences between the hedging trades called for by the C++ program and those called for by the Giant Spreadsheet. Nexus used the Live Trading Sheet in conjunction with the C++ program to verify the trades it made each day. Nexus would send a copy of the Live Trading Sheet to CI each day after the G5|20 fund went live so that CI could verify that Nexus had properly executed the hedging strategy.

C. Wiesner Terminated From Nexus

*3 Wiesner and Gilbert's relationship began to deteriorate in the latter part of 2012 and ultimately resulted in Nexus terminating Wiesner in November 2013. In late 2012, Wiesner sought to renegotiate his terms with Nexus. The parties disagree as to the terms of any deal they reached during their business relationship. According to Berg, on July 9, 2013, Wiesner, Gilbert, and Hede executed a "Memorandum of Understanding" under which Wiesner would receive 20% ownership in Nexus in exchange for the use of his intellectual property. In contrast, CI claims

that in early 2012, Gilbert, Hede, and Wiesner had negotiated an agreement to make Wiesner a 20% co-owner of Nexus in exchange for his sweat equity and any intellectual property he owned that Nexus used in its business. CI further claims that Wiesner opted to receive options for his 20% of Nexus instead of an immediate ownership interest for tax purposes. By taking options, he could delay paying taxes on the ownership interest until Nexus began earning fees from CI after the launch of the G5|20 fund.

According to CI, by September 2013, Wiesner had unilaterally decided to form his own company and reclaim his intellectual property from Nexus. Wiesner then drafted a purported license agreement licensing his intellectual property to Nexus for a fee. He signed the purported license agreement for both Nexus and himself. However, Gilbert never agreed to the license agreement that Wiesner signed on his behalf. CI maintains they were unaware of Wiesner's claim to own part of the Nexus Software at this time. CI argues that the first time they learned Wiesner claimed to own any part of the Nexus Software was on September 19, 2013, in an email Wiesner sent to BuFi. This email came a year after delivering the first prototype of the software to CI and a month after delivering the final pieces of the software. On November 12, 2013, Gilbert terminated Wiesner.

D. CI Terminates Nexus

CI and Nexus's relationship also began to strain. In January 2013, CI made a \$500,000 loan to Nexus so Nexus could pay its employees and overhead costs to finish developing the hedging strategy and software. In January 2014, CI made a \$1.75 million purchase of Nexus stock to allow Nexus to remain viable. During this time, the quality of Nexus's services declined and CI became doubtful that Nexus could remain solvent. For that reason, CI decided to replace Nexus. In November 2014, CI terminated Nexus's services for the G5|20 fund.

As part of the termination, and in addition to the monthly risk management fees that CI paid Nexus, CI paid Nexus a \$100,000 termination fee. CI also acquired the Nexus Software as part of the termination, in part, for accounting purposes so that CI could treat its \$2.25 million financing of Nexus (the \$500,000 loan and \$1.75 million stock purchase) as an asset purchase to be amortized over a period of ten years—instead of recognizing the entire \$2.25 million as a loss in the fourth quarter of 2014. At the same time, CI licensed the software back to Nexus for \$1.

LEGAL STANDARD

I. Motion to Strike

A motion to strike is governed by [Federal Rule of Civil Procedure 12\(f\)](#). Under [Rule 12\(f\)](#), upon a motion by a party a court may strike from any pleading “any insufficient defense or any redundant, immaterial, impertinent, or scandalous matter.” Granting a motion to strike is a drastic measure. [McDowell v. Morgan Stanley & Co.](#), 645 F. Supp. 2d 690, 693 (N. D. Ill. 2009). Furthermore, a motion to strike at the summary judgment stage is disfavored and generally unnecessary, because the Court may only consider admissible evidence when ruling on a motion for summary judgment. [Gunville v. Walker](#), 583 F.3d 979, 985 (7th Cir. 2009). For those reasons, Courts generally do not grant motions to strike unless the defect in the pleading causes some prejudice to the party bringing the motion. See [Affiliated Capital Corp. v. Buck](#), No. 1994 WL 691189, at *4 (N. D. Ill. Dec. 2, 1994).

II. Summary Judgment

A motion for summary judgment requires the Court to construe all facts and to draw all reasonable inferences in favor of the non-movant. [Anderson v. Liberty Lobby, Inc.](#), 477 U.S. 242, 255 (1986). Summary judgment is appropriate “if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” [Fed. R. Civ. P. 56\(a\)](#). A genuine issue of material fact arises where a reasonable jury could find, based on the evidence of record, in favor of the non-movant. [Anderson](#), 477 U.S. at 248. In ruling on a motion for summary judgment, the Court considers the whole record. See [Id.](#) at 255–56.

*4 [Northern District of Illinois Local Rule 56.1](#) requires the “party moving for summary judgment to include with that motion ‘a statement of material facts as to which the moving party contends there is no genuine issue and that entitles the moving party to a judgement as a matter of law.’ ” [Ammons v. Aramark Unif. Servs., Inc.](#), 368 F.3d 809, 817 (7th Cir. 2004) (quoting N.D. Ill. R. 56.1(a)(3)). “The movant bears the initial burden of showing that no genuine issue of material fact exists.” [Genova v. Kellogg](#), 2015 WL 3930351, at *3 (N.D. Ill. June 25, 2015). “The burden then shifts to the nonmoving party to show through specific evidence that a triable issue of fact

remains on issues on which the movant bears the burden of proof at trial.” *Id.* The non-moving party must respond to the movant’s Local Rule 56.1(a)(3) statement and may not rest upon mere allegations in the pleadings or upon conclusory statements in affidavits. N.D. Ill. R. 56.1(b); see *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986). The non-movant must support her contentions with documentary evidence of specific facts that demonstrate that there is a genuine issue for trial. *Celotex*, 477 U.S. at 324.

DISCUSSION

I. Motions to Strike

We first address the various motions to strike, as their resolutions will affect the universe of facts available for our consideration.

A. Berg’s Motion to Strike Certain Paragraphs of Claudio Bufi’s Declaration

Berg moves to strike paragraphs 4, 11, 12, 13, 15, 16, 17, 24, 26, 28, 29, 30, 31, 32, 33, 34, 35, 38, and 44 from Bufi’s Declaration. According to Berg, this Court should strike these paragraphs because they: (i) contradict Bufi’s deposition testimony; (ii) state legal conclusions by referring to Wiesner as a Nexus employee; or (iii) constitute conclusory opinions. As stated at the December 22, 2016 motion hearing, Bufi’s two varying statements create a “credibility issue” for the Court. Instead of striking Bufi’s statements, the appropriate course of action is for the Court to examine the evidence and make a determination “whether or not one or another is true or whether they are incompatible or compatible.” Additionally, while Berg disagrees with Bufi’s categorization of Wiesner’s employment status, she has had an opportunity to challenge those assertions in her response brief and Local Rule 56.1 materials. The Court will examine the facts presented and decide if Bufi’s statements regarding Wiesner’s employment status are supported or contradicted by the record. Because these are not circumstances that merit the drastic relief that Berg seeks, the motion to strike is denied.

B. CI’s Motion to Strike Berg’s Local Rule 56.1 Materials

CI requests this Court to disregard Berg’s Local “Rule 56.1 materials entirely and decide the motion on CI’s statement alone.” CI contends, “Berg denies facts without properly supporting the denials with evidence and relies on legal conclusions and misstatements of evidence to support her additional ‘facts.’” CI is correct that Local Rule 56.1 is designed to assist the Court in deciding a motion for summary judgment by requiring the parties to identify undisputed facts, organize the evidence, and demonstrate specifically how each side proposes to prove disputed facts using record evidence. *Bordelon v. Chi. Sch. Reform Bd. of Trustees*, 233 F.3d 524, 527 (7th Cir. 2000). However, the Seventh Circuit has repeatedly held that courts are allowed “considerable deference” in interpreting local rules. See *Stevio v. Frasor*, 662 F.3d 880, 887 (7th Cir. 2011). While we agree that Berg could have written with more clarity and organization, we do not find that reason enough to impose the extreme sanction CI is requesting. Therefore, CI’s motion to strike Berg’s Local Rule 56.1 Materials is denied.

C. CI’s Motion to Strike the Affidavit of Ian Hamilton and Additional Statements 46-48, which Rely on Affidavit

*5 CI argues this Court should disregard Hamilton’s affidavit because Berg did not previously disclose Hamilton’s opinion, in violation of Rule 26. Under Rule 26(a)(2), a party cannot rely on an undisclosed expert opinion to oppose summary judgment. *Mannoia v. Farrow*, 476 F.3d 453, 456 (7th Cir. 2007). Furthermore, “Rule 37 provides that “[i]f a party fails to provide information or identify a witness as required by Rule 26(a) or (e), the party is not allowed to use that information or witness to supply evidence on a motion, at a hearing, or at a trial, unless the failure was substantially justified or is harmless.” Fed. R. Civ. P. 37(c)(1).”

Berg contends that its disclosure was not untimely because there was no date set to disclose experts due to the parties entering into an abnormal discovery schedule. The Agreed Order signed by Magistrate Judge Cole on January 28, 2016 clearly states that “the parties have opted out of Rule 26 disclosure requirements.” For that reason, Berg and CI had no duty to exchange Rule 26(a) disclosures as CI now claims.

CI also argues we should strike Hamilton’s affidavit because it fails to meet the requirements of an expert opinion. Specifically, CI maintains that Hamilton’s

affidavit “offers only vague opinions without explaining the bases or methodology used to arrive at them.” We agree. The Seventh Circuit has “said over and over that an expert’s ipse dixit is inadmissible.” *Wendler & Ezra, P.C. v. Am. Int’l Grp., Inc.*, 521 F.3d 790, 791 (7th Cir. 2008). Rule 56(e) of the Rules of Civil Procedure provides that affidavits supporting and opposing motions for summary judgment must do more than present something that will be admissible into evidence. Expert affidavits must “set forth facts” and a process of reasoning leading to the experts conclusion. *Mid-State Fertilizer Co. v. Exch. Nat. Bank of Chicago*, 877 F.2d 1333, 1339 (7th Cir. 1989). “It will not do to say that it must all be left to the skill of experts. Expertise is a rational process and a rational process implies expressed reasons for judgment.” *Id.* (quoting *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 627 (1944)). “An expert who supplies nothing but a bottom line supplies nothing of value to the judicial process.” *Mid-State Fertilizer Co. v. Exch. Natl. Bank*, 877 F.2d 1333, 1339 (7th Cir. 1989); see *Story v. Latto*, 702 F. Supp. 708, 709 (N.D. Ill. 1989) (“[A]n opinion, even if rendered by an expert, does not create a genuine issue of material fact unless the expert sets forth specific facts to support his opinion.”).

Here, Hamilton’s affidavit simply states that, based on the review of undefined “source material” and “intellectual property created by John Wiesner,” he “concluded that the material produced by CI Investments, Inc. contains a Skewed Volatility Formula that is substantially similar to a Skewed Volatility Formula identified by John Wiesner as being created by him in 2001.” Hamilton fails to identify any of the specific facts or steps in his reasoning that led him to the conclusion. He does not identify the “source material” he reviewed. He does not articulate how the two formulas were alike or what degree of similarity was necessary to deem them “substantially similar.” Berg attempts to preserve Hamilton’s affidavit by imploring the Court to consider Hamilton’s experience, not his findings. Offering up Hamilton’s curriculum vitae rather than specific facts depicting how Hamilton arrived at his conclusions will not suffice. For that reason, the affidavit and related statements 46-48 are stricken.

II. Summary Judgment

A. Count IV—Copyright Infringement

I. Work For Hire

*6 CI contends that Berg does not own a copyright in the Giant Spreadsheet under the “work made for hire” theory. According to CI, since Wiesner was an employee of Nexus when the Giant Spreadsheet was created, he cannot claim ownership of that property. In contrast, Berg claims that the evidence shows that Wiesner was not a Nexus employee during the entirety of the development of the Giant Spreadsheet. Thus, Nexus cannot claim ownership under the work made for hire theory.

Generally, copyright ownership initially vests in the author or authors of the work. 17 U.S.C. § 201(a). “In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.” *Id.* at § 201(b). The creator of the property is the owner, unless he is an employee creating the property within the scope of his employment. *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410, 413 (7th Cir. 1992). To determine whether a work was made within the scope of employment, a court must apply the general law of common agency. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 751 (1989). Under the general common law of agency, the court should consider the hiring party’s right to control the manner and means by which the product is accomplished. *Id.* Additional facts relevant to this inquiry include: the skill required to create the work; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and for how long to work; the method of payment; the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party. *Id.* at 751-52. None of these factors alone are determinative. *Id.*

Both parties agree that Wiesner was a Nexus employee from August 24, 2012 to October 2012 and from February 28, 2013 until his termination on November 12, 2013. However, the parties disagree about Wiesner’s employment status from November 2010 until August 24, 2012 and October or early November 2012 until February 28, 2013.

CI maintains Wiesner was a Nexus employee beginning in November 2010. In support of its claim, CI directs this Court to an email from November 17, 2010 with the subject line “New Nexus Team Member.” In the email,

Gilbert, writing to Nexus staff members, states “that John Wiesner ha[d] joined Nexus effective immediately.” By the end of November Nexus had provided Wiesner with a computer, a Nexus email account, and access to Nexus’ computer network. Wiesner received a Nexus business card in January 2011. During this period, Wiesner was also provided with software, and subscriptions to Bloomberg Terminal and Active Financial. Nexus listed Wiesner as “President and Managing Director, Nexus Risk Management LLC (Chicago)” in a written presentation and business plan provided to CI in December, 2011. Also, in December 2011 Wiesner signed a lease on behalf of Nexus for office space in Chicago.

In contrast, Berg asserts that Wiesner was an independent contractor for Nexus from November 2010 until August 24, 2012. Berg, like CI, directs this Court to emails from November 2010 to explain the parties’ business relationship. On November 16, 2010, Gilbert and Wiesner discussed Wiesner’s role within Nexus. In the emails, Wiesner states that he “work[s] for Nexus on [c]ontract.” The emails further state that Wiesner is a “shared resource by CBOE and Nexus.” When discussing Wiesner’s pay, Wiesner told Gilbert that “[h]aving some assurity of a minimum of \$60k decreases my need to find other outside consulting work.” In response, Gilbert writes that Nexus “guarantee[s] a minimum of 12 weeks per year at USD 5,000 per week.” Furthermore, the emails show that Wiesner, not CI, had control over when and for how long to work. For example, Gilbert writes to Wiesner asking if Nexus would like more of Wiesner’s time:

*7 [s]ay one month we want more of your time but you can only give us one full dedicated week. Can we pay you 10,000 for that month with the understanding you will be doing a total of 2 weeks work spread out over the month—1 week blocked off and the other week as you are able to find the time?

Additionally, while CI claims that Wiesner being provided with a computer, email address, and business card shows that Wiesner was an employee, the emails between Gilbert and Wiesner paint a different picture. Gilbert simply asks Wiesner if he wanted a “@nexusrisk.com email account and business cards.” Wiesner was not required to use these resources, and was free to turn them down. Further establishing that Wiesner could have been an independent contractor is the fact that

during 2010 and 2011 Nexus did not provide Wiesner with health insurance or a W-2 form.

Based on the above facts, there is a genuine issue of material fact that cannot be answered based solely on the evidentiary material set forth by the parties. Therefore, CI’s motion for summary judgment on this ground is denied.

2. Implied License to Use the Copyrighted Materials

According to CI, Wiesner’s actions, and inactions, granted CI an implied license to use Wiesner’s intellectual property. Berg argues that an implied license did not exist between Wiesner and CI because CI did not request the creation of Wiesner’s intellectual property. Additionally, Berg asserts that even if an implied license existed between Wiesner and CI, there is a genuine factual dispute as to if and when that license was revoked.

A copyright owner may transfer his exclusive rights in a copyright only in writing. 17 U.S.C. § 204(a). Only nonexclusive licenses may be transferred without being reduced to writing. 17 U.S.C. § 101. An exclusive license permits the licensee to use the copyright protected material for a specific use while at the same time promising that permission will not be given to others. *Muhammad Ali v. Final Call, Inc.*, 832 F. 3d 755, 762 (7th Cir. 2016). An implied nonexclusive license does not transfer ownership of the copyright to the licensee. *Id.* Rather, the copyright owner simply permits the use of a copyrighted work in a specific manner. *Id.*

An implied license is found to be granted when (i) a person (licensee) requests the creation of work; (ii) the creator (licensor) makes that particular work and delivers it to the licensee; and (iii) the licensor intends that the licensee-requestor copy and distribute his work. *Id.* Berg only contests the first element of an implied license.

Berg argues Wiesner did not create the copyrighted works at CI’s request because CI never expressly requested creation of the Copyrighted Spreadsheets. We disagree. CI needed a hedging service created for their G5|20 fund. CI specifically contracted with Nexus to provide such a platform. Wiesner either as an employee or an independent contractor was paid to help Nexus create the Nexus Software for CI’s requested need. Wiesner testified at his deposition that the Giant Spreadsheet was created “specifically for the Nexus project with CI.” In addition,

Wiesner helped create the other elements of the software at issue for CI. Wiesner created a Modified Black-Scholes formula similar to the one in the Weeza-tron for the software. Wiesner also created a table of closing prices of the VIX and SPX indices similar to the one found in the Realized Historical VIX spreadsheet. While Wiesner may have borrowed ideas from these Copyrighted Spreadsheets, the evidence suggests that the actual formula and table of closing prices in the Nexus Software were created specifically for the CI project.

*8 Additionally, the Seventh Circuit has “recognized that a nonexclusive license may be implied from conduct.” *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 775 (7th Cir. 1996). Here, Wiesner never objected to CI’s use of the software during the two years of its development and even participated in Nexus’s licensing the software to CI. *Id.* (“[L]ack of objection is also equivalent to a nonexclusive license.”). On June 28, 2013, Nexus, by Wiesner, and CI signed a Sub-Advisory Agreement which licensed the software created by Nexus to CI. The Sub-Advisory Agreement represented that Nexus owned the Nexus Software. Additionally, and contrary to Berg’s assertions, the overwhelming evidence shows that Wiesner did not hold out to CI that he owned any part of the software until after its creation and delivery. Wiesner even suggested in an email to Gilbert and Hede that Nexus should charge CI a fee to license the software. The facts demonstrate that, at the time the software was created and delivered, Wiesner did not intend for CI to secure any additional license to use the software. Therefore, CI has an implied license to use the copyrighted materials.

Berg argues that even if CI did have an implied license, it was revoked. According to Berg, the implied license was revoked because: (i) any implied license included a condition precedent that was never satisfied, and (ii) Wiesner’s letters to CI after his termination served as revocation of the implied license. We agree with CI that “[n]either argument has any merit.”

First, use of the copyrighted material was not subject to any condition precedent. Berg’s contention that a condition precedent existed finds no support in the record. A condition precedent is something “which must occur or an act which must be performed by one party to an existing contract before the other party is obligated to perform.” *Beal Bank Nev. v. Northshore Ctr. THC, LLC*, 64 N.E.3d 201, 207 (Ill. App. 2016) (citation omitted). They “are disfavored and will not be read into a contract unless required by plain, unambiguous language.” *I.A.E.*, 74 F.3d at 778 (citation omitted); *See Navarro v. F.D.I.C.*, 371 F.3d 979, 981 (7th Cir. 2004) (“Conditions precedent are generally disfavored” while interpretations that do not

include them are favored.). “In Illinois, the courts do not construe a contract to have a condition precedent unless there is language in the instrument that is unambiguous or the intent to create such a condition is apparent from the face of the agreement.” *Homeowners Choice, Inc. v. Aon Benfield, Inc.*, 938 F. Supp. 2d 749, 758 (N. D. Ill. 2013), *aff’d* 550 Fed.Appx. 311 (7th Cir. 2013) (citation omitted). The party alleging a condition precedent “bears the burden of establishing that the parties intended to create a condition at the time the contract was made.” *Id.* (quoting *MCM Partners, Inc. v. Andrews-Bartlett & Assocs., Inc.*, 161 F.3d 443, 447 (7th Cir. 1998)).

Here, Berg has not shown that a condition precedent existed, or that Nexus unambiguously intended to make it part of their agreement. The emails discussing the agreement do not mention any such condition precedent. Likewise, the July 2013 memorandum of understanding, which modified the original agreement, contains no such condition precedent. *Homeowners*, 938 F. Supp. 2d at 758 (proponent of condition precedent must establish an unambiguous intent to create the condition precedent at the time of contracting). And despite knowing that CI and Nexus were using the software throughout its development, there is no evidence Wiesner ever told anyone at CI that such use was unauthorized because he had not yet received his 20% interest in Nexus. *See, e.g., I.A.E.*, 74 F.3d at 778 (rejecting condition precedent because “nothing in the contract or in [plaintiff’s] later letter indicates that full payment was a condition precedent to the use of his drawings.”). The facts, including Wiesner’s own words, show Wiesner opted to take options for his 20% stake in Nexus—seemingly for tax purposes. In emails, the E&O application, and in his deposition, Wiesner admits that he had “warrants on 20% of Nexus, Inc.” Furthermore, Wiesner’s decision to wait until after the G5/20 fund was launched to exercise his option is reflected in emails and the memorandum of understanding. Therefore, Berg’s argument is not only unsupported by facts, but it is contradicted by Wiesner’s admissions.

*9 Berg’s second argument is that Wiesner’s letters to CI after his termination served as revocation of the implied license. However, a review of those letters and Wiesner’s testimony refute this argument. In his letters, Wiesner threatens to revoke Nexus and CI’s ability to use his supposed intellectual property if the parties do not work out a deal to compensate him. While the letters threaten revocation, they did not actually revoke the implied license. Berg offers no evidence that Wiesner ever took future action after sending the emails. Additionally, Wiesner testified at his deposition that he never attempted to revoke acceptance in writing and could not identify any

attempt to do so orally. For example,

Q: And when did you revoke and take your IP out of the partnership? When did you revoke that and take your IP out?

A: I did not take it out yet.

Q: What?

A: I have not taken it out yet. They still have it.

Q: Did you ever tell [CI] that you had revoked the IP?

A: I don't think so.

Thus, there is no evidence that Wiesner revoked the implied license. For that reason, the motion for summary judgment on Count IV is granted.

Count V-Unjust enrichment

CI argues this Court should enter summary judgment in CI's favor on Berg's unjust enrichment claim because it is preempted by the Copyright Act and the Illinois Trade Secrets Act (the "ITSA"). In response, Berg claims that CI has been unjustly enriched by receiving the benefits of Wiesner's intellectual property without proper compensation.

The purpose of the ITSA was to codify the various common law remedies for theft of ideas. *Learning Curve Toys, L.P. v. Playwood Toys, Inc.*, 1999 WL 529572, at *3 (N.D. Ill. July 20, 1999). For that reason, the ITSA "abolished all common law theories of misuse of ... information." ' *Id.* (quoting *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992)). Thus, the ITSA preempts Berg's unjust enrichment claims. See *Spitz v. Proven Winners N. Am., LLC*, 759 F.3d 724, 733 (7th Cir. 2014).

Similarly, Section 301(a) expressly preempts state common law claims based upon subject matter and rights equivalent to those addressed in the Copyright Act. 17 U.S.C. § 301(a). A state law claim may be equivalent to a copyright claim even if it requires additional elements, if the additional elements do not differ in kind from those necessary for the copyright claim. *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 677-78 (7th Cir. 1986). To avoid preemption, a state law claim must allege conduct that is qualitatively different from that governed by federal copyright law. *Toney v. L'Oreal USA, Inc.*, 406 F.3d 905, 910 (7th Cir. 2005). Berg has failed to do that. To the contrary, Berg expressly incorporated her copyright infringement claims into her unjust enrichment claim. The only new allegation she brings forth under Count V is that CI was unjustly enriched because it "undervalue[ed] and underpay[ed] for Wiesner's work." However, Berg offers no evidence that CI determined Wiesner's compensation. As CI correctly notes, "Wiesner's belief that he was undercompensated for his work has nothing to do with CI; it is an issue between him and his former employer, Nexus." Therefore, Count V is preempted by the Copyright Act and the ITSA.

CONCLUSION

For the aforementioned reasons, CI's motion for partial summary judgment on Counts IV and V of Berg's Second Amended Complaint is granted. CI's motion to strike the affidavit of Hamilton and additional statements 46-48, which rely on the affidavit, is also granted. All other motions are denied. It is so ordered.

All Citations

Not Reported in Fed. Supp., 2017 WL 1304082

137 S.Ct. 1002
Supreme Court of the United States
STAR ATHLETICA, L.L.C., Petitioner
v.
VARSITY **BRANDS**, INC., et al.

No. 15–866.

Argued Oct. 31, 2016.

Decided March 22, 2017.

Synopsis

Background: Manufacturer of cheerleading uniforms brought action against competitor, alleging infringement of manufacturer's copyrighted uniform designs and asserting multiple state law claims. Competitor counterclaimed. The United States District Court for the Western District of Tennessee, No. 2:10–cv–02508, [Robert H. Cleland, J., 2014 WL 819422](#), entered summary judgment for competitor. Manufacturer appealed. The United States Court of Appeals for the Sixth Circuit, [Karen Nelson Moore](#), Circuit Judge, [799 F.3d 468](#), reversed and remanded. Certiorari was granted.

Holdings: The Supreme Court, Justice [Thomas](#), held that:

^[1] a feature incorporated into the design of a useful article is eligible for copyright protection only if the feature can be perceived as a two- or three-dimensional work of art separate from the useful article, and it would qualify as a protectable pictorial, graphic, or sculptural work, either on its own or fixed in some other tangible medium of expression, if it were imagined separately from the useful article into which it is incorporated;

^[2] arrangements of lines, chevrons, and colorful shapes appearing on surface of cheerleading uniforms were eligible for copyright protection as separable features; and

^[3] a distinction between physical separability and conceptual separability is unnecessary, abrogating *Chosun Int'l, Inc. v. Chrisha Creations, Ltd.*, 413 F.3d 324.

Affirmed.

Justice [Ginsburg](#) filed an opinion concurring in the

judgment.

Justice [Breyer](#) filed a dissenting opinion, in which Justice [Kennedy](#) joined.

West Headnotes (15)

- ^[1] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works
Copyrights and Intellectual Property
🔑 Other works

A feature incorporated into the design of a useful article is eligible for copyright protection only if the feature: (1) can be perceived as a two- or three-dimensional work of art separate from the useful article, and (2) would qualify as a protectable pictorial, graphic, or sculptural work, either on its own or fixed in some other tangible medium of expression, if it were imagined separately from the useful article into which it is incorporated. [17 U.S.C.A. §§ 101, 102\(a\)\(5\)](#).

15 Cases that cite this headnote

- ^[2] **Copyrights and Intellectual Property**
🔑 Nature and elements of injury

The first element of a copyright-infringement claim is ownership of a valid copyright. [17 U.S.C.A. § 102\(a\)](#).

5 Cases that cite this headnote

- ^[3] **Copyrights and Intellectual Property**
🔑 Scope of Exclusive Rights; Limitations

A valid copyright extends only to copyrightable subject matter. [17 U.S.C.A. § 102\(a\)](#).

4 Cases that cite this headnote

- [4] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

Separability analysis, to determine whether features could be separately identified from and exist independently of the useful article, as required for eligibility for copyright protection, was necessary, with respect to arrangements of lines, chevrons, and colorful shapes appearing on surface of cheerleading uniforms; the arrangements were two-dimensional pictorial or graphic features incorporated into the design of a useful article. 17 U.S.C.A. §§ 101, 102(a)(5).

3 Cases that cite this headnote

- [5] **Federal Courts**
🔑 Presentation of Questions Below or on Review; Record; Waiver

The Supreme Court generally does not entertain arguments that were not raised below and that were not advanced in the Court by any party, because it is not the Court's usual practice to adjudicate either legal or predicate factual questions in the first instance.

1 Cases that cite this headnote

- [6] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

Deciding when a pictorial, graphic, or sculptural feature of a useful article could be identified separately from and was capable of existing independently of the utilitarian aspects of the article, as required for eligibility for copyright protection, was not a free-ranging search for the best copyright policy, but rather depended solely on statutory interpretation. 17 U.S.C.A. §§ 101, 102(a)(5).

3 Cases that cite this headnote

- [7] **Statutes**
🔑 Giving effect to statute or language; construction as written

Courts must give effect to the clear meaning of statutes as written.

13 Cases that cite this headnote

- [8] **Statutes**
🔑 Plain language; plain, ordinary, common, or literal meaning

To give effect to the clear meaning of statutes as written, the court gives each word its ordinary, contemporary, common meaning.

16 Cases that cite this headnote

- [9] **Statutes**
🔑 Statute as a Whole; Relation of Parts to Whole and to One Another

Interpretation of a phrase of uncertain reach in a statute is not confined to a single sentence when the text of the whole statute gives instruction as to its meaning.

5 Cases that cite this headnote

- [10] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

The requirement that a pictorial, graphic, or sculptural feature incorporated into a useful article can be identified separately, as element for eligibility for copyright protection, is not onerous, and 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. 17 U.S.C.A. §§ 101, 102(a)(5).

6 Cases that cite this headnote

^[11] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

Arrangements of lines, chevrons, and colorful shapes appearing on surface of cheerleading uniforms were eligible for copyright protection as separable features of design of cheerleading uniforms; those surface decorations could be identified as features having pictorial, graphic, or sculptural qualities, arrangements would qualify as two-dimensional works of art if separated from uniforms and applied in another medium, and imaginatively removing surface decorations from uniforms and applying them in another medium would not replicate the uniform itself. 17 U.S.C.A. §§ 101, 102(a)(5).

3 Cases that cite this headnote

^[12] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

The focus of the separability inquiry for a pictorial, graphic, or sculptural feature incorporated into a useful article, to determine whether the feature is eligible for copyright protection, is on the extracted feature and not on any aspects of the useful article that remain after the imaginary extraction; the Copyright Act does not require the decisionmaker to imagine a fully functioning useful article without the artistic feature, and instead, it requires that the separated feature qualify as a nonuseful pictorial, graphic, or sculptural work on its own. 17 U.S.C.A. §§ 101, 102(a)(5).

11 Cases that cite this headnote

^[13] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

Separability of pictorial, graphic, or sculptural features incorporated into a useful article, as required for eligibility for copyright protection, is a conceptual undertaking that does not require the underlying useful article to remain, and thus, a distinction between physical separability and conceptual separability is unnecessary; abrogating *Chosun Int'l, Inc. v. Chrisha Creations, Ltd.*, 413 F.3d 324. 17 U.S.C.A. §§ 101, 102(a)(5).

Cases that cite this headnote

^[14] **Copyrights and Intellectual Property**
🔑 Pictorial, graphic, and sculptural works

The separability inquiry for a pictorial, graphic, or sculptural feature incorporated into a useful article, to determine whether the feature is eligible for copyright protection, is limited to how the article and feature are perceived, not how or why they were designed, or marketability. 17 U.S.C.A. §§ 101, 102(a)(5).

3 Cases that cite this headnote

^[15] **Statutes**
🔑 Legislative silence, inaction, or acquiescence

When interpreting statutes, congressional inaction lacks persuasive significance in most circumstances.

3 Cases that cite this headnote

1004 Syllabus

The Copyright Act of 1976 makes “pictorial, graphic, or sculptural features” of the “design of a useful article” eligible for copyright protection as artistic works if those

features “can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” 17 U.S.C. § 101.

Respondents have more than 200 copyright registrations for two-dimensional designs—consisting of various lines, chevrons, and colorful shapes—appearing on the surface of the cheerleading uniforms that they design, make, and sell. They sued petitioner, who also markets cheerleading uniforms, for copyright infringement. The District Court granted petitioner summary judgment, holding that the designs could not be conceptually or physically separated from the uniforms and were therefore ineligible for copyright protection. In reversing, the Sixth Circuit concluded that the graphics could be “identified separately” and were “capable of existing independently” of the uniforms under § 101.

Held : A feature incorporated into the design of a useful article is eligible for copyright protection only if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article, and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article *1005 into which it is incorporated. That test is satisfied here. Pp. 1008 – 1016.

(a) Separability analysis is necessary in this case. Respondents claim that two-dimensional surface decorations are always separable, even without resorting to a § 101 analysis, because they are “on a useful article” rather than “designs of a useful article.” But this argument is inconsistent with § 101’s text. “[P]ictorial” and “graphic” denote two-dimensional features such as pictures, paintings, or drawings. Thus, by providing protection for “pictorial, graphical, and sculptural works” incorporated into the “design of a useful article,” § 101 necessarily contemplates that such a design can include two-dimensional features. This Court will not adjudicate in the first instance the Government’s distinct argument against applying separability analysis, which was neither raised below nor advanced here by any party. Pp. 1008 – 1010.

(b) Whether a feature incorporated into a useful article “can be identified separately from,” and is “capable of existing independently of,” the article’s “utilitarian aspects” is a matter of “statutory interpretation.” *Mazer v. Stein*, 347 U.S. 201, 214, 74 S.Ct. 460, 98 L.Ed. 630. Pp. 1009 – 1012.

(1) Section 101’s separate-identification requirement is

met if the decisionmaker is able to look at the useful article and spot some two- or three-dimensional element that appears to have pictorial, graphic, or sculptural qualities. To satisfy the independent-existence requirement, the feature must be able to exist as its own pictorial, graphic, or sculptural work once it is imagined apart from the useful article. If the feature could not exist as a pictorial, graphic, or sculptural work on its own, it is simply one of the article’s utilitarian aspects. And to qualify as a pictorial, graphic, or sculptural work on its own, the feature cannot be a useful article or “[a]n article that is normally a part of a useful article,” § 101. Neither could one claim a copyright in a useful article by creating a replica of it in another medium. Pp. 1010 – 1011.

(2) The statute as a whole confirms this interpretation. Section 101, which protects art first fixed in the medium of a useful article, is essentially the mirror image of § 113(a), which protects art first fixed in a medium other than a useful article and subsequently applied to a useful article. Together, these provisions make clear that copyright protection extends to pictorial, graphic, and sculptural works regardless of whether they were created as freestanding art or as features of useful articles. Pp. 1010 – 1011.

(3) This interpretation is also consistent with the Copyright Act’s history. In *Mazer*, a case decided under the 1909 Copyright Act, the Court held that respondents owned a copyright in a statuette created for use as a lamp base. In so holding, the Court approved a Copyright Office regulation extending protection to works of art that might also serve a useful purpose and held that it was irrelevant to the copyright inquiry whether the statuette was initially created as a freestanding sculpture or as a lamp base. Soon after, the Copyright Office enacted a regulation implementing *Mazer*’s holding that anticipated the language of § 101, thereby introducing the modern separability test to copyright law. Congress essentially lifted the language from those post-*Mazer* regulations and placed it in § 101 of the 1976 Act. Pp. 1010 – 1012.

(c) Applying the proper test here, the surface decorations on the cheerleading uniforms are separable and therefore eligible for copyright protection. First, the decorations can be identified as features having pictorial, graphic, or sculptural *1006 qualities. Second, if those decorations were separated from the uniforms and applied in another medium, they would qualify as two-dimensional works of art under § 101. Imaginatively removing the decorations from the uniforms and applying them in another medium also would not replicate the uniform itself.

The dissent argues that the decorations are ineligible for

copyright protection because, when imaginatively extracted, they form a picture of a cheerleading uniform. Petitioner similarly claims that the decorations cannot be copyrighted because, even when extracted from the useful article, they retain the outline of a cheerleading uniform. But this is not a bar to copyright. Just as two-dimensional fine art correlates to the shape of the canvas on which it is painted, two-dimensional applied art correlates to the contours of the article on which it is applied. The only feature of respondents' cheerleading uniform eligible for a copyright is the two-dimensional applied art on the surface of the uniforms. Respondents may prohibit the reproduction only of the surface designs on a uniform or in any other medium of expression. Respondents have no right to prevent anyone from manufacturing a cheerleading uniform that is identical in shape, cut, or dimensions to the uniforms at issue here. Pp. 1011 – 1013.

(d) None of the objections raised by petitioner or the Government is meritorious. Pp. 1012 – 1016.

(1) Petitioner and the Government focus on the relative utility of the plain white uniform that would remain if the designs were physically removed from the uniform. But the separability inquiry focuses on the extracted feature and not on any aspects of the useful article remaining after the imaginary extraction. The statute does not require the imagined remainder to be a fully functioning useful article at all. Nor can an artistic feature that would be eligible for copyright protection on its own lose that protection simply because it was first created as a feature of the design of a useful article, even if it makes that article more useful. This has been the rule since *Mazer*, and it is consistent with the statute's explicit protection of "applied art." In rejecting petitioner's view, the Court necessarily abandons the distinction between "physical" and "conceptual" separability adopted by some courts and commentators. Pp. 1012 – 1015.

(2) Petitioner also suggests incorporating two "objective" components into the test—one requiring consideration of evidence of the creator's design methods, purposes, and reasons, and one looking to the feature's marketability. The Court declines to incorporate these components because neither is grounded in the statute's text. Pp. 1014 – 1015.

(3) Finally, petitioner claims that protecting surface decorations is inconsistent with Congress' intent to entirely exclude industrial design from copyright. But Congress has given limited copyright protection to certain features of industrial design. Approaching the statute with presumptive hostility toward protection for industrial

design would undermine that choice. In any event, the test adopted here does not render the underlying uniform eligible for copyright protection. Pp. 1015 – 1016.

799 F.3d 468, affirmed.

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

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Opinion

Justice THOMAS delivered the opinion of the Court.

Congress has provided copyright protection for original works of art, but not for industrial designs. The line between art and industrial design, however, is often difficult to draw. This is particularly true when an industrial design incorporates artistic elements. Congress has afforded limited protection for these artistic elements by providing that "pictorial, graphic, or sculptural features" of the "design of a useful article" are eligible for copyright protection as artistic works if those features "can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article." 17 U.S.C. § 101.

^[1] We granted certiorari to resolve widespread disagreement over the proper test for implementing § 101's separate-identification and independent-existence requirements. 578 U.S. —, 136 S.Ct. 1823, 194 L.Ed.2d 829 (2016). We hold that a feature incorporated into the design of a useful article is eligible for copyright protection only if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article into which it is incorporated. Because that test is satisfied in this case, we affirm.

I

Respondents Varsity Brands, Inc., Varsity Spirit Corporation, and Varsity Spirit Fashions & Supplies, Inc., design, make, and sell cheerleading uniforms. Respondents have obtained or acquired more than 200 U.S. copyright registrations for two-dimensional designs appearing on the surface of their uniforms and other garments. These designs are primarily “combinations, positionings, and arrangements of elements” that include “chevrons ..., lines, curves, stripes, angles, diagonals, inverted [chevrons], coloring, and shapes.” App. 237. At issue in this case are Designs 299A, 299B, 074, 078, and 0815. See Appendix, *infra*.

Petitioner Star Athletica, L.L.C., also markets and sells cheerleading uniforms. Respondents sued petitioner for infringing their copyrights in the five designs. The District Court entered summary judgment for petitioner on respondents' copyright claims on the ground that the designs did *1008 not qualify as protectable pictorial, graphic, or sculptural works. It reasoned that the designs served the useful, or “utilitarian,” function of identifying the garments as “cheerleading uniforms” and therefore could not be “physically or conceptually” separated under § 101 “from the utilitarian function” of the uniform. 2014 WL 819422, *8–*9 (W.D.Tenn., Mar. 1, 2014).

The Court of Appeals for the Sixth Circuit reversed. 799 F.3d 468, 471 (2015). In its view, the “graphic designs” were “separately identifiable” because the designs “and a blank cheerleading uniform can appear ‘side by side’—one as a graphic design, and one as a cheerleading uniform.” *Id.*, at 491 (quoting Compendium of U.S.

Copyright Office Practices § 924.2(B) (3d ed. 2014) (Compendium)). And it determined that the designs were “‘capable of existing independently’ ” because they could be incorporated onto the surface of different types of garments, or hung on the wall and framed as art. 799 F.3d, at 491, 492.

Judge McKeague dissented. He would have held that, because “identifying the wearer as a cheerleader” is a utilitarian function of a cheerleading uniform and the surface designs were “integral to” achieving that function, the designs were inseparable from the uniforms. *Id.*, at 495–496.

II

^[2] ^[3] The first element of a copyright-infringement claim is “ownership of a valid copyright.” *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 361, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991). A valid copyright extends only to copyrightable subject matter. See 4 M. Nimmer & D. Nimmer, Copyright § 13.01[A] (2010) (Nimmer). The Copyright Act of 1976 defines copyrightable subject matter as “original works of authorship fixed in any tangible medium of expression.” 17 U.S.C. § 102(a).

“Works of authorship” include “pictorial, graphic, and sculptural works,” § 102(a)(5), which the statute defines to include “two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans,” § 101. And a work of authorship is “‘fixed’ in a tangible medium of expression when it[is] embodi[ed] in a” “material objec[t] ... from which the work can be perceived, reproduced, or otherwise communicated.” *Ibid.* (definitions of “fixed” and “copies”).

The Copyright Act also establishes a special rule for copyrighting a pictorial, graphic, or sculptural work incorporated into a “useful article,” which is defined as “an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information.” *Ibid.* The statute does not protect useful articles as such. Rather, “the design of a useful article” is “considered a pictorial, graphical, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of

existing independently of, the utilitarian aspects of the article.” *Ibid.*

Courts, the Copyright Office, and commentators have described the analysis undertaken to determine whether a feature can be separately identified from, and exist independently of, a useful article as “separability.” In this case, our task is to determine whether the arrangements of lines, chevrons, and colorful shapes appearing on the surface of respondents’ cheerleading uniforms are eligible for copyright protection as separable features *1009 of the design of those cheerleading uniforms.

drawings. See 4 *id.*, at 359 (defining “[g]raphic” to mean “[o]f or pertaining to drawing or painting”); 7 *id.*, at 830 (defining “[p]ictorial” to mean “of or pertaining to painting or drawing”). And the statute expressly defines “[p]ictorial, graphical, and sculptural works” to include “two-dimensional ... works of ... art.” § 101. The statute thus provides that the “design of a useful article” can include two-dimensional “pictorial” and “graphic” features, and separability analysis applies to those features just as it does to three-dimensional “sculptural” features.

2

A

As an initial matter, we must address whether separability analysis is necessary in this case.

1

^[4] Respondents argue that “[s]eparability is only implicated when a [pictorial, graphic, or sculptural] work is the ‘design of a useful article.’” Brief for Respondents 25. They contend that the surface decorations in this case are “two-dimensional graphic designs that appear on useful articles,” but are not themselves designs of useful articles. *Id.*, at 52. Consequently, the surface decorations are protected two-dimensional works of graphic art without regard to any separability analysis under § 101. *Ibid.*; see 2 W. Patry, Copyright § 3:151, p. 3–485 (2016) (Patry) (“Courts looking at two-dimensional design claims should not apply the separability analysis regardless of the three-dimensional form that design is embodied in”). Under this theory, two-dimensional artistic features on the surface of useful articles are “inherently separable.” Brief for Respondents 26.

This argument is inconsistent with the text of § 101. The statute requires separability analysis for any “pictorial, graphic, or sculptural features” incorporated into the “design of a useful article.” “Design” refers here to “the combination” of “details” or “features” that “go to make up” the useful article. 3 Oxford English Dictionary 244 (def. 7, first listing) (1933) (OED). Furthermore, the words “pictorial” and “graphic” include, in this context, two-dimensional features such as pictures, paintings, or

^[5] The United States makes a related but distinct argument against applying separability analysis in this case, which respondents do not and have not advanced. As part of their copyright registrations for the designs in this case, respondents deposited with the Copyright Office drawings and photographs depicting the designs incorporated onto cheerleading uniforms. App. 213–219; Appendix, *infra*. The Government argues that, assuming the other statutory requirements were met, respondents obtained a copyright in the deposited drawings and photographs and have simply reproduced those copyrighted works on the surface of a useful article, as they would have the exclusive right to do under the Copyright Act. See Brief for United States as *Amicus Curiae* 14–15, 17–22. Accordingly, the Government urges, separability analysis is unnecessary on the record in this case. We generally do not entertain arguments that were not raised below and that are not advanced in this Court by any party, *Burwell v. Hobby Lobby Stores, Inc.*, 573 U.S. —, —, 134 S.Ct. 2751, 189 L.Ed.2d 675 (2014), because “[i]t is not the Court’s usual practice to adjudicate either legal or predicate factual questions in the first instance,” *CRST Van Expedited, Inc. v. EEOC*, 578 U.S. —, —, 136 S.Ct. 1642, 1653, 194 L.Ed.2d 707 (2016). We decline to depart from our usual practice here.

*1010 B

^[6] ^[7] ^[8] ^[9] We must now decide when a feature incorporated into a useful article “can be identified separately from” and is “capable of existing independently of” “the utilitarian aspects” of the article. This is not a free-ranging search for the best copyright

policy, but rather “depends solely on statutory interpretation.” *Mazer v. Stein*, 347 U.S. 201, 214, 74 S.Ct. 460, 98 L.Ed. 630 (1954). “The controlling principle in this case is the basic and unexceptional rule that courts must give effect to the clear meaning of statutes as written.” *Estate of Cowart v. Nicklos Drilling Co.*, 505 U.S. 469, 476, 112 S.Ct. 2589, 120 L.Ed.2d 379 (1992). We thus begin and end our inquiry with the text, giving each word its “ordinary, contemporary, common meaning.” *Walters v. Metropolitan Ed. Enterprises, Inc.*, 519 U.S. 202, 207, 117 S.Ct. 660, 136 L.Ed.2d 644 (1997) (internal quotation marks omitted). We do not, however, limit this inquiry to the text of § 101 in isolation. “[I]nterpretation of a phrase of uncertain reach is not confined to a single sentence when the text of the whole statute gives instruction as to its meaning.” *Maracich v. Spears*, 570 U.S. —, —, 133 S.Ct. 2191, 2203, 186 L.Ed.2d 275 (2013). We thus “look to the provisions of the whole law” to determine § 101’s meaning. *United States v. Heirs of Boisdore*, 8 How. 113, 122, 12 L.Ed. 1009 (1849).

1

^[10] The statute provides that a “pictorial, graphic, or sculptural featur[e]” incorporated into the “design of a useful article” is eligible for copyright protection if it (1) “can be identified separately from,” and (2) is “capable of existing independently of, the utilitarian aspects of the article.” § 101. The first requirement—separate identification—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. See 2 Patry § 3:146, at 3–474 to 3–475.

The independent-existence requirement is ordinarily more difficult to satisfy. The decisionmaker must determine that the separately identified feature has the capacity to exist apart from the utilitarian aspects of the article. See 2 OED 88 (def. 5) (defining “[c]apable” of as “[h]aving the needful capacity, power, or fitness for”). 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. If the feature is not capable of existing as a pictorial, graphic, or sculptural work once separated from the useful article, then it was not a pictorial, graphic, or sculptural feature of that article, but rather one of its utilitarian aspects.

Of course, to qualify as a pictorial, graphic, or sculptural work on its own, the feature cannot itself be a useful article or “[a]n article that is normally a part of a useful article” (which is itself considered a useful article). § 101. Nor could someone claim a copyright in a useful article merely by creating a replica of that article in some other medium—for example, a cardboard model of a car. Although the replica could itself be copyrightable, it would not give rise to any rights in the useful article that inspired it.

2

The statute as a whole confirms our interpretation. The Copyright Act provides “the owner of [a] copyright” with the “exclusive righ[t] ... to reproduce the copyrighted work in copies.” § 106(1). The statute clarifies that this right “includes the right to reproduce the [copyrighted] work in or on any kind of article, whether useful or otherwise.” § 113(a). *1011 Section 101 is, in essence, the mirror image of § 113(a). Whereas § 113(a) protects a work of authorship first fixed in some tangible medium other than a useful article and subsequently applied to a useful article, § 101 protects art first fixed in the medium of a useful article. The two provisions make clear that copyright protection extends to pictorial, graphic, and sculptural works regardless of whether they were created as freestanding art or as features of useful articles. The ultimate separability question, then, is whether the feature for which copyright protection is claimed would have been eligible for copyright protection as a pictorial, graphic, or sculptural work had it originally been fixed in some tangible medium other than a useful article before being applied to a useful article.

3

This interpretation is also consistent with the history of the Copyright Act. In *Mazer*, a case decided under the 1909 Copyright Act, the respondents copyrighted a statuette depicting a dancer. The statuette was intended for use as a lamp base, “with electric wiring, sockets and lamp shades attached.” 347 U.S., at 202, 74 S.Ct. 460. Copies of the statuette were sold both as lamp bases and separately as statuettes. *Id.*, at 203, 74 S.Ct. 460. The petitioners copied the statuette and sold lamps with the

statuette as the base. They defended against the respondents' infringement suit by arguing that the respondents did not have a copyright in a statuette intended for use as a lamp base. *Id.*, at 204–205, 74 S.Ct. 460.

Two of *Mazer*'s holdings are relevant here. First, the Court held that the respondents owned a copyright in the statuette even though it was intended for use as a lamp base. See *id.*, at 214, 74 S.Ct. 460. In doing so, the Court approved the Copyright Office's regulation extending copyright protection to works of art that might also serve a useful purpose. See *ibid.* (approving 37 C.F.R. § 202.8(a) (1949) (protecting "works of artistic craftsmanship, in so far as their form but not their mechanical or utilitarian aspects are concerned"))).

Second, the Court held that it was irrelevant to the copyright inquiry whether the statuette was initially created as a freestanding sculpture or as a lamp base. 347 U.S., at 218–219, 74 S.Ct. 460 ("Nor do we think the subsequent registration of a work of art published as an element in a manufactured article, is a misuse of copyright. This is not different from the registration of a statuette and its later embodiment in an industrial article"). *Mazer* thus interpreted the 1909 Act consistently with the rule discussed above: If a design would have been copyrightable as a standalone pictorial, graphic, or sculptural work, it is copyrightable if created first as part of a useful article.

Shortly thereafter, the Copyright Office enacted a regulation implementing the holdings of *Mazer*. See 1 Nimmer § 2A.08[B][1][b] (2016). As amended, the regulation introduced the modern separability test to copyright law:

"If the sole intrinsic function of an article is its utility, the fact that the article is unique and attractively shaped will not qualify it as a work of art. However, if the shape of a utilitarian article incorporates features, such as artistic sculpture, carving, or pictorial representation, which can be identified separately and are capable of existing independently as a work of art, such features will be eligible for registration." 37 C.F.R. § 202.10(c) (1960) (punctuation altered).

Congress essentially lifted the language governing protection for the design of a useful article directly from the post-*Mazer* regulations and placed it into § 101 of the *1012 1976 Act. Consistent with *Mazer*, the approach we outline today interprets §§ 101 and 113 in a way that would afford copyright protection to the statuette in *Mazer* regardless of whether it was first created as a standalone sculptural work or as the base of the lamp. See

347 U.S., at 218–219, 74 S.Ct. 460.

C

In sum, a feature of the design of a useful article 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.

^[11] Applying this test to the surface decorations on the cheerleading uniforms is straightforward. First, one can identify the decorations as features having pictorial, graphic, or sculptural qualities. Second, if the arrangement of colors, shapes, stripes, and chevrons on the surface of the cheerleading uniforms were separated from the uniform and applied in another medium—for example, on a painter's canvas—they would qualify as "two-dimensional ... works of ... art," § 101. And imaginatively removing the surface decorations from the uniforms and applying them in another medium would not replicate the uniform itself. Indeed, respondents have applied the designs in this case to other media of expression—different types of clothing—without replicating the uniform. See App. 273–279. The decorations are therefore separable from the uniforms and eligible for copyright protection.¹

The dissent argues that the designs are not separable because imaginatively removing them from the uniforms and placing them in some other medium of expression—a canvas, for example—would create "pictures of cheerleader uniforms." *Post*, at 1035 – 1036 (opinion of BREYER, J.). Petitioner similarly argues that the decorations cannot be copyrighted because, even when extracted from the useful article, they retain the outline of a cheerleading uniform. Brief for Petitioner 48–49.

This is not a bar to copyright. Just as two-dimensional fine art corresponds to the shape of the canvas on which it is painted, two-dimensional applied art correlates to the contours of the article on which it is applied. A fresco painted on a wall, ceiling panel, or dome would not lose copyright protection, for example, simply because it was designed to track the dimensions of the surface on which it was painted. Or consider, for example, a design etched or painted on the surface of a guitar. If that entire design is imaginatively removed from the guitar's surface and placed on an album cover, it would still resemble the shape of a guitar. But the image on the cover does not

“replicate” the guitar as a useful article. Rather, the design is a two-dimensional work of art that corresponds to the shape of the useful article to which it was applied. The statute protects that work of art whether it is first drawn on the album cover and then applied to the guitar’s surface, or vice versa. Failing to protect that art would create an anomaly: It would extend protection to two-dimensional designs that cover a part of a useful article but would not protect the same design if it covered the entire article. The statute does not support that distinction, nor can it be reconciled *1013 with the dissent’s recognition that “artwork printed on a t-shirt” could be protected. *Post*, at 1019 (internal quotation marks omitted).

To be clear, the only feature of the cheerleading uniform eligible for a copyright in this case is the two-dimensional work of art fixed in the tangible medium of the uniform fabric. Even if respondents ultimately succeed in establishing a valid copyright in the surface decorations at issue here, respondents have no right to prohibit any person from manufacturing a cheerleading uniform of identical shape, cut, and dimensions to the ones on which the decorations in this case appear. They may prohibit only the reproduction of the surface designs in any tangible medium of expression—a uniform or otherwise.²

D

Petitioner and the Government raise several objections to the approach we announce today. None is meritorious.

1

Petitioner first argues that our reading of the statute is missing an important step. It contends that a feature may exist independently only if it can stand alone as a copyrightable work *and* if the useful article from which it was extracted would remain equally useful. In other words, copyright extends only to “solely artistic” features of useful articles. Brief for Petitioner 33. According to petitioner, if a feature of a useful article “advance[s] the utility of the article,” *id.*, at 38, then it is categorically beyond the scope of copyright, *id.*, at 33. The designs here are not protected, it argues, because they are necessary to two of the uniforms’ “inherent, essential, or natural

functions”—identifying the wearer as a cheerleader and enhancing the wearer’s physical appearance. *Id.*, at 38, 48; Reply Brief 2, 16. Because the uniforms would not be equally useful without the designs, petitioner contends that the designs are inseparable from the “utilitarian aspects” of the uniform. Brief for Petitioner 50.

The Government raises a similar argument, although it reaches a different result. It suggests that the appropriate test is whether the useful article with the artistic feature removed would “remain similarly useful.” Brief for United States as *Amicus Curiae* 29 (emphasis added). In the view of the United States, however, a plain white cheerleading uniform is “similarly useful” to uniforms with respondents’ designs. *Id.*, at 27–28.

^[12] The debate over the relative utility of a plain white cheerleading uniform is unnecessary. The focus of the separability inquiry is on the extracted feature and not on any aspects of the useful article that remain after the imaginary extraction. The statute does not require the decisionmaker to imagine a fully functioning useful article without the artistic feature. Instead, it requires that the separated feature qualify as a nonuseful pictorial, graphic, or sculptural work on its own.

Of course, because the removed feature may not be a useful article—as it would *1014 then not qualify as a pictorial, graphic, or sculptural work—there necessarily would be some aspects of the original useful article “left behind” if the feature were conceptually removed. But the statute does not require the imagined remainder to be a fully functioning useful article at all, much less an equally useful one. Indeed, such a requirement would deprive the *Mazer* statuette of protection had it been created first as a lamp base rather than as a statuette. Without the base, the “lamp” would be just a shade, bulb, and wires. The statute does not require that we imagine a nonartistic replacement for the removed feature to determine whether that *feature* is capable of an independent existence.

Petitioner’s argument follows from its flawed view that the statute protects only “solely artistic” features that have no effect whatsoever on a useful article’s utilitarian function. This view is inconsistent with the statutory text. The statute expressly protects two- and three-dimensional “applied art.” § 101. “Applied art” is art “employed in the decoration, design, or execution of useful objects,” Webster’s Third New International Dictionary 105 (1976) (emphasis added), or “those arts or crafts that have a *primarily utilitarian function*, or ... the designs and decorations used in these arts,” Random House Dictionary 73 (1966) (emphasis added); see also 1 OED 576 (2d ed. 1989) (defining “applied” as “[p]ut to practical use”). An

artistic feature that would be eligible for copyright protection on its own cannot lose that protection simply because it was first created as a feature of the design of a useful article, even if it makes that article more useful.

Indeed, this has been the rule since *Mazer*. In holding that the statuette was protected, the Court emphasized that the 1909 Act abandoned any “distinctions between purely aesthetic articles and useful works of art.” 347 U.S., at 211, 74 S.Ct. 460. Congress did not enact such a distinction in the 1976 Act. Were we to accept petitioner’s argument that the only protectable features are those that play absolutely no role in an article’s function, we would effectively abrogate the rule of *Mazer* and read “applied art” out of the statute.

[13] Because we reject the view that a useful article must remain after the artistic feature has been imaginatively separated from the article, we necessarily abandon the distinction between “physical” and “conceptual” separability, which some courts and commentators have adopted based on the Copyright Act’s legislative history. See H.R. Rep. No. 94–1476, p. 55 (1976). According to this view, a feature is *physically* separable from the underlying useful article if it can “be physically separated from the article by ordinary means while leaving the utilitarian aspects of the article completely intact.” Compendium § 924.2(A); see also *Chosun Int’l, Inc. v. Chrisha Creations, Ltd.*, 413 F.3d 324, 329 (C.A.2 2005). *Conceptual* separability applies if the feature physically could not be removed from the useful article by ordinary means. See Compendium § 924.2(B); but see 1 P. Goldstein, Copyright § 2.5.3, p. 2:77 (3d ed. 2016) (explaining that the lower courts have been unable to agree on a single conceptual separability test); 2 Patry §§ 3:140–3:144.40 (surveying the various approaches in the lower courts).

The statutory text indicates that separability is a conceptual undertaking. Because separability does not require the underlying useful article to remain, the physical-conceptual distinction is unnecessary.

*1015 2

Petitioner next argues that we should incorporate two “objective” components, Reply Brief 9, into our test to provide guidance to the lower courts: (1) “whether the design elements can be identified as reflecting the designer’s artistic judgment exercised independently of

functional influence,” Brief for Petitioner 34 (emphasis deleted and internal quotation marks omitted), and (2) whether “there is [a] substantial likelihood that the pictorial, graphic, or sculptural feature would still be marketable to some significant segment of the community without its utilitarian function,” *id.*, at 35 (emphasis deleted and internal quotation marks omitted).

[14] We reject this argument because neither consideration is grounded in the text of the statute. The first would require the decisionmaker to consider evidence of the creator’s design methods, purposes, and reasons. *Id.*, at 48. The statute’s text makes clear, however, that our inquiry is limited to how the article and feature are perceived, not how or why they were designed. See *Brandir Int’l, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142, 1152 (C.A.2 1987) (Winter, J., concurring in part and dissenting in part) (The statute “expressly states that the legal test is how the final article is perceived, not how it was developed through various stages”).

The same is true of marketability. Nothing in the statute suggests that copyrightability depends on market surveys. Moreover, asking whether some segment of the market would be interested in a given work threatens to prize popular art over other forms, or to substitute judicial aesthetic preferences for the policy choices embodied in the Copyright Act. See *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 251, 23 S.Ct. 298, 47 L.Ed. 460 (1903) (“It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits”).

3

Finally, petitioner argues that allowing the surface decorations to qualify as a “work of authorship” is inconsistent with Congress’ intent to entirely exclude industrial design from copyright. Petitioner notes that Congress refused to pass a provision that would have provided limited copyright protection for industrial designs, including clothing, when it enacted the 1976 Act, see *id.*, at 9–11 (citing S. 22, Tit. II, 94th Cong., 2d Sess., 122 Cong. Rec. 3856–3859 (1976)), and that it has enacted laws protecting designs for specific useful articles—semiconductor chips and boat hulls, see 17 U.S.C. §§ 901–914, 1301–1332—while declining to enact other industrial design statutes, Brief for Petitioner 29, 43.

From this history of failed legislation petitioner reasons that Congress intends to channel intellectual property claims for industrial design into design patents. It therefore urges us to approach this question with a presumption against copyrightability. *Id.*, at 27.

[15] We do not share petitioner’s concern. As an initial matter, “[c]ongressional inaction lacks persuasive significance” in most circumstances. *Pension Benefit Guaranty Corporation v. LTV Corp.*, 496 U.S. 633, 650, 110 S.Ct. 2668, 110 L.Ed.2d 579 (1990) (internal quotation marks omitted). Moreover, we have long held that design patent and copyright are not mutually exclusive. See *Mazer*, 347 U.S., at 217, 74 S.Ct. 460. Congress has provided for limited copyright protection for certain features of industrial design, and approaching the statute with presumptive hostility toward protection for industrial design would undermine Congress’ choice. *1016 In any event, as explained above, our test does not render the shape, cut, and physical dimensions of the cheerleading uniforms eligible for copyright protection.

III

We hold that an artistic feature of the design of a useful article is eligible for copyright protection if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work either on its own or in some other medium if imagined separately from the useful article. Because the designs on the surface of respondents’ cheerleading uniforms in this case satisfy these requirements, the judgment of the Court of Appeals is affirmed.

It is so ordered.

APPENDIX TO OPINION OF THE COURT

APPENDIX TO OPINION OF THE COURT



*1018 Justice GINSBURG, concurring in the judgment.

I concur in the Court’s judgment but not in its opinion. Unlike the majority, I would not take up in this case the separability test appropriate under 17 U.S.C. § 101.¹ Consideration of that test is unwarranted because the designs at issue are not designs of useful articles. Instead, the designs are themselves copyrightable pictorial or graphic works reproduced on useful articles.²

A pictorial, graphic, or sculptural work (PGS work) is copyrightable. § 102(a)(5). PGS works include “two-dimensional and three-dimensional works of fine, graphic, and applied art.” § 101. Key to this case, a copyright in a standalone PGS work “includes the right to reproduce the work in or on any kind of article, whether useful or otherwise.” § 113(a). Because the owner of a copyright in a pre-existing PGS work may exclude a would-be infringer from reproducing that work on a useful article, there is no need to engage in any separability inquiry to resolve the instant petition.

The designs here in controversy are standalone pictorial and graphic works that respondents Varsity Brands, Inc., et al. (Varsity) reproduce on cheerleading uniforms. Varsity’s designs first appeared as pictorial and graphic works that Varsity’s design team sketched on paper. App. 281. Varsity then sought copyright protection for those two-dimensional designs, not for cheerleading costumes; its registration statements claimed “2-Dimensional artwork” and “fabric design (artwork).” Appendix, *infra*, at 1020 – 1023, 1025 – 1026, 1028 – 1030. Varsity next reproduced its two-dimensional graphic designs on cheerleading uniforms, also on other garments, including T-shirts and jackets. See, e.g., App. 274, 276.³

*1019 In short, Varsity’s designs are not themselves useful articles meet for separability determination under § 101; they are standalone PGS works that may gain copyright protection as such, including the exclusive right to reproduce the designs on useful articles.⁴

Appendix to opinion of GINSBURG, J.

APPENDIX

EXHIBIT 15

Certificate of Registration
Additional certificate
(17 U.S.C. 706)

[Seal of the United States
Copyright Office 1870]

This Certificate issued
under the seal of the
Copyright Office in
accordance with title 17,
United States Code,
attests that registration
has been made for the
work identified below.
The information on this
certificate has been made
a part of the Copyright
Office records.

Form VA

For a Work of the
Visual Arts

UNITED STATES
COPYRIGHT OFFICE

RE VA 1-417-427

EFFECTIVE DATE
OF REGISTRATION

5 21 07

Month Day Year

Maria A. Pallante

Acting Register of
Copyrights, United
States of America

DO NOT WRITE ABOVE THIS LINE. IF YOU
NEED MORE SPACE, USE A SEPARATE CON-
TINUATION SHEET

1 Title of This Work **NATURE OF THIS**
Design Number 078 **WORK** See instructions

2-dimensional artwork ←

Previous or Alternative Titles

Publication as a Contribution If this work was
published as a contribution to a periodical, serial, or
collection, give information about the collective work
in which the contribution appeared. **Title of Col-
lective Work**

If published in a periodical or serial give:
Volume Number Issue Date On Pages

2 NOTE Under the law the "author" of a "work
made for hire" is generally the employer, not the
employee (see instructions). For any part of this work
that was "made for hire" check "Yes" in the space
provided, give the employer (or other person for
whom the work was prepared) as "Author" of that
part, and leave the space for dates of birth and death
blank.

a **NAME OF AUTHOR**

Varsity Brands, Inc.

DATES OF BIRTH AND DEATH

Year Born

Year Died

**Was this contribution to the work a "work
made for hire"?** ☒ Yes ☐ No

Author's Nationality or Domicile

Name of Country

Citizen of _____

or

Domiciled in United States

Was this Author's Contribution to the Work

Anonymous? ☐ Yes ☒ No

Pseudonymous? ☐ Yes ☒ No

If the answer to either of these questions is "Yes," see
detailed instructions.

Nature of Authorship Check appropriate box(es)

See Instructions

☐ 3-Dimensional sculpture

☒ 2-Dimensional artwork ←

EXHIBIT 16

Certificate of Registration
Additional certificate (17
U.S.C. 706)

[Seal of the United States
Copyright Office 1870]

This Certificate issued under
the seal of the Copyright
Office in accordance with
title 17, *United States Code*,
attests that registration has
been made for the work
identified below. The infor-
mation on this certificate
has been made a part of the
Copyright Office records.

Title _____
Title of Work: 0815
Nature of Work: 2-dimensional artwork ←

Completion/Publication _____
Year of Completion: 2007
Date of 1st Publication: January 2, 2008
Nation of 1st Publication: United States

Author _____
Author: Varsity Brands, Inc.
Author Created: 2-dimensional artwork ←
Work made for hire: Yes
Domiciled in: United States
Anonymous: No
Pseudonymous: No

Copyright claimant _____
Copyright Claimant: Varsity Brands, Inc.

EXHIBIT 17

Certificate of Registration Form VA
Additional certificate (17 For a Work of the
U.S.C. 706) Visual Arts
[Seal of the United States UNITED STATES
Copyright Office 1870] COPYRIGHT OFFICE
RE VA 1-319-228
This Certificate issued under the seal of the Copy-
right Office in accordance with title 17, *United States*
Code, attests that registra- EFFECTIVE DATE
tion has been made for the OF REGISTRATION
work identified below. The April 29 2005
information on this certifi- Month Day Year
cate has been made a part Maria A. Pallante
of the Copyright Office Acting Register of
records. Copyrights, United
States of America

DO NOT WRITE ABOVE THIS LINE. IF YOU
NEED MORE SPACE, USE A SEPARATE CON-
TINUATION SHEET

1 Title of This Work NATURE OF THIS
299A WORK See instructions
FABRIC DESIGN
(ARTWORK) ←

Previous or Alternative Titles

Publication as a Contribution If this work was
published as a contribution to a periodical, serial, or
collection, give information about the collective work
in which the contribution appeared. Title of Col-
lective Work

If published in a periodical or serial give:

Volume Number Issue Date On Pages

2 NOTE Under the law the "author" of a "work made for hire" is generally the employer not the employee (see instructions) For any part of this work that was *made for hire* check "Yes" in the space provided, give the employer (or other person for whom the work was prepared) as "Author" of that part and leave the space for dates of birth and death blank.

a NAME OF AUTHOR

VARSITY SPIRIT FASHIONS & SUPPLIES INC

DATES OF BIRTH AND DEATH

Year Born _____ Year Died _____

Was this contribution to the work a "work made for hire"? ☒ Yes ☐ No

Author's Nationality or Domicile

Name of Country _____

Citizen of _____

or

Domiciled in United States

Was this Author's Contribution to the Work

Anonymous? ☐ Yes ☒ No

Pseudonymous? ☐ Yes ☒ No

If the answer to either of these questions is "Yes," see detailed instructions.

Nature of Authorship Check appropriate box(es)
See Instructions

☐ 3 Dimensional sculpture

☒ 2 Dimensional artwork

☐ Reproduction of work of art

☐ Map

☐ Photograph

☐ Jewelry design

☐ Technical drawing

☐ Text

☐ Architectural work

b Name of Author

Dates of Birth and Death

Year Born _____ Year Died _____

Was this contribution to the work a "work made for hire"? ☐ Yes ☐ No

Author's Nationality or Domicile

Name of Country _____

Citizen of _____

or

Domiciled at _____

Was this Author's Contribution to the Work

Anonymous? ☐ Yes ☐ No

Pseudonymous? ☐ Yes ☐ No

If the answer to either of these questions is "Yes," see detailed instructions.

Nature of Authorship Check appropriate box(es)
See Instructions

☐ 3 Dimensional sculpture



EXHIBIT 18

Certificate of Registration
Additional certificate (17
U.S.C. 706)

[Seal of the United States
Copyright Office 1870]

This Certificate issued
under the seal of the Copy-
right Office in accordance
with title 17, *United States
Code*, attests that registra-
tion has been made for the
work identified below. The
information on this certifi-
cate has been made a part
of the Copyright Office
records.

**DO NOT WRITE ABOVE THIS LINE. IF YOU
NEED MORE SPACE, USE A SEPARATE CON-
TINUATION SHEET**

1 Title of This Work **NATURE OF THIS**
299B **WORK** See instructions
FABRIC DESIGN ←
(ARTWORK)

Previous or Alternative Titles

Publication as a Contribution If this work was
published as a contribution to a periodical, serial, or
collection, give information about the collective work
in which the contribution appeared.

Title of Collective Work

If published in a periodical or serial give: **Volume
Number Issue Date On Pages**

2 NOTE Under the law the "author" of a "**work
made for hire**" is generally the employer not the
employee (see Instructions) For any part of this
work that was made for hire, check Yes in the space
provided, give the employer (or other person for
whom the work was prepared) as "Author" of that
part and leave the space for dates of birth and death
blank.

a **NAME OF AUTHOR**
VARSITY SPIRIT FASHIONS & SUPPLIES INC

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work
made for hire"? ☒ Yes ☐ No

Author's Nationality or Domicile
Name of Country
Citizen of _____
or
Domiciled in USA

Was this Author's Contribution to the Work:
Anonymous? ☐ Yes ☒ No
Pseudonymous? ☐ Yes ☒ No

If the answer to either of these questions is "Yes," see
detailed instructions.

Nature of Authorship Check appropriate box(es)
See Instructions

- ☐ 3 Dimensional sculpture
- ☒ 2 Dimensional artwork ←
- ☐ Reproduction of work of art
- ☐ Map
- ☐ Photograph
- ☐ Jewelry design
- ☐ Technical drawing
- ☐ Text
- ☐ Architectural work

b Name of Author

Dates of Birth and Death

Year Born _____ Year Died _____

Was this contribution to the work a "work made for hire"? ☐ Yes ☐ No

Author's Nationality or Domicile

Name of Country _____

Citizen of _____

or

Domiciled in _____

Was this Author's Contribution to the Work

Anonymous? ☐ Yes ☐ No

Pseudonymous? ☐ Yes ☐ No

If the answer to either of these questions is "Yes," see detailed instructions.

Nature of Authorship Check appropriate box(es)
See Instructions

AMENDED EXHIBIT 19

Certificate of Registration
[Seal of the United States
Copyright Office 1870]

This Certificate issued
under the seal of the
Copyright Office in
accordance with title 17,
United States Code,
attests that registration
has been made for the
work identified below.
The information on this
certificate has been made
a part of the Copyright
Office records.

[Marybeth Peters]
Register of Copyrights,
United States of America

Form VA

For a Work of the
Visual Arts

UNITED STATES
COPYRIGHT OFFICE

RE VA 1-411-535

[BARCODE]

EFFECTIVE DATE
OF REGISTRATION

May 09 2007

Month Day Year

RATE CONTINUATION SHEET:

1 Title of This Work **NATURE OF THIS**
Design Number 074 **WORK** See instructions

2-dimensional artwork ←

Previous or Alternative Titles

Publication as a Contribution If this work was
published as a contribution to a periodical, serial, or
collection, give information about the collective work
in which the contribution appeared. Title of
Collective Work

If published in a periodical or serial give:
Volume Number Issue Date On Pages

2 NOTE Under the law the “author” of a “work made for hire” is generally the employer, not the employee (see instructions). For any part of this work that was “made for hire” check “Yes” in the space provided, give the employer (or other person for whom the “work” was prepared) as “Author” of that part and leave the space for dates of birth and death blank

a NAME OF AUTHOR

Varsity Brands, Inc.

DATES OF BIRTH AND DEATH

Year Born Year Died

Was this contribution to the work a “work made for hire”? ☒ Yes ☐ No

Author & Nationality or Domicile

Name of Country

Citizen of

or

Domiciled at United States

Was this Author a Contribution to the Work

Anonymous? ☐ Yes ☒ No

Pseudonymous? ☐ Yes ☒ No

If the answer to either of these questions is “Yes,” see detailed instructions.

Nature of Authorship Check appropriate box(es)
See Instructions

☐ 3 Dimensional sculpture

☒ 2 Dimensional artwork

☐ Reproduction of work of art

*1030 Justice BREYER, with whom Justice KENNEDY joins, dissenting.

I agree with much in the Court’s opinion. But I do not agree that the designs that Varsity Brands, Inc., submitted to the Copyright Office are eligible for copyright protection. Even applying the majority’s test, the designs cannot “be perceived as ... two- or three-dimensional work[s] of art separate from the useful article.” *Ante*, at 1007.

Look at the designs that Varsity submitted to the Copyright Office. See Appendix to opinion of the Court, *ante*. You will see *1031 only pictures of cheerleader uniforms. And cheerleader uniforms are useful articles. A picture of the relevant design features, whether separately “perceived” on paper or in the imagination, is a picture of, and thereby “replicate[s],” the underlying useful article of

which they are a part. *Ante*, at 1007, 1031. Hence the design features that Varsity seeks to protect are not “capable of existing independently of [the] utilitarian aspects of the article.” 17 U.S.C. § 101.

I

The relevant statutory provision says that the “design of a useful article” is copyrightable “only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” *Ibid*. But what, we must ask, do the words “identified separately” mean? Just when is a design separate from the “utilitarian aspect of the [useful] article?” The most direct, helpful aspect of the Court’s opinion answers this question by stating:

“Nor could someone claim a copyright in a useful article merely by creating a replica of that article in some other medium—for example, a cardboard model of a car. Although the replica could itself be copyrightable, it would not give rise to any rights in the useful article that inspired it.” *Ante*, at 1010.

Exactly so. These words help explain the Court’s statement that a copyrightable work of art must be “perceived as a two- or three-dimensional work of art separate from the useful article.” *Ante*, at 1007, 1015 – 1016. They help clarify the concept of separateness. Cf. 1 M. Nimmer & D. Nimmer, Nimmer on Copyright § 2A.08[A][1] (2016) (Nimmer) (describing courts’ difficulty in applying that concept). They are consistent with Congress’ own expressed intent. 17 U.S.C. § 101; H.R. Rep. No. 94–1476, pp. 55, 105 (1976) (H.R. Rep.). And they reflect long held views of the Copyright Office. See Compendium of U.S. Copyright Office Practices § 924.2(B) (3d ed. 2014), online at <http://www.copyright.gov/comp3/docs/compendium.pdf> (as last visited Mar. 7, 2017) (Compendium).

Consider, for example, the explanation that the House Report for the Copyright Act of 1976 provides. It says:

“Unless the shape of an automobile, airplane, ladies’ dress, food processor, television set, or any other industrial product contains some element that, *physically or conceptually*, can be identified as separable from the utilitarian aspects of that article, the design would not be copyrighted....” H.R. Rep., at 55

(emphasis added).

These words suggest two exercises, one physical, one mental. Can the design features (the picture, the graphic, the sculpture) be physically removed from the article (and considered separately), all the while leaving the fully functioning utilitarian object in place? If not, can one nonetheless conceive of the design features separately without replicating a picture of the utilitarian object? If the answer to either of these questions is “yes,” then the design is eligible for copyright protection. Otherwise, it is not. The abstract nature of these questions makes them sound difficult to apply. But with the Court’s words in mind, the difficulty tends to disappear.

An example will help. Imagine a lamp with a circular marble base, a vertical 10–inch tall brass rod (containing wires) inserted off center on the base, a light bulb fixture emerging from the top of the brass rod, and a lampshade sitting on top. In front of the brass rod a porcelain Siamese cat sits on the base facing outward. Obviously, *1032 the Siamese cat is *physically separate* from the lamp, as it could be easily removed while leaving both cat and lamp intact. And, assuming it otherwise qualifies, the designed cat is eligible for copyright protection.

Now suppose there is no long brass rod; instead the cat sits in the middle of the base and the wires run up through the cat to the bulbs. The cat is not physically separate from the lamp, as the reality of the lamp’s construction is such that an effort to physically separate the cat and lamp will destroy both cat and lamp. The two are integrated into a single functional object, like the similar configuration of the ballet dancer statuettes that formed the lamp bases at issue in *Mazer v. Stein*, 347 U.S. 201, 74 S.Ct. 460, 98 L.Ed. 630 (1954). But we can easily imagine the cat on its own, as did Congress when conceptualizing the ballet dancer. See H.R. Rep., at 55 (the statuette in *Mazer* was “incorporated into a product without losing its ability to exist independently as a work of art”). In doing so, we do not create a mental picture of a lamp (or, in the Court’s words, a “replica” of the lamp), which is a useful article. We simply perceive the cat separately, as a small cat figurine that could be a copyrightable design work standing alone that does not replicate the lamp. Hence the cat is *conceptually separate* from the utilitarian article that is the lamp. The pair of lamps pictured at Figures 1 and 2 in the Appendix to this opinion illustrate this principle.

Case law, particularly case law that Congress and the Copyright Office have considered, reflects the same approach. Congress cited examples of copyrightable design works, including “a carving on the back of a chair” and “a floral relief design on silver flatware.” H.R. Rep.,

at 55. Copyright Office guidance on copyrightable designs in useful articles include “an engraving on a vase,” “[a]rtwork printed on a t-shirt,” “[a] colorful pattern decorating the surface of a shopping bag,” “[a] drawing on the surface of wallpaper,” and “[a] floral relief decorating the handle of a spoon.” Compendium § 924.2(B). Courts have found copyrightable matter in a plaster ballet dancer statuette encasing the lamp’s electric cords and forming its base, see *Mazer*, *supra*, as well as carvings engraved onto furniture, see *Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc.*, 618 F.3d 417, 431–435 (C.A.4 2010) (*per curiam*), and designs on laminated floor tiles, see *Home Legend, LLC v. Mannington Mills, Inc.*, 784 F.3d 1404, 1412–1413 (C.A.11 2015). See generally Brief for Intellectual Property Professors as *Amici Curiae*.

By way of contrast, Van Gogh’s painting of a pair of old shoes, though beautifully executed and copyrightable as a painting, would not qualify for a shoe design copyright. See Appendix, fig. 3, *infra*; 17 U.S.C. §§ 113(a)–(b). Courts have similarly denied copyright protection to objects that begin as three-dimensional designs, such as measuring spoons shaped like heart-tipped arrows, *Bonazoli v. R.S.V.P. Int’l, Inc.*, 353 F.Supp.2d 218, 226–227 (D.R.I.2005); candleholders shaped like sailboats, *Design Ideas, Ltd. v. Yankee Candle Co.*, 889 F.Supp.2d 1119, 1128 (C.D.Ill.2012); and wire spokes on a wheel cover, *Norris Industries, Inc. v. International Tel. & Tel. Corp.*, 696 F.2d 918, 922–924 (C.A.11 1983). None of these designs could qualify for copyright protection that would prevent others from selling spoons, candleholders, or wheel covers with the same design. Why not? Because in each case the design is not separable from the utilitarian aspects of the object to which it relates. The designs cannot be physically separated because they themselves make up the shape of the spoon, candleholders, or wheel covers of which they are a part. *1033 And spoons, candleholders, and wheel covers are useful objects, as are the old shoes depicted in Van Gogh’s painting. More importantly, one cannot easily imagine or otherwise conceptualize the design of the spoons or the candleholders or the shoes *without that picture, or image, or replica being a picture of spoons, or candleholders, or wheel covers, or shoes*. The designs necessarily bring along the underlying utilitarian object. Hence each design is not conceptually separable from the physical useful object.

The upshot is that one could copyright the floral design on a soup spoon but one could not copyright the shape of the spoon itself, no matter how beautiful, artistic, or esthetically pleasing that shape might be: A picture of the shape of the spoon is also a picture of a spoon; the picture

of a floral design is not. See Compendium § 924.2(B).

To repeat: A separable design feature must be “capable of existing independently” of the useful article as a separate artistic work that is not itself the useful article. If the claimed feature could be extracted without replicating the useful article of which it is a part, and the result would be a copyrightable artistic work standing alone, then there is a separable design. But if extracting the claimed features would necessarily bring along the underlying useful article, the design is not separable from the useful article. In many or most cases, to decide whether a design or artistic feature of a useful article is conceptually separate from the article itself, it is enough to imagine the feature on its own and ask, “Have I created a picture of a (useful part of a) useful article?” If so, the design is not separable from the useful article. If not, it is.

In referring to imagined pictures and the like, I am not speaking technically. I am simply trying to explain an intuitive idea of what separation is about, as well as how I understand the majority’s opinion. So understood, the opinion puts design copyrights in their rightful place. The law has long recognized that drawings or photographs of real world objects are copyrightable as drawings or photographs, but the copyright does not give protection against others making the underlying useful objects. See, e.g., *Burrow–Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 4 S.Ct. 279, 28 L.Ed. 349 (1884). That is why a copyright on Van Gogh’s painting would prevent others from reproducing that painting, but it would not prevent others from reproducing and selling the comfortable old shoes that the painting depicts. Indeed, the purpose of § 113(b) was to ensure that “ ‘copyright in a pictorial, graphic, or sculptural work, portraying a useful article as such, does not extend to the manufacture of the useful article itself.’ ” H.R. Rep., at 105.

II

To ask this kind of simple question—does the design picture the useful article?—will not provide an answer in every case, for there will be cases where it is difficult to say whether a picture of the design is, or is not, also a picture of the useful article. But the question will avoid courts focusing primarily upon what I believe is an unhelpful feature of the inquiry, namely, whether the design can be imagined as a “two- or three-dimensional work of art.” *Ante*, at 1007, 1015 – 1016. That is because

virtually any industrial design can be thought of separately as a “work of art”: Just imagine a frame surrounding the design, or its being placed in a gallery. Consider Marcel Duchamp’s “readymades” series, the functional mass-produced objects he designated as art. See Appendix, fig. 4, *infra*. What is there in the world that, viewed through an esthetic lens, cannot *1034 be seen as a good, bad, or indifferent work of art? What design features could not be imaginatively reproduced on a painter’s canvas? Indeed, great industrial design may well include design that is inseparable from the useful article—where, as Frank Lloyd Wright put it, “form and function are one.” F. Wright, *An Autobiography* 146 (1943) (reprint 2005). Where they are one, the designer may be able to obtain 15 years of protection through a design patent. 35 U.S.C. §§ 171, 173; see also McKenna & Strandburg, *Progress and Competition in Design*, 17 *Stan. Tech. L. Rev.* 1, 48–51 (2013). But, if they are one, Congress did not intend a century or more of copyright protection.

III

The conceptual approach that I have described reflects Congress’ answer to a problem that is primarily practical and economic. Years ago Lord Macaulay drew attention to the problem when he described copyright in books as a “tax on readers for the purpose of giving a bounty to writers.” 56 Parl. Deb. (3d Ser.) (1841) 341, 350. He called attention to the main benefit of copyright protection, which is to provide an incentive to produce copyrightable works and thereby “promote the Progress of Science and useful Arts.” U.S. Const. Art. I, § 8, cl. 8. But Macaulay also made clear that copyright protection imposes costs. Those costs include the higher prices that can accompany the grant of a copyright monopoly. They also can include (for those wishing to display, sell, or perform a design, film, work of art, or piece of music, for example) the costs of discovering whether there are previous copyrights, of contacting copyright holders, and of securing permission to copy. *Eldred v. Ashcroft*, 537 U.S. 186, 248–252, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003) (BREYER, J., dissenting). Sometimes, as Thomas Jefferson wrote to James Madison, costs can outweigh “the benefit even of limited monopolies.” Letter from Thomas Jefferson to James Madison (July 31, 1788), in 13 *Papers of Thomas Jefferson* 443 (J. Boyd ed. 1956) (Jefferson Letter). And that is particularly true in light of the fact that Congress has extended the “limited Times”

of protection, U.S. Const. Art. I, § 8, cl. 8, from the “14 years” of Jefferson’s day to potentially more than a century today. Jefferson Letter 443; see also *Eldred*, *supra*, at 246–252, 123 S.Ct. 769 (opinion of BREYER, J.).

The Constitution grants Congress primary responsibility for assessing comparative costs and benefits and drawing copyright’s statutory lines. Courts must respect those lines and not grant copyright protection where Congress has decided not to do so. And it is clear that Congress has not extended broad copyright protection to the fashion design industry. See, e.g., 1 Nimmer § 2A.08[H][3][c] (describing how Congress rejected proposals for fashion design protection within the 1976 Act and has rejected every proposed bill to this effect since then); *Esquire, Inc. v. Ringer*, 591 F.2d 796, 800, n. 12 (C.A.D.C.1978) (observing that at the time of the 1976 Copyright Act, Congress had rejected every one of the approximately 70 design protection bills that had been introduced since 1914); e.g., H.R. 5055, 109th Cong., 2d Sess.: “To Amend title 17, United States Code, to provide protection for fashion design” (introduced Mar. 30, 2006; unenacted). Congress has left “statutory ... protection ... largely unavailable for dress designs.” 1 Nimmer § 2A.08[H][3] [a]; Raustiala & Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L.Rev. 1687, 1698–1705 (2006).

*1035 Congress’ decision not to grant full copyright protection to the fashion industry has not left the industry without protection. Patent design protection is available. 35 U.S.C. §§ 171, 173. A maker of clothing can obtain trademark protection under the Lanham Act for signature features of the clothing. 15 U.S.C. § 1051 *et seq.* And a designer who creates an original textile design can receive copyright protection for that pattern as placed, for example, on a bolt of cloth, or anything made with that cloth. E.g., Compendium § 924.3(A)(1). “[T]his [type of] claim ... is generally made by the fabric producer rather than the garment or costume designer,” and is “ordinarily made when the two-dimensional design is applied to the textile fabric and before the garment is cut from the fabric.” 56 Fed.Reg. 56531 (1991).

The fashion industry has thrived against this backdrop, and designers have contributed immeasurably to artistic and personal self-expression through clothing. But a decision by this Court to grant protection to the design of a garment would grant the designer protection that Congress refused to provide. It would risk increased prices and unforeseeable disruption in the clothing industry, which in the United States alone encompasses nearly \$370 billion in annual spending and 1.8 million

jobs. Brief for Council of Fashion Designers of America, Inc., as *Amicus Curiae* 3–4 (citing U.S. Congress, Joint Economic Committee, *The New Economy of Fashion* 1 (2016)). That is why I believe it important to emphasize those parts of the Court’s opinion that limit the scope of its interpretation. That language, as I have said, makes clear that one may not “claim a copyright in a useful article merely by creating a replica of that article in some other medium,” which “would not give rise to any rights in the useful article that inspired it.” *Ante*, at 1010.

IV

If we ask the “separateness” question correctly, the answer here is not difficult to find. The majority’s opinion, in its appendix, depicts the cheerleader dress designs that Varsity submitted to the Copyright Office. Can the design features in Varsity’s pictures exist separately from the utilitarian aspects of a dress? Can we extract those features as copyrightable design works standing alone, without bringing along, via picture or design, the dresses of which they constitute a part?

Consider designs 074, 078, and 0815. They certainly look like cheerleader uniforms. That is to say, they look like pictures of cheerleader uniforms, just like Van Gogh’s old shoes look like shoes. I do not see how one could see them otherwise. Designs 299A and 2999B present slightly closer questions. They omit some of the dresslike context that the other designs possess. But the necklines, the sleeves, and the cut of the skirt suggest that they too are pictures of dresses. Looking at all five of Varsity’s pictures, I do not see how one could conceptualize the design features in a way that does not picture, not just artistic designs, but dresses as well.

Were I to accept the majority’s invitation to “imaginatively remov[e]” the chevrons and stripes *as they are arranged* on the neckline, waistline, sleeves, and skirt of each uniform, and apply them on a “painter’s canvas,” *ante*, at 1011 – 1012, that painting would be of a cheerleader’s dress. The esthetic elements on which Varsity seeks protection exist only as part of the uniform design—there is nothing to separate out but for dress-shaped lines that replicate the cut and style of the uniforms. Hence, each design is not physically separate, nor is it conceptually separate, from the useful article it depicts, namely, a *1036 cheerleader’s dress. They cannot be copyrighted.

Varsity, of course, could have sought a design patent for its designs. Or, it could have sought a copyright on a textile design, even one with a similar theme of chevrons and lines.

But that is not the nature of Varsity’s copyright claim. It has instead claimed ownership of the particular “‘treatment and arrangement’ ” of the chevrons and lines of the design as they appear at the neckline, waist, skirt, sleeves, and overall cut of each uniform. Brief for Respondents 50. The majority imagines that Varsity submitted something different—that is, only the surface decorations of chevrons and stripes, as in a textile design. As the majority sees it, Varsity’s copyright claim would be the same had it submitted a plain rectangular space depicting chevrons and stripes, like swaths from a bolt of fabric. But considered on their own, the simple stripes are plainly unoriginal. Varsity, then, seeks to do indirectly what it cannot do directly: bring along the design and cut of the dresses by seeking to protect surface decorations whose “treatment and arrangement” are *coextensive with that design and cut*. As Varsity would have it, it would prevent its competitors from making useful three-dimensional cheerleader uniforms by submitting plainly unoriginal chevrons and stripes as cut and arranged on a useful article. But with that cut and arrangement, the resulting pictures on which Varsity seeks protection do not simply depict designs. They depict clothing. They depict the useful articles of which the designs are inextricable parts. And Varsity cannot obtain copyright protection that would give them the power to prevent others from making those useful uniforms, any more than Van Gogh can copyright comfortable old shoes by painting their likeness.

I fear that, in looking past the three-dimensional design inherent in Varsity’s claim by treating it as if it were no more than a design for a bolt of cloth, the majority has lost sight of its own important limiting principle. One may not “claim a copyright in a useful article merely by creating a replica of that article in some other medium,” such as in a picture. *Ante*, at 1010. That is to say, one cannot obtain a copyright that would give its holder “any rights in the useful article that inspired it.” *Ante*, at 1010.

With respect, I dissent.

APPENDIX TO OPINION OF BREYER, J.



Fig. 1



Fig. 2

APPENDIX TO OPINION OF BREYER, J.

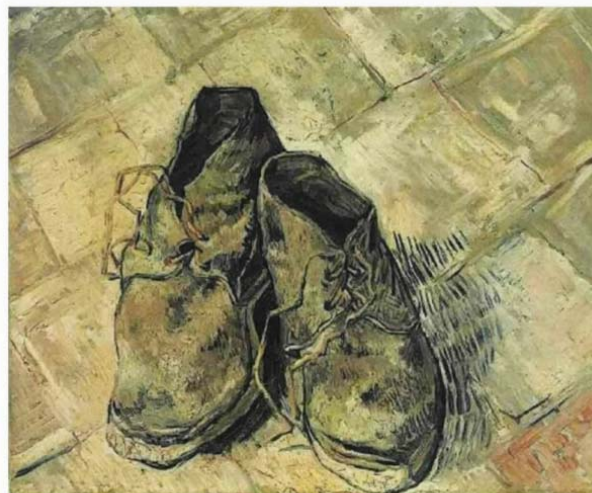


Fig. 3: Vincent Van Gogh, “Shoes”

APPENDIX TO OPINION OF BREYER, J.

APPENDIX TO OPINION OF BREYER, J.

All Citations

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Fig. 4: Marcel Duchamp,
"In Advance of the Broken Arm"

Footnotes

- * 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 We do not today hold that the surface decorations are copyrightable. We express no opinion on whether these works are sufficiently original to qualify for copyright protection, see [Feist Publications, Inc. v. Rural Telephone Service Co.](#), 499 U.S. 340, 358–359, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991), or on whether any other prerequisite of a valid copyright has been satisfied.
- ² The dissent suggests that our test would lead to the copyrighting of shovels. *Post*, at 1020; Appendix to opinion of BREYER, J., fig. 4, *post*. But a shovel, like a cheerleading uniform, even if displayed in an art gallery, is “an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information.” 17 U.S.C. § 101. It therefore cannot be copyrighted. A drawing of a shovel could, of course, be copyrighted. And, if the shovel included any artistic features that could be perceived as art apart from the shovel, and which would qualify as protectable pictorial, graphic, or sculptural works on their own or in another medium, they too could be copyrighted. But a shovel as a shovel cannot.
- ¹ Courts “have struggled mightily to formulate a test” for the separability analysis. 799 F.3d 468, 484 (C.A.6 2015); see 2 W. Patry, Copyright § 3:136, p. 3–420 (2016) (noting “widespread interpretative disarray” over the separability test); Ginsburg, “Courts Have Twisted Themselves into Knots”: U.S. Copyright Protection for Applied Art, 40 Colum. J.L. & Arts 1, 2 (2016) (“The ‘separability’ test ... has resisted coherent application....”); 1 M. Nimmer & D. Nimmer, Copyright § 2A.08[B] [6], p. 2A–84 (2016) (separability is a “perennially tangled aspect of copyright doctrine”).
- ² Like the Court, I express no opinion on whether the designs otherwise meet the requirements for copyrightable subject matter. See *ante*, at 1012, n. 1; 17 U.S.C. § 102(a) (“Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated.”). In view of the dissent’s assertion that Varsity’s designs are “plainly unoriginal,” *post*, at 1036, however, I note this Court’s recognition that “the requisite level of

creativity [for copyrightability] is extremely low; even a slight amount will suffice," *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 345, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991); see *Atari Games Corp. v. Oman*, 979 F.2d 242 (C.A.D.C.1992).

- 3 That Varsity's designs can be placed on jackets or T-shirts without replicating a cheerleader's uniform supports their qualification as fabric designs. The dissent acknowledges that fabric designs are copyrightable, but maintains that Varsity's designs do not count because Varsity's submissions depict clothing, not fabric designs. *Post*, at 1035 – 1036. But registrants claiming copyrightable designs may submit drawings or photos of those designs as they appear on useful articles. See Compendium of U.S. Copyright Office Practices § 1506 (3d ed. 2014) ("To register a copyrightable design that has been applied to the back of a useful article, such as a chair, the applicant may submit drawings of the design as it appears on the chair[.]"), online at <https://www.copyright.gov/comp3/docs/compendium.pdf> (as last visited Mar. 8, 2017). And, as noted in text, Varsity's registration statements claimed "2-Dimensional artwork" and "fabric design (artwork)." Appendix, *infra*, at 1020 – 1023, 1025 – 1026, 1028 – 1030.
The dissent also acknowledges that artwork printed on a T-shirt is copyrightable. *Post*, at 1032. Varsity's colored shapes and patterns can be, and indeed are, printed on T-shirts. See, e.g., App. 274. Assuming Varsity's designs meet the other requirements for copyrightable subject matter, they would fit comfortably within the Copyright Office guidance featured by the dissent. See *post*, at 1032 (citing Compendium of U.S. Copyright Office Practices, *supra*, § 924.2(B)).
- 4 The majority declines to address this route to decision because, it says, Varsity has not advanced it. *Ante*, at 1009 – 1010. I read Varsity's brief differently. See Brief for Respondents 25 (explaining that the Copyright Act "expressly provides that PGS designs do not lose their protection when they appear 'in or on' a useful article," quoting § 113(a)); *id.*, at 52 (disclaiming the need for separability analysis because the designs are themselves PGS works).

270 F.Supp.3d 736

United States District Court, S.D. New York.

PENGUIN RANDOM HOUSE LLC; Simon & Schuster, Inc.; Alan U. Schwartz as trustee of the **Truman Capote Literary Trust**; John Sampas as Literary Representative of the Estate of Jack Kerouac; Nancy Bump; Anthony M. Sampas; **John Lash**, Executor of the Estate of Jan Kerouac; The Dr. Arthur C. Clarke Trust; **Hemingway Copyrights, LLC**; The Patrick Hemingway and Carol T. Hemingway Revocable Living Trust; and The Hemingway Family Trust, Plaintiffs,
v.
Frederik **COLTING** and Melissa Medina, d/b/a Moppet Books, Defendants.

17–CV–386 (JSR)

Signed September 7, 2017

Synopsis

Background: Owners of copyrights for four famous novels brought action against alleged infringers, who published a series of illustrated children's books based on novels, alleging copyright infringement. Owners moved for summary judgment, and alleged infringers cross-moved for summary judgment.

Holdings: The District Court, **Jed S. Rakoff, J.**, held that:

- ^[1] infringers' books actually copied owners' novels;
- ^[2] infringers' books were substantially similar to owners' novels;
- ^[3] infringers' books were derivative of owners' novels;
- ^[4] infringers' use of novels was not transformative, weighing against finding of fair use;
- ^[5] amount and substantiality of infringers' use of novels weighed against finding of fair use;
- ^[6] effect of infringers' books on potential market for novels weighed against finding of fair use; and
- ^[7] public interest did not compel a finding that infringers' books constituted fair use.

Owners' motion granted in part; infringers' motion denied.

West Headnotes (41)

- ^[1] **Copyrights and Intellectual Property**
🔑 Nature and elements of injury
Copyrights and Intellectual Property
🔑 Acts Constituting Infringement

To prevail on a claim of violation of their exclusive right to reproduce a copyrighted work, plaintiffs must prove that: (1) they hold a valid ownership interest in the relevant copyrights, (2) defendants have actually copied their works, and (3) defendants' copying is illegal because of a substantial similarity between defendants' works and the protectable elements of their copyrighted works. [17 U.S.C.A. § 101 et seq.](#)

[1 Cases that cite this headnote](#)

- ^[2] **Copyrights and Intellectual Property**
🔑 Nature and elements of injury
Copyrights and Intellectual Property
🔑 Acts Constituting Infringement

To prevail on a claim of violation of their exclusive right to prepare derivative works based upon their copyrighted work, plaintiffs must prove (1) they hold a valid ownership interest in the relevant copyrights, (2) defendants have actually copied their works, (3) defendants' copying is illegal because of a substantial similarity between defendants' works and the protectable elements of their copyrighted works, and that (4) defendants' works are unauthorized derivatives. [17 U.S.C.A. § 106\(2\).](#)

[1 Cases that cite this headnote](#)

^[3] **Copyrights and Intellectual Property**
 Acts Constituting Infringement

With respect to a claim that defendants violated plaintiffs' exclusive right to reproduce copyrighted work, the question of whether defendants' alleged infringing works are derivative works is completely superfluous, as infringement of the adaptation right necessarily infringes the reproduction right. 17 U.S.C.A. § 106(2).

[1 Cases that cite this headnote](#)

^[4] **Copyrights and Intellectual Property**
 Weight and Sufficiency

Actual copying, as required to support a copyright infringement claim, may be established (a) by direct evidence of copying or (b) by indirect evidence, including access to the copyrighted work, similarities that are probative of copying between the works, and expert testimony. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

^[5] **Copyrights and Intellectual Property**
 Acts Constituting Infringement

On a claim of copyright infringement, the question of actual copying is distinct from, and precedes, the question of infringement and substantial similarity. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

^[6] **Copyrights and Intellectual Property**
 Weight and Sufficiency

To prove actual copying, as required to support a copyright infringement claim, plaintiffs need only show probative similarity, meaning that the creators of the allegedly infringing works drew

from the copyrighted works. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

^[7] **Copyrights and Intellectual Property**
 Copying

Alleged infringers, who published a series of illustrated children's books based on famous novels, actually copied copyrighted work belonging to owners of novels' copyrights; infringers admitted they read owners' novels, displayed titles of owners' novels on front covers of their children's books, and conceded that their books were based on owners' novels. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

^[8] **Copyrights and Intellectual Property**
 Acts Constituting Infringement

After actual copying is established, plaintiffs alleging copyright infringement must demonstrate that the copying was improper or unlawful by showing that the second work bears substantial similarity to protected expression in the earlier work. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

^[9] **Copyrights and Intellectual Property**
 Acts Constituting Infringement

To show substantial similarity in support of a claim of copyright infringement, plaintiffs must prove that the copying is quantitatively and qualitatively sufficient to support the legal conclusion that infringement, in the form of actionable copying, has occurred; the qualitative prong regards the nature of the copied expression, as the copied expression must be protected, while the quantitative prong regards the amount of such copying, since the amount must be more than de minimis. 17 U.S.C.A. §

101 et seq.

Cases that cite this headnote

Cases that cite this headnote

[110] Copyrights and Intellectual Property
🔑 Books or Other Literary Works

When determining whether substantial similarity exists between two textual works, as required to support a claim of copyright infringement, where two otherwise dissimilar pieces include similar sentences and wording, courts frequently apply the fragmented literal similarity test, which focuses upon copying of direct quotations or close paraphrasing. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[113] Copyrights and Intellectual Property
🔑 Books or Other Literary Works

Illustrated books for children published by alleged infringers, which were based upon famous copyrighted novels, were substantially similar to novels, as required to support copyright owners' copyright infringement claim; infringers' books seeking to "introduce" novels to children were not even superficially distinct from owners' novels. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[111] Copyrights and Intellectual Property
🔑 Acts Constituting Infringement

In determining whether there is substantial similarity between two works in the context of a copyright infringement claim, when two works do not have literal, word-for-word similarity, courts sometimes apply the comprehensive non-literal similarity test, weighing the total concept and feel of the works including their theme, characters, plot, sequence, pace, and setting. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[114] Copyrights and Intellectual Property
🔑 Originality of Work; Creativity

Characters and events that spring from the imagination of authors are copyrightable, creative expression. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[112] Copyrights and Intellectual Property
🔑 Acts Constituting Infringement

With respect to substantial similarity element of a claim of copyright infringement, comprehensive non-literal similarity test allows a plaintiff to enforce its copyright in a case where, though there is little or no word-for-word similarity, the defendant has nonetheless appropriated the fundamental essence or structure of plaintiffs' work. 17 U.S.C.A. § 101 et seq.

[115] Copyrights and Intellectual Property
🔑 Originality of Work; Creativity
Copyrights and Intellectual Property
🔑 Use of common expressions, historical facts, or other material from public domain

While copyright law does not protect basic characters and stock figures, copyright law does protect characters who are sufficiently delineated to be original. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[116] Copyrights and Intellectual Property
🔑 Compilations and derivative works; copies and reproductions

Illustrated children's books published by alleged infringers, based upon copyrighted famous novels, were derivative of novels, supporting copyright owners' claim of copyright infringement; while infringers' books included additional material, like a few pages of analysis, "quiz questions" and information about the author, they were primarily dedicated to retelling stories in owners' novels, and these extra elements did not convert the books into something that no longer represented the original work of authorship. 17 U.S.C.A. §§ 101, 106(2).

[Cases that cite this headnote](#)

- [17] **Copyrights and Intellectual Property**
🔑 Compilations and derivative works; copies and reproductions

A work is not derivative within the meaning of the Copyright Act simply because it is based upon preexisting works. 17 U.S.C.A. § 101.

[Cases that cite this headnote](#)

- [18] **Copyrights and Intellectual Property**
🔑 Compilations and derivative works; copies and reproductions

Only works that are recast, transformed, or adapted into another medium, mode, or language while still representing the original work of authorship are derivative within the meaning of the Copyright Act. 17 U.S.C.A. § 101.

[Cases that cite this headnote](#)

- [19] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Fair use is an affirmative defense to copyright infringement, traditionally defined as a

privilege, in others than the owner of a copyright, to use the copyrighted material in a reasonable manner without his consent. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

- [20] **Copyrights and Intellectual Property**
🔑 Trial

Though fair use is a mixed question of law and fact, where a court finds no genuine issues of material fact it may conclude as a matter of law that a challenged use does not qualify for fair use protection. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

- [21] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Statutory factors bearing on fair use of copyrighted material are not meant to be treated in isolation, they are designed to be weighed together, and applied with the underlying constitutional purposes of copyright in mind. 17 U.S.C.A. § 107.

[Cases that cite this headnote](#)

- [22] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Doctrine of fair use furthers goals of copyright protection by permitting others to use existing works in ways that their owners would not ordinarily use them. U.S. Const. art. 1, § 8, cl. 8; 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

- [23] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

In the context of determining whether alleged copyright infringement constitutes fair use, a work is transformative if it is productive, or if it adds new insights and understandings for the enrichment of society. 17 U.S.C.A. § 107(1).

[Cases that cite this headnote](#)

[24]

Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

In the context of a claim of fair use, whether a work is transformative is a separate question from whether it is commercial in nature, a question which is not dispositive but tends to favor copyright holders on the margins. 17 U.S.C.A. § 107.

[Cases that cite this headnote](#)

[25]

Copyrights and Intellectual Property

🔑 Fair use in general

Use of famous copyrighted novels by alleged infringers, who published illustrated children's books based on these novels was not transformative, weighing against a determination that infringers' use of copyrighted material in novels was fair use; abridgement of novels, and removal of adult themes from novels to make them suitable for children, did not constitute transformation, since infringers' books did not serve to recast the work, and while books included analysis and quiz questions, they were primarily story summaries, which did not recount novels in service of literary analysis, instead providing literary analysis in an effort to qualify for fair use exception. 17 U.S.C.A. § 107(1).

[Cases that cite this headnote](#)

[26]

Copyrights and Intellectual Property

🔑 Compilations, abridgments, digests, or translations

Under the Copyright Act, abridgements are generally considered to be derivative works, and the right to prepare them is reserved exclusively to the copyright holder. 17 U.S.C.A. § 101.

[Cases that cite this headnote](#)

[27]

Copyrights and Intellectual Property

🔑 Fair use in general

To be considered transformative criticism, in the context of determining whether a work that allegedly infringes on a copyright is fair use, the aspects of a work that reproduce another's protected expression must be in service of commentary on that work. 17 U.S.C.A. § 107.

[Cases that cite this headnote](#)

[28]

Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

When determining whether a work that allegedly infringes on a copyright constitutes fair use, it is not enough for part of a work to have a transformative purpose, since courts must also consider whether the work transforms the original work to an insignificant or a substantial extent. 17 U.S.C.A. § 107.

[Cases that cite this headnote](#)

[29]

Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

If a defendant's work describes the plot of a copyrighted work briefly in order to add significant comment about the authors' plotting technique, then it may be protected by fair use, but if a defendant copies more than is necessary to facilitate comment or criticism, then it will

not be protected. 17 U.S.C.A. § 107.

[Cases that cite this headnote](#)

[30] **Copyrights and Intellectual Property**

🔑 Fair use in general

Nature of owners' famous copyrighted novels weighed against a finding that alleged infringers' publication of illustrated children's books based on novels was fair use; owners' novels were precise sort of expressly creative works entitled to special solicitude in fair use analysis. 17 U.S.C.A. § 107(2).

[Cases that cite this headnote](#)

[31] **Copyrights and Intellectual Property**

🔑 Fair use and other permitted uses in general

When determining whether alleged copyright infringement constitutes fair use, expressly creative works tend to receive more robust copyright protection than news broadcasts or non-fiction publications. 17 U.S.C.A. § 107(2).

[Cases that cite this headnote](#)

[32] **Copyrights and Intellectual Property**

🔑 Fair use and other permitted uses in general

A determination of amount and substantiality of the portion of the copyright work used, as an element of a fair use analysis, depends on whether the extent of the copying is consistent with, or more than necessary to further the purpose and character of the use. 17 U.S.C.A. § 107(3).

[Cases that cite this headnote](#)

[33] **Copyrights and Intellectual Property**

🔑 Fair use and other permitted uses in general

In cases of parody, journalism, and criticism, fair use doctrine allows for more of a copyrighted work to be copied than where the purpose is less transformative. 17 U.S.C.A. § 107.

[Cases that cite this headnote](#)

[34] **Copyrights and Intellectual Property**

🔑 Copying

Amount and substantiality of use of famous copyrighted novels by alleged infringers, who published illustrated children's books based upon novels, weighed against a determination that infringers' use of novels was fair use; nearly all of infringers' books were devoted to telling copyrighted stories, with only two pages purporting to analyze stories, so infringers copying was not necessary to serve a transformative purpose, like providing commentary or criticism. 17 U.S.C.A. § 107(3).

[Cases that cite this headnote](#)

[35] **Copyrights and Intellectual Property**

🔑 Copying

Effect of alleged infringers' publication of illustrated children's books, which were based upon famous copyrighted novels, on potential market for novels, weighed against finding that alleged infringers' use of owners' copyrighted material was fair use; there was an established market for children's versions of novels written for adults, so while authors had not exploited that derivative market, it was enough that the value of their derivative rights would have been impaired had they changed their minds. 17 U.S.C.A. § 107(4).

[Cases that cite this headnote](#)

Cases that cite this headnote

- [36] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

To negate fair use, one need only show that if the challenged use should become widespread, it would adversely affect the potential market for the copyrighted work. 17 U.S.C.A. § 107(4).

Cases that cite this headnote

- [37] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Because the licensing of derivatives is an important economic incentive to the creation of originals, analysis of effect of an alleged fair use upon potential market must consider not only the effect of defendants' works upon the market for plaintiffs' original copyrighted works, but also the effect of the defendant's works upon the market for potential derivative works. 17 U.S.C.A. § 107(4).

Cases that cite this headnote

- [38] **Copyrights and Intellectual Property**
🔑 Constitutional and statutory provisions
Copyrights and Intellectual Property
🔑 Fair use in general

Public interest did not compel a finding that alleged infringers' publication of illustrated children's books based on famous copyrighted novels was a fair use of owners' copyrighted novels; while owners had not exploited their rights to make derivative works, Copyright Act did not provide a use-it-or-lose-it mechanism for copyright protection, and there was no reason to conclude Copyright Act was unconstitutional, since there was no indication Congress lacked a rational basis for providing an exclusive right to exploit derivative works. U.S. Const. art. 1, § 8, cl. 8; 17 U.S.C.A. § 107.

- [39] **Copyrights and Intellectual Property**
🔑 Nature of statutory copyright

Copyright law is designed to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired. U.S. Const. art. 1, § 8, cl. 8; 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

- [40] **Copyrights and Intellectual Property**
🔑 Nature of statutory copyright

Monopoly created by copyright rewards the individual author in order to benefit the public. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

- [41] **Copyrights and Intellectual Property**
🔑 Compilations and derivative works; copies and reproductions

It would not serve the ends of the Copyright Act, meaning to advance the arts, if artists were denied their monopoly over derivative versions of their creative works merely because they made the artistic decision not to saturate those markets with variations of their original. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

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OPINION AND ORDER

JED S. RAKOFF, U.S.D.J.

On January 19, 2017, **Penguin Random House LLC**, Simon & Schuster, Inc., Alan U. Schwartz as trustee of The Truman Capote Literary Trust, John Sampas as literary representative of The Estate of Jack Kerouac, Nancy Bump, Anthony M. Sampas, John Lash as executor of The Estate of Jan Kerouac, The Dr. Arthur C. Clarke Trust, Hemingway Copyrights, **LLC**, The Patrick Hemingway And Carol T. Hemingway Revocable Living Trust, and The Hemingway Family Trust (collectively “plaintiffs”) brought this suit against Fredrik **Colting** and Melissa Medina (d/b/a Moppet Books) (collectively “defendants”), alleging nine counts of copyright infringement. Plaintiffs are the owners and exclusive licensees of copyrights in four famous novels: Breakfast at Tiffany’s by Truman Capote, The Old Man and the Sea by Ernest Hemingway, On the Road by Jack Kerouac, and 2001: A Space Odyssey by Arthur C. Clarke (collectively, the “Novels”). Defendants have published “a series of illustrated children’s books” “based on” these Novels (collectively, the “Guides”), which contain “condensed, simplified version[s] of the[ir] plot[s].” See Defendants’ Response to Plaintiffs’ Rule 56.1 Statement of Material Facts (“Def. 56.1 St.”), ECF No. 44 ¶¶ 65, 89.

Following the completion of discovery, plaintiffs sought summary judgment in their favor on the issue of liability, and defendants cross-moved for summary judgment in their favor on the issue of *742 liability and on the affirmative defense of fair use. Plaintiffs also moved for summary judgment on the issue of willfulness. In a bottom line order dated July 28, 2017, ECF No. 47, the Court granted summary judgment to plaintiffs on all nine counts of copyright infringement—two for each of the four Novels and one for the character of Holly Golightly—and rejected the affirmative defense of fair use as a matter of law. On the issue of willfulness, the Court permitted defendants, based on representations made by their counsel in open court, see Transcript, dated

July 24, 2017, ECF No. 48, to raise (somewhat belatedly) an advice of counsel defense and permitted additional discovery on that defense. As a consequence of that decision, plaintiffs no longer seek summary judgment on the issue of willfulness, and the Court has set the case down for trial on October 2, 2017 to resolve the remaining issues. See Order, EOF No. 51.

This Opinion and Order sets forth the reasons for these rulings.

The pertinent facts, either undisputed, or, where disputed, taken most favorably to the respective non-movant, are as follows:

At all times here relevant, plaintiffs owned valid copyrights to Breakfast at Tiffany’s, The Old Man and the Sea, On the Road, and 2001: A Space Odyssey. Def. 56.1 St. 11 1–13. Defendants’ “colorfully illustrated story summaries,” called “KinderGuides,” are designed to “introduce” these works to children. Id. ¶ 68.

On or about September 22, 2016, defendants published their four Guides (part of a planned 50–book series). Id. ¶ 65. On their front covers, the Guides very prominently display the titles of plaintiffs’ Novels and the names of the authors of plaintiffs’ Novels, along with the words “KinderGuides,” in large print and, in much smaller print, the words “Early Learning Guides to Culture Classics.” Declaration of Marcia B. Paul, Esq. in Support of Plaintiffs’ Motion for Summary Judgment (“Paul Decl.”), Exs. 49–52, ECF No. 35. The only other words are “Illustrations by _____,” in very small print at the bottom.

All four Guides share the same layout. The first four pages feature illustrations and one-line quotations taken from and attributed to the authors of the Novels (Capote, Hemingway, Kerouac, and Clarke). The fifth page contains publication information, and the sixth is a title page, stating, to take one example, “KinderGuides: Early Learning Guides to Culture Classics,” “On the Road,” “by Jack Kerouac,” and, in smaller font, “Illustrations by Rose Forshall,” “a division of Moppet Books/Los Angeles, CA.” The seventh and eighth pages contain a “Table of Contents.” The ninth displays an illustration of the original author of the Novel, and the tenth is a page “About the Author.” Following these front-pages are “Story Summaries,” which comprise a few dozen pages. Appended after these “Story Summaries” are a series of back-pages, two each devoted to “Main Characters,” “Key Words,” “Quiz Questions,” and “Analysis.” See Paul Decl., Exs. 49–52.

Defendants admit that they had access to plaintiffs’

Novels in preparing their Guides and that they relied on them. Def. 56.1 St. ¶ 73. Indeed, a side-by-side comparison of plaintiffs' and defendants' works reveals as much. Not only do the plots, settings, and characters of the Guides mirror the Novels, but the Guides also include many specific details from the Novels. For example, in both versions of Breakfast at Tiffany's, Holly Golightly's business card reads "Holly Golightly, Traveling," and in both versions Holly describes an experience she calls "the mean reds," or feeling afraid "but you don't know what you're *743 afraid of." See Paul Decl., Ex. 46, Truman Capote, Breakfast at Tiffany's (2012 edition) at 32 ("the mean reds are horrible. You're afraid ... but you don't know what you're afraid of"); Id., Ex. 50, KinderGuides, Breakfast at Tiffany's (2016) at 11, ("... the mean reds. That means she is afraid but doesn't know what she is afraid of."). Similarly, in both versions of On the Road, Sal drives across the United States with \$50 in his pocket and goes to see a blind jazz pianist named George Shearing; in both versions of 2001: A Space Odyssey, Dr. Heywood Floyd travels to Clavius Base, a space station on the moon, where there is a large monolith named "TMA-1" and a crater named "Tyco"; and, in both versions of The Old Man and the Sea, Santiago has gone 84 days without catching a fish and roots for the New York Yankees.¹ See Paul Decl., Exs. 45–52. While, of course, many aspects of plaintiffs' Novels do not appear in defendants' shorter Guides, all of the plots, characters, and settings in defendants' Guides appear in plaintiffs' Novels.

It is also undisputed that there is an established market for children's books based on adult novels, and that it is not unusual for copyright holders to publish, or license publication of, children's versions of works originally intended for adults. Def. 56.1 St. ¶¶ 95, 145 (noting that "Defendant Colting understood, prior to publishing the KinderGuides, that there was a market for children's editions of adult novels"). Defendants, however, never sought permission to prepare children's guides for plaintiffs' Novels. Id. ¶ 150.

It is further undisputed that plaintiffs have never authorized anyone to publish children's versions of their Novels, Def. 56.1 St. ¶ 97. The managers of Hemingway's literary estate altogether rejected requests to create children's versions of The Old Man and the Sea. Id. ¶ 101. Penguin Random House considered authorizing a children's version of 2001: A Space Odyssey, but decided against it. Id. ¶ 105. The Capote estate did authorize the creation of an illustrated, stand-alone children's version of A Christmas Memory—a short story originally included in the same volume as Breakfast at Tiffany's—but did not authorize a

children's version of Breakfast at Tiffany's. Id. ¶ 108. Finally, Penguin Random House and the Clarke Estate have authorized the creation of an ESL ("English as a Second Language") version of 2001: A Space Odyssey—"a simplified version," which includes "inserted pages of exercises and notes," but no children's versions. Id. ¶ 114.

Discussion

When parties cross-move for summary judgment, the Court analyzes the motions separately, "in each case construing the evidence in the light most favorable to the non-moving party." Victorinox AG v. B & F Sys., Inc., 114 F.Supp.3d 132, 135 (S.D.N.Y. 2015) (quoting Novella v. Westchester Cnty., 661 F.3d 128, 139 (2d Cir. 2011)). "Summary judgment is appropriate only if the moving party shows that there are no genuine issues of material fact and that the moving party is entitled to judgment as a matter of law." Miller v. Wolpoff & Abramson, L.L.P., 321 F.3d 292, 300 (2d Cir. 2003); Fed. R. Civ. P. 56(c). The court "must draw all reasonable inferences and resolve all ambiguities in favor of the non-moving party." Castle Rock Entm't, Inc. v. Carol Pub. Grp., Inc., 150 F.3d 132, 137 (2d Cir. 1998) ("Castle Rock") (quoting Garza v. Marine Transp. Lines, Inc., 861 F.2d 23, 26 (2d Cir. 1988)).

A. Infringement

The Copyright Act of 1976 (the "Copyright Act"), 17 U.S.C. §§ 101–805, grants *744 copyright owners a bundle of exclusive rights, including the exclusive right to "reproduce the copyrighted work" and the exclusive right "to prepare derivative works based upon the copyrighted work." Id. § 106; Castle Rock, 150 F.3d at 137. Here, plaintiffs allege that defendants' Guides infringe both those rights. See Amended Complaint, ECF No. 11 ¶¶ 108–178.

[1] [2] [3] To prevail on either ground, plaintiffs must prove that: (1) they hold a valid ownership interest in the relevant copyrights, (2) defendants have "actually copied" their works, and (3) defendants' "copying is illegal" because of a "substantial similarity" between defendants' works and the "protectable elements" of their copyrighted works. Castle Rock, 150 F.3d at 137. To prevail on the

second ground, plaintiffs must further prove that (4) defendants' works are unauthorized derivatives under 17 U.S.C. § 106(2).²

(1) Valid Ownership

As noted, plaintiffs allege, and defendants do not dispute, that plaintiffs hold valid and subsisting copyrights (and licenses) in the Novels at issue in this case. Def. 56.1 St. ¶¶ 6–12. Further, plaintiffs have produced registration certificates and applicable renewals for these copyrights. See Amended Complaint, Exs. A–D. Such documents constitute *prima facie* evidence of valid ownership. See 17 U.S.C. § 410(c); Novelty Textile Mills, Inc. v. Joan Fabrics Corp., 558 F.2d 1090, 1092, n.1 (2d Cir. 1977). Such registrations also protect the Novels' fictional characters, including Holly Golightly, the protagonist of Breakfast at Tiffany's. See Salinger v. Colting, 641 F.Supp.2d 250, 254 (S.D.N.Y. 2009) (finding that a novel's protagonist is protected by the author's copyright in the novel), vacated and remanded on other grounds, 607 F.3d 68 (2d Cir. 2010).

(2) Actual Copying

^[4] ^[5] ^[6] Having therefore carried their burden with respect to copyright ownership, plaintiffs must next show that their “work was actually copied.” Actual copying may be established (a) “by direct evidence of copying” or (b) “by indirect evidence, including access to the copyrighted work, similarities that are probative of copying between the works, and expert testimony.” Laureyssens v. Idea Group, Inc., 964 F.2d 131, 140 (2d Cir. 1992). The question of “actual copying” is distinct from, and precedes, the question of infringement and “substantial similarity.” To prove actual copying, however, plaintiffs need only show “probative” similarity—that the creators of the allegedly infringing works drew from the copyrighted works. See Castle Rock, 150 F.3d at 137; Jorgensen v. Epic/Sony, 351 F.3d 46, 54–57 (2d Cir. 2003).

^[7] Here, the undisputed facts easily establish actual copying. Defendants admit that, in preparing their Guides, they read plaintiffs' Novels. Def. 56.1 St. ¶ 73. Further, defendants display the actual titles of plaintiffs' Novels on the front covers of their Guides and concede that their Guides are “based on the novels.” Id. ¶ 74. This constitutes actual copying as a matter of law. See

Paramount Pictures Corp. v. Carol Pub. Grp., Inc., 11 F.Supp.2d 329, 332–3 (S.D.N.Y. 1998), *aff'd sub nom.* 181 F.3d 83 (2d Cir. 1999) (“Star Trek”) (arguing that “it would be absurd to suggest that” actual copying did not occur in a case where “defendant's work ‘is devoted to telling a large portion’ of the story in plaintiff's work”).

(3) Substantial Similarity

^[8] ^[9] After “actual copying is established,” plaintiffs must “demonstrate that the copying was improper or unlawful by showing that the second work bears ‘substantial similarity’ to protected expression in the earlier work.” Castle Rock, 150 F.3d at 137 (quoting Repp v. Webber, 132 F.3d 882, 889 (2d Cir. 1997); Laureyssens v. Idea Group, Inc., 964 F.2d 131, 140 (2d Cir. 1992)). Specifically, plaintiffs must prove that the copying is “quantitatively and qualitatively sufficient to support the legal conclusion that infringement (actionable copying) has occurred.” Castle Rock, 150 F.3d at 138 (quoting Ringgold v. Black Entertainment Television, Inc., 126 F.3d 70, 75 (2d Cir. 1997)). The qualitative prong regards the nature of the copied expression—it must be “protected.” The quantitative prong regards the amount of such copying—it must be more than de minimis. Id.

^[10] ^[11] ^[12] There are a variety of special tests that courts sometimes apply to assess substantial similarity. These tests are designed to assist courts in determining whether protectable expression has been copied, particularly in situations where the relevant works are, at least superficially, distinct from each other. For example, for non-textual works, courts often employ Learned Hand's “ordinary observer” test, which he first used to compare two dress designs. Peter Pan Fabrics, Inc. v. Martin Weiner Corp., 274 F.2d 487, 489 (2d Cir. 1960) (Hand, J.). For textual works, where two otherwise dissimilar pieces include similar sentences and wording, courts frequently apply the “fragmented literal similarity test,” which “focuses upon copying of direct quotations or close paraphrasing.” Castle Rock, 150 F.3d at 140. By contrast, when two works do not have literal, word-for-word similarity, courts sometimes apply the “comprehensive non-literal similarity” test, weighing the “total concept and feel” of the works including their “theme, characters, plot, sequence, pace, and setting.” Castle Rock, 150 F.3d at 140 (citing 4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright* § 13.03 [A][1] at 13–24 (1997)). The “comprehensive non-literal similarity” test allows a plaintiff to enforce its copyright in a case where, though there is little or no word-for-word similarity, the defendant has nonetheless appropriated “the fundamental

essence or structure” of plaintiffs’ work. [Id.](#)

^[13]In the instant case, however, none of these special tests is even needed to establish substantial similarity, as defendants’ Guides are not even superficially distinct from the respective Novels. Instead, they are explicitly based on plaintiffs’ Novels, and seek in defendant’s words, to “introduce” them to children “through colorfully illustrated story summaries and kid-friendly analyses.” Def. 56.1 St. ¶¶ 68, 74–76.

To avoid, therefore, this obvious similarity, defendants would have the Court, in effect, subtract from defendants’ Guides the characters, plots, and settings that were directly lifted from plaintiffs’ Novels, on the ground that these elements do not constitute protectable expression. See [Knitwaves, Inc. v. Lollytogs Ltd.](#), 71 F.3d 996, 1002 (2d Cir. 1995) (noting that a court must limit its infringement inquiry to whether “the protectable elements, standing alone, are substantially similar”).

Defendants make several arguments in support of this approach. First, defendants claim that the characters, plots, and settings in plaintiffs’ Novels are merely “a collection of made-up facts” or “fictional facts,” and, since (historical or independently-existing) *746 facts are not protected, these elements are not aspects of “an author’s original expression” subject to copyright. Defendants’ Memorandum of Law in Support of Summary Judgment (“Def. Mem.”) at 4–5. As defendants put it, their Guide to *2001: A Space Odyssey* “merely summarized some of the facts of the book and the characters, not the creative expression that makes Dr. David Bowman and HAL [the characters] memorable.” Def. Mem. at 9 (emphasis added). In other words, the aspects of plaintiffs’ Novels that appear in defendants’ Guides, such as the character of Holly Golightly, her place of residence, her trips to the prison, her relationship to Sally Tomato, are not protected expression but, according to defendants, “fictional facts.”

^[14]This exercise in sophistry, however, which confuses the difference between historical or independently-existing facts and fictional details created by a novelist, finds no support in applicable law. As the Second Circuit has clearly stated, “characters and events” that “spring from the imagination” of authors are copyrightable, creative expression. See [Castle Rock](#), 150 F.3d at 139. Thus, the Copyright Act protects both the literal text describing, for example, Dr. Bowman and HAL, and the “made-up facts” about Dr. Bowman and HAL. “Unlike the facts in a phone book, which do not owe their origin to an act of authorship,” each “fact” in defendants’ Guides is really “fictitious expression”

created by plaintiffs’ authors. [Castle Rock](#), 150 F.3d at 139. Because the “characters and events” in defendants’ Guides “spring from the imagination of” Capote, Hemingway, Kerouac, and Clarke, each Guide “plainly copies copyrightable, creative expression.” [Id.](#) (citing [Feist Publications, Inc. v. Rural Tel. Serv. Co.](#), 499 U.S. 340, 347, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991)) (discussing the distinction between “discovered facts,” which do not “owe their origin to an act of authorship” and thus are not protected by copyright, and “created facts,” which constitute original, protected expression).

Second, defendants argue that the characters in plaintiffs’ works are unprotectable “stock characters.” For example, *Breakfast at Tiffany’s* is, according to defendants, just the story of “a small town girl with a tough past who has come to the big city.” Dean, in *On the Road*, is just “a stereotypical womanizing, wild guy and Sal, our narrator, is portrayed as a young writer.” Thus, defendants argue, Sal and Dean are simply “stock characters and do not warrant copyright protection.” Def. Mem. at 10.

^[15]Defendants again misstate the law. While copyright law does not protect basic characters and stock figures, see [Nichols v. Universal Pictures Corp.](#), 45 F.2d 119, 122 (2d Cir. 1930), copyright law does protect characters who are sufficiently delineated to be original. As the Seventh Circuit points out, in the very case defendants cite, a knowledgeable old wino is not a copyrightable character per se, but one named Cogliostro with an obviously phony title (“Count”) and faintly Mosaic facial features is protected. “No more is required for a character copyright.” [Gaiman v. McFarlane](#), 360 F.3d 644, 660 (7th Cir. 2004). See also [Detective Comics v. Bruns Publications](#), 111 F.2d 432, 433 (2d Cir. 1940) (finding that “Wonderman,” a superhero with only superficial differences from “Superman” is infringing, even though both are drawn from the same basic Herculean character type).

The general rule is that, where defendants’ works use “more than general types and ideas and have appropriated the pictorial and literary details embodied in the complainant’s copyrights,” defendants’ works are infringing. *747 [Detective Comics](#), 111 F.2d at 433. Here, defendants do not even attempt to conceal their copying. Indeed, their explicit intention was to lift plaintiffs’ characters to “introduce” them to children. Thus, for example, defendants’ version of *Breakfast at Tiffany’s* does not tell the story of just any “small town girl with a tough past,” but the story of the very distinctive Holly Golightly. And, as noted, defendants make a point of copying the very expression of that distinctiveness, such as the text on Holly’s business card and her original idiom

“the mean reds.” Similarly, defendants’ Guide to On the Road is not just about a “womanizing wild guy,” but a distinctive womanizing wild guy named Dean who travels across the country having particular adventures with his equally distinctive friend Sal.

Third, defendants argue in that latter regard that the plots of plaintiffs’ Novels, which defendants reproduce in their Guides, are merely unprotectable “scenes a faire,” or “incidents, characters or settings which are as a practical matter indispensable, or at least standard, in the treatment of a given topic.” Hoehling v. Universal City Studios, Inc., 618 F.2d 972, 979 (2d Cir. 1980). For example, defendants argue that The Old Man and the Sea is a classic “man versus nature” story for which “a trip in nature, the struggle against the fish, reflecting on nature, triumph and defeat” are unprotected. 2001: A Space Odyssey, defendants say, is simply a “man versus technology” plot, hence the elements which naturally arise from it (“a space station, space shuttle, an intelligent machine, tragedy in space, overcoming technology”) are not protected. Similarly, Breakfast at Tiffany’s is a “man versus himself plot,” and On the Road is “a man versus society” plot. Def. Mem. at 7.

On defendants’ absurd theory, the plot of Don Quixote is simply Cervantes’ hackneyed version of The Odyssey. Defendants totally ignore the well-developed distinction that while general plot ideas are not copyrightable, specific ones are. See Stodart v. Mut. Film Corp., 249 F. 507, 509 (S.D.N.Y. 1917), *aff’d*, 249 F. 513 (2d Cir. 1918) (comparing two plots and finding them substantially similar); Nichols, 45 F.2d at 120 (outlining the distinction); Williams v. Crichton, 84 F.3d 581, 587–89 (2d Cir. 1996) (exploring the distinction). Defendants’ Guides do not tell stories that share similar plot elements with plaintiffs’ work. They retell, albeit in abridged fashion, the very same stories including the very same characters, incidents, settings, and plot twists as the original Novels. To be sure, they do not copy every single incident, but it is well established as a matter of law that “no plagiarist can excuse the wrong by showing how much of his work he did not pirate.” Sheldon v. Metro-Goldwyn Pictures Corp., 81 F.2d 49, 56 (2d Cir. 1936). Nor need a work create the same “feel” or effect as the copyrighted work to be infringing. See Castle Rock (where defendants infringed on plaintiffs’ copyright in a TV show by publishing a quiz book about the show), Twin Peaks Prods., Inc. v. Publications Int’l, Ltd., 996 F.2d 1366 (2d Cir. 1993) (“Twin Peaks”) (where defendants infringed on plaintiffs’ copyright in a TV show by publishing a guide about the show), Star Trek (where defendants infringed on plaintiffs’ copyright in a movie by publishing a guide about the movie), and

Warner Bros. Entm’t Inc. v. RDR Books, 575 F.Supp.2d 513 (S.D.N.Y. 2008) (“Harry Potter”) (where defendants infringed on plaintiffs’ copyright in books and movies by publishing an encyclopedia based on them).

By any reasonable comparison, defendants’ Guides copy substantial aspects of the themes, characters, plots, sequencing, pace, and settings of plaintiffs’ Novels. Indeed, that is their stated purpose. Def. 56.1 *748 St. ¶¶ 68, 76 (admitting that “defendants ‘wanted to be true to the author’s original conception’” at least “as far as possible given the nature of the KinderGuides as children’s books” and that defendants’ works seek to convey to children “the stories and characters” in plaintiffs’ Novels). Defendants thus effectively admit to copyright infringement as a matter of law.

(4) Derivative Works

^[16] ^[17] ^[18] Plaintiffs also allege that defendants’ Guides violate their right to control the preparation of derivative works. See 17 U.S.C. § 106(2). 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. “A work is not derivative, however, simply because it is ‘based upon’ the preexisting works.” Harry Potter, 575 F.Supp.2d at 538. Only works that are “recast, transformed, or adapted” into another medium, mode, or language while still representing the “original work of authorship” are derivative. *Id.*; Castle Rock, 150 F.3d at 143 n. 9. For example, book reviews and parodies of copyrighted works are not derivative works, despite being based on, and potentially reproducing, substantial amounts of protected expression. See Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 592, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994) (stating the general rule that the “market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop”).

Depending on its nature, a “guide” may or may not qualify as a derivative work. The issue turns on whether the guide changes the copyrighted material in such a way that the guide no longer represents the original “work of authorship.” 17 U.S.C. § 101; Warner Bros. Entm’t Inc. v. RDR Books, 575 F.Supp.2d 513, 539 (S.D.N.Y. 2008). For example, the Second Circuit found that a guide to the TV show Twin Peaks, which “merely transformed” the

original work “from one medium to another,” was a derivative work. But an encyclopedia based on the [Harry Potter](#) world, which did not tell the same story as the original copyrighted books and movies, was not a derivative work. [Id.](#) (“by condensing, synthesizing, and reorganizing the preexisting material in an A-to-Z reference guide, the Lexicon does not recast the material in another medium to retell the story of Harry Potter, but instead gives the copyrighted material another purpose. That purpose is to give the reader a ready understanding of individual elements in the elaborate world of Harry Potter that appear in voluminous and diverse sources.”).

Here, though defendants’ Guides add additional material at the end, specifically a few brief pages of “Analysis,” “Quiz Questions,” and information about the author, they are primarily dedicated to retelling plaintiffs’ stories. Two pages of analysis do not convert the Guides overall—which are largely composed of “Story Summaries”—into something that no longer “represents the original work of authorship.” Like a translation, dramatization, or motion picture adaptation (three categories explicitly delineated by Congress as derivative works, [see 17 U.S.C. § 101](#)), and like the guide in [Twin Peaks](#), defendants’ works basically retell the story of plaintiffs’ works in another medium (in this case illustrated children’s books). Thus, because defendants never received permission from plaintiffs to produce their Guides, the *749 Guides are unauthorized derivatives as a matter of law. [See](#) Def. 56.1 St. ¶ 150.

For the aforementioned reasons, defendants’ Guides are infringing; they infringe upon plaintiffs’ exclusive right to reproduce their Novels, including the character of Holly Golightly (a separate count), and they infringe upon plaintiffs’ exclusive right to exploit the market for derivative works based on their Novels.

B. Fair Use

^[19] ^[20] Defendants argue that, even if they have infringed plaintiffs’ Novels, defendants’ Guides are protected by the doctrine of fair use. Fair use is an affirmative defense to infringement, traditionally defined as “a privilege in others than the owner of the copyright to use the copyrighted material in a reasonable manner without his consent.” [Harper & Row](#), 471 U.S. 539, 549, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985) (quoting H. Ball, Law of Copyright and Literary Property at 260 (1944)). Though “fair use is a mixed question of law and fact,” [Id.](#) at 560, 105 S.Ct. 2218, where a court finds no genuine issues of material fact it may conclude as a matter of law that a

challenged use does not qualify for fair use protection. [See Wright v. Warner Books, Inc.](#), 953 F.2d 731, 735 (2d Cir. 1991) (noting that the “mere fact that a determination of the fair use question requires an examination of the specific facts of each case does not necessarily mean that in each case involving fair use there are factual issues to be tried”) (internal citations omitted).

The Copyright Act specifies four non-exclusive factors that bear on fair use: (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. 17 U.S.C. § 107.

^[21] These factors are not meant to be “treated in isolation”—they are designed to be “weighed together,” and applied with the underlying constitutional purposes of copyright in mind. [Campbell](#), 510 U.S. at 578, 114 S.Ct. 1164. Indeed, “[f]rom the infancy of copyright protection some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright’s very purpose, ‘[t]o promote the Progress of Science and useful Arts’ ” [Id.](#) at 575, 114 S.Ct. 1164 (quoting U.S. Const., Art. I, § 8, cl. 8).

^[22] The doctrine of fair use furthers these goals by permitting others to use existing works in ways that their owners would not ordinarily use them. For example, criticism and commentary are protected by fair use because we do not expect the “creators of imaginative works” to “license critical reviews” of their own productions. “People ask ... for criticism, but they only want praise.” [Campbell](#), 510 U.S. at 592, 114 S.Ct. 1164 (quoting S. Maugham, *Of Human Bondage* at 241 (Penguin ed. 1992)). Indeed, academic freedom and robust critical debate require that Congress allow people to analyze fiction without first seeking approval from publishing houses or authors. The same principles and protections extend to parodies, which we would not expect copyright holders to willingly license, but, which nonetheless benefit the public. [Id.](#)

What fair use law does not protect is the right of others to produce works that, generally speaking, the “creators of imaginative works” might choose to produce themselves. Congress granted the exclusive right to produce (or license) such derivatives and other substantially similar works *750 to copyright holders, regardless of whether, in any given instance, the copyright holders intend to use these rights or not. The central question presented in this

case, then, is whether illustrated children's guides to adult novels are the sort of use that Congress reserved to copyright holders or the sort of use, like criticism or parody, which Congress intended to allow others to exploit.

(1) Purpose and Character of the Use

^[23] ^[24] The first factor in a fair use inquiry is “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.” 17 U.S.C. § 107(1). A work that adds “further purpose or different character, altering the first with new expression, meaning or message,” is often described in the case law as “transformative.” [Campbell](#), 510 U.S. at 579, 114 S.Ct. 1164 (citing Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105 (1990) (“Leval”) (coining the term “transformative”)).³ Transformation, in this sense, has a particular meaning. As Judge Leval explains it, a work is transformative if it is “productive”; if it adds “new insights and understandings” for the “enrichment of society.” Transformative uses of a copyright work may include, for example, “criticizing the quoted work, exposing the character of the original author, proving a fact, or summarizing an idea argued in the original in order to defend or rebut it.” Leval at 1111.

^[25] Here defendants’ argue that their Guides are potentially transformative in three respects: (1) they abridge plaintiffs’ Novels by substantially shortening them; (2) they modify plaintiffs’ Novels for a younger audience by removing adult themes; and (3) they add to plaintiffs’ Novels by adding a page or two of analysis, two pages of quiz questions, and a few pages of background information.

^[26] None of these alterations are sufficient to sustain defendants’ fair use claim. As an initial matter, U.S. law no longer protects abridgements as fair use, even in cases where the shortening involves, as Justice Story put it, “real, substantial condensation of the materials, and intellectual labor and judgment bestowed thereon; and not merely the facile use of the scissors.” [Folsom v. Marsh](#), 9 F.Cas. 342, 344–45 (C.C.D. Mass. 1841). Instead, under the Copyright Act, abridgements are generally considered to be derivative works, and the right to prepare them is reserved exclusively to the copyright holder. *See* [Twin Peaks](#), 996 F.2d at 1376.

With respect to modifying the Novels for a younger audience, the mere removal of adult themes does not

meaningfully “recast” the work any more than an airline’s editing of R-rated films so that they can be shown to children on a flight absolve the airline from paying a royalty. As Judge Leval puts it, the question is whether the work produces new insights and understandings. Here, defendants’ expurgated Guides are a vehicle for conveying to children the Novels’ original stories and insights. Indeed, it is quite clear that defendants’ Guides seek to fairly represent the original work of authorship—defendants admit as much. *See* Def. 56.1 St. ¶¶ 76, 78.

Finally, there is the question of whether defendants’ Guides qualify as educational criticism or commentary. Works of criticism and commentary provide the sort of new insights and understandings that are the *sine qua non* of transformative use. *751 Defendants suggest that their Guides should be considered commentary, arguing that their works serve educational purposes. As evidence, defendants point to the few pages of analysis, quiz questions, and background information at the back of each Guide. Def. Mem. at 21.

^[27] ^[28] ^[29] But tacking on these few pages does not provide safe harbor for an otherwise infringing work. The law is clear that, to be considered transformative criticism, the aspects of a work that reproduce another’s protected expression must be in service of commentary on that work. Indeed, it is not enough for part of a work to have a transformative purpose. Courts must also consider whether the work “does so [i.e. transforms] to an insignificant or a substantial extent.” [Twin Peaks](#), 996 F.2d at 1374. In other words, if a defendant’s work describes the plot of a copyrighted work “briefly” in order to add significant comment about the authors’ plotting technique, then it may be protected by fair use. But if a defendant copies more than is necessary to facilitate “comment or criticism,” then it will not be protected. *Id.* at 1374–5.

Here, defendants’ story summaries do not recount plaintiffs’ Novels in the service of literary analysis, they provide literary analysis in the service of trying to make the Guides qualify for the fair use exception. Indeed, defendants admitted this in open court, when their counsel explained that [Colting](#) and Medina “went to great lengths” to achieve fair use protection. *See* Transcript, ECF No. 48 at 17 (“the very fact that we have these sections in the book [e.g. the “Main Characters” and “Keywords” and “Analysis” sections] ... these are all things that were done to make these books fair use, at least in the minds of the defendants”). Fair use, however, is not a jacket to be worn over an otherwise infringing outfit. One cannot add a bit of commentary to convert an

unauthorized derivative work into a protectable publication.

Thus, defendants' Guides do not transform plaintiffs' Novels in a legally cognizable way. For this reason, and because defendants' Guides are of a commercial nature, the first factor strongly favors plaintiffs.

(2) Nature of the Copyrighted Work

^[30] ^[31] The second factor in a fair use inquiry regards the nature of the copyrighted work. 17 U.S.C. § 107(2). Copyright law recognize, in order to promote the sciences and the arts, the "application of the fair use defense" must be broader "in the case of factual works than in the case of fiction or fantasy." 3 Nimmer § 13.05 [A] at 13–77. In other words, expressly creative works tend to receive more robust copyright protection than news broadcasts or non-fiction publications. See Stewart v. Abend, 495 U.S. 207, 237–8, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990). In this case, plaintiffs' Novels are precisely the sorts of creative works that receive special solicitude in a fair use analysis. See Twin Peaks, 996 F.2d at 1376. Thus, the second factor favors plaintiffs.

(3) Amount and Substantiality of the Use

^[32] ^[33] The third factor—the amount and substantiality of the portion of the copyright work used—must be examined in context. Castle Rock, 150 F.3d at 144; Campbell, 510 U.S. at 586–7, 114 S.Ct. 1164. This is not, as defendants conceive of it, a question of bare percentages. Def. Mem. at 22. Instead, it turns on whether the "extent" of the copying is consistent with, or more than necessary to further "the purpose and character of the use." Campbell, 510 U.S. at 586–7, 114 S.Ct. 1164; Castle Rock, 150 F.3d at 144. In *752 cases of parody, journalism, and criticism, fair use doctrine allows for more of a copyrighted work to be copied than where the purpose is less transformative.

^[34] Therefore, the question here is whether and to what extent defendants' copying was necessary to serve some transformative purpose—such as to provide commentary or criticism. The answer is clear: nearly all of defendants' Guides' are devoted to telling plaintiffs' copyrighted stories, with only two pages purporting to analyze them. Thus, the third factor favors plaintiffs. See, e.g., Star Trek, 11 F.Supp.2d at 336 (noting that it is "difficult to

see how 168 pages can be devoted to illustration while the true purposes of the book is [sic] carried out by the book's remaining 49 pages" of commentary).

(4) Effect of the Use Upon the Potential Market

^[35] ^[36] ^[37] The fourth factor is the "effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). Under current law, plaintiffs need not show that their Novels have suffered an actual drop in sales. To negate fair use one need only show that if the challenged use "should become widespread, it would adversely affect the potential market for the copyrighted work." Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 451, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). And, "because the licensing of derivatives is an important economic incentive to the creation of originals," this analysis must consider not only the effect of defendants' Guides upon the market for plaintiffs' original copyrighted works, but also the effect of the Guides upon the market for potential derivative works. Campbell, 510 U.S. at 593, 114 S.Ct. 1164.

Defendants make two arguments in support of their contention that the fourth factor weighs in their favor. First, they argue that their Guides do not affect the market for plaintiffs' Novels. "To pretend that any consumer would go to a bookstore (electronic or otherwise) seeking one of the great classics of American literature and instead choose to purchase an illustrated children's book defies belief." Def. Mem. at 23. But it is defendants' burden to show that their works will not adversely affect either the market for plaintiffs' originals or the market for derivative works based on plaintiffs' originals. Both sides agree that there is an established market for children's versions of adult novels, and that publishers, like plaintiffs, often choose to license their works to exploit that market. Def. 56.1 St. ¶¶ 95, 145. Indeed, plaintiffs provide many examples for the record of publishers exploiting this market in this way. Id. ¶ 96.

Second, defendants argue that "Plaintiffs' have never created, marketed, or licensed any work that remotely resembles Defendants' works." Def. Mem. at 24. Even if this were true,⁴ it would not be enough for defendants to show that plaintiffs have not exploited a derivative market. It suffices, as a matter of law, that plaintiffs might change their minds. Castle Rock, 150 F.3d at 146. "If the defendant's work adversely affects the value of any of the rights in the copyrighted work (in this case the adaptation [and serialization] right) the use is not fair." Harper & Row Publishers, 471 U.S. at 568, 105 S.Ct. 2218 (quoting

3 Nimmer § 13.05[B], at 13–77–13–78 (footnote omitted)) (brackets in original). Thus, as children’s books “fill a market niche” that plaintiffs “would in general *753 develop or license others to develop,” the fourth factor favors the plaintiffs. [Castle Rock](#), 150 F.3d at 145 (emphasis added).

(5) Other Considerations

[38] [39] [40] The Court must also take into consideration other factors that might bear on the question of fair use. [Campbell](#), 510 U.S. at 577, 114 S.Ct. 1164. Among these is whether, as defendants argue, their works should be protected because otherwise the constitutional purpose of copyright law—to 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—would be frustrated. *U.S. Const., Art. 1, § 8, cl. 8*. As defendants’ point out, copyright law is designed to “motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.” [Harper & Row Publishers](#), 471 U.S. at 546, 105 S.Ct. 2218 (quoting [Sony Corp. of America](#), 464 U.S. at 429, 104 S.Ct. 774). This “monopoly created by copyright ... rewards the individual author in order to benefit the public.” *Id.*

Thus, defendants ask the Court to assess the interests of the public in the context of the facts of this specific case. Plaintiffs “do not include authors, but the heirs, trusts and estates of authors.” Def. Mem. at 1. Plaintiffs have not published illustrated children’s books based on their Novels and appear to have no intention of doing so. Thus, according to defendants, plaintiffs “explicitly seek to stifle the creation of” new works, and their “sole interest” in this case “is not to preserve their own works, or their ability to license their works, but instead to prevent the creation of wholly new works that reference their own.” *Id.* at 1, 24. Plaintiffs’ motives, they contend, do “not satisfy the constitutional imperative that the limited monopoly granted to authors be exercised in such a way as to “promote the progress of science and the useful arts.” Def. Mem. at 24.

[41] However, the Court cannot apply one fair use analysis where copyright holders can show they plan to exploit their rights to make derivative works and another fair use analysis in a case where copyright holders have not exploited such rights for half a century or longer or disclaim any intention of exploiting them in the future.

Such an approach would be inconsistent with the Copyright Act. Congress did not provide a use-it-or-lose-it mechanism for copyright protection. Instead, Congress granted a package of rights to copyright holders, including the exclusive right to exploit derivative works, regardless of whether copyright holders ever intend to exploit those rights. Indeed, the fact that any given author has decided not to exploit certain rights does not mean that others gain the right to exploit them. “It would ... not serve the ends of the Copyright Act—i.e., to advance the arts—if artists were denied their monopoly over derivative versions of their creative works merely because they made the artistic decision not to saturate those markets with variations of their original.” [Castle Rock Entm’t v. Carol Pub. Grp., Inc.](#), 955 F.Supp. 260, 272 (S.D.N.Y. 1997), *aff’d sub nom.* [Castle Rock](#), 150 F.3d 132.

Implicit in defendants’ argument, then, is a contention that the Copyright Act itself is unconstitutional. As defendants put it, “the original copyright act granted authors exclusive rights for a 14-year term, with the option for a renewal term of the same length. Over the course of the following 200+ years, the grant of rights has expanded unchecked, leading us here today.” Def. Mem. at 1. Defendants are no doubt correct in pointing out that Congress’ policy judgments have changed substantially over the course of our nation’s history. But as a legal matter, for the *754 Copyright Act to withstand constitutional scrutiny, it must merely be the case that, in constructing its general scheme, Congress had a rational basis to believe that granting a suite of exclusive derivative rights to copyright holders would advance progress in the sciences and the arts. See [Eldred v. Ashcroft](#), 537 U.S. 186, 208, 123 S.Ct. 769, 154 L.Ed.2d 683 (2003) (finding that, if the Copyright Act is “a rational enactment,” the Court is “not at liberty to second-guess congressional determinations and policy judgments ... however debatable or arguably unwise they may be”). As defendants make no effort to show that Congress lacked such a rational basis for providing plaintiffs an exclusive right to exploit derivative works, including children’s adaptations, this Court cannot provide defendants with the relief they are seeking.

In sum, given the clearly infringing nature of defendants’ Guides, and the fact that the Guides are unauthorized derivative works that do not primarily critique or parody plaintiffs’ Novels but rather reproduce, albeit in a different form, plaintiffs’ “original work of authorship,” no reasonable trier of fact could find for defendants in this case. The Court therefore, in its Order of July 28, 2017, granted summary judgment to the plaintiffs on all nine counts of infringement and rejected the affirmative

defense of fair use as a matter of law.

All Citations

The Clerk of the Court is hereby directed to close the motions at docket entry number 21, 22, and 27.

270 F.Supp.3d 736, 2017 Copr.L.Dec. P 31,151

SO ORDERED.

Footnotes

- 1 Admittedly, the Old Man of this Court shares the latter failing.
- 2 With respect to the first ground, the question of whether defendants' Guides are derivative works is "completely superfluous," as "infringement of the adaptation right necessarily infringes the reproduction right." [Twin Peaks Prods., Inc. v. Publications Int'l, Ltd.](#), 996 F.2d 1366, 1373 (2d Cir. 1993) (citing 2 Nimmer § 8.09[A] at 8–114)).
- 3 Whether a work is transformative is a separate question from whether it is commercial in nature, a question which is not dispositive but tends to favor copyright holders on the margins. See [Twin Peaks](#), 996 F.2d at 1375.
- 4 As discussed earlier, it is undisputed that plaintiffs have published an ESL version of [2001: A Space Odyssey](#), which competes in the same ESL market as defendants' Guide. Def. 56.1 St. 55 ¶¶ 114, 142.

2017 WL 741569

Only the Westlaw citation is currently available.
United States District Court, W.D. Kentucky,
Paducah Division.

RABEN TIRE CO., LLC, Plaintiff,

v.

Dennis **McFARLAND**, et al., Defendants.

CIVIL ACTION NO. 5:16-CV-00141-TBR

Signed 02/24/2017

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MEMORANDUM OPINION

Thomas B. Russell, Senior Judge

*1 **Raben Tire Co., LLC** filed this action against two of its former employees, Dennis R. **McFarland** and Christopher Bates, and their new employer, CBA **Tire Inc.** and Antioch **Tire, Inc.**, d/b/a Tredroc **Tire**, bringing claims for misappropriation of trade secrets under the Defend Trade Secrets Act of 2016 (DTSA), 18 U.S.C. § 1831 *et seq.*, and the Kentucky Uniform Trade Secrets Act (KUTSA), Ky. Rev. Stat. § 365.880 *et seq.*, along with a handful of additional common-law claims. Pursuant to Federal Rule of Civil Procedure 12(b)(6), **McFarland**, Bates, and Tredroc **Tire** move to dismiss **Raben Tire Co.**'s complaint. Because **Raben Tire Co.** has not plausibly alleged how the information in question qualifies as a "trade secret" under federal law, the Court dismisses **Raben Tire Co.**'s claim under the DTSA and declines to exercise supplemental jurisdiction as to the remaining state-law claims. Accordingly, **McFarland**, Bates, and Tredroc **Tire's** Motion to Dismiss, [R. 12], is **GRANTED IN PART** and **DENIED IN PART**.

I.

A.

Raben Tire Co., LLC is engaged in the business of selling and installing **tires** for commercial vehicles and construction equipment, including "off-the-road" **tires**. [R. 1 at 3, ¶ 8 (Complaint).] Dennis R. **McFarland** and Christopher Bates are former managerial employees of **Raben Tire Co.** [*Id.* at 3–4, ¶¶ 10–11.] Sometime in the early 2016, both **McFarland** and Bates notified **Raben Tire Co.** of their intent to resign. [*Id.* at 4, ¶ 12.] **McFarland** resigned on April 15, and Bates resigned on June 24, 2016. [*Id.* at 3–4, ¶¶ 10–11.] **Raben Tire Co.** alleges, upon information and belief, that **McFarland** and Bates now work for CBA **Tire Inc.** and Antioch **Tire, Inc.**, which operate under the assumed name of Tredroc **Tire**, a competitor of **Raben Tire Co.** [*Id.* at 4, ¶ 12.]

Prior to resigning and for some time thereafter, **Raben Tire Co.** claims that **McFarland** and Bates transferred "confidential and proprietary information" to Tredroc **Tire**. [*Id.*, ¶ 13.] It identifies three categories of allegedly confidential information: (1) sales commission reports showing sales from **Raben Tire Co.**'s customers who were assigned to Bates at that time, [*id.*, ¶ 13(a)]; (2) the names of the individuals responsible for **tire** purchases at Vigo Coal, Whayne Equipment Company, and Vulcan Materials, ostensibly customers of **Raben Tire Co.**, [*id.* at 5–6, ¶ 13(b), (e)]; and (3) a possible location for a new service center, which **Raben Tire Co.** had disclosed to Bates after his resignation during negotiations about possibly retaining him in some different capacity, [*id.*, ¶ 13(d)]. Other than labeling that information as "confidential" in its complaint, however, **Raben Tire Co.** has not alleged any steps that it took to protect the information from disclosure. [See generally *id.* at 4–7, ¶¶ 13–18.]

B.

Raben Tire Co. filed this action against **McFarland**, Bates, and Tredroc **Tire**, bringing claims for misappropriation of trade secrets under the Defend Trade Secrets Act of 2016 (DTSA), 18 U.S.C. § 1831 *et seq.*, and the Kentucky Uniform Trade Secrets Act (KUTSA), Ky. Rev. Stat. § 365.880 *et seq.*, along with common-law claims for conspiracy, tortious interference, and conversion. [*Id.* at 1–2, ¶ 5.] It seeks monetary and injunctive relief. [*Id.* at 7–8.] Pursuant to Federal Rule of Civil Procedure 12(b)(6), **McFarland**, Bates, and Tredroc **Tire** move to dismiss **Raben Tire** Co.’s complaint. [See R. 12 at 1 (Motion to Dismiss).] **Raben Tire** Co. not only opposes that motion, [see R. 16 (Response)], and but also asks for leave to conduct discovery to support a motion for preliminary injunctive relief, [see R. 8 (Motion for Leave to Conduct Discovery)].

II.

*2 A complaint must contain “a short and plain statement of the claim showing that the pleader is entitled to relief.” Fed. R. Civ. P. 8(a)(2). In order to survive a motion to dismiss under Federal Rule of Civil Procedure 12(b)(6), a party must “plead enough ‘factual matter’ to raise a ‘plausible’ inference of wrongdoing.” 16630 *Southfield Ltd. P’ship v. Flagstar Bank, F.S.B.*, 727 F.3d 502, 504 (6th Cir. 2013) (quoting *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009)). A claim becomes plausible “when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Iqbal*, 556 U.S. at 678 (citing *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 556 (2007)). Should the well-pleaded facts support no “more than the mere possibility of misconduct,” then dismissal is warranted. *Id.* at 679. The Court may grant a motion to dismiss “only if, after drawing all reasonable inferences from the allegations in the complaint in favor of the plaintiff, the complaint still fails to allege a plausible theory of relief.” *Garceau v. City of Flint*, 572 Fed.Appx. 369, 371 (6th Cir. 2014) (citing *Iqbal*, 556 U.S. at 677–79).

III.

McFarland, Bates, and Tredroc **Tire** move to dismiss **Raben Tire** Co.’s claim for misappropriation under the

DTSA, and urge the Court to decline to exercise supplemental jurisdiction over **Raben Tire** Co.’s remaining state-law claims.¹ [See R. 12-1 at 5–9 (Memorandum in Support).] In the main, **Raben Tire** Co. has not plausibly alleged how the information discussed above qualifies as a “trade secret” under federal law. [*Id.* at 7–8.] Even giving **Raben Tire** Co. the benefit of the doubt, to which it is entitled, **McFarland**, Bates, and Tredroc **Tire** are right. Therefore, the Court will dismiss **Raben Tire** Co.’s federal misappropriation claim and decline to exercise supplemental jurisdiction over the remainder of this action.

A.

Congress adopted the DTSA to “provide a single, national standard for trade secret misappropriation” with an eye toward promoting “clear rules and predictability” in trade-secrets litigation. H.R. Rep. No. 114-529, at 6 (2016); see also S. Rep. No. 114-220, at 2 (2016). To those ends, the DTSA creates a private cause of action in favor of the “owner of a trade secret that is misappropriated ... if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 U.S.C. § 1836(b)(1). Under the DTSA, a “trade secret” is, generally speaking, information that the owner “has taken reasonable measures to keep ... secret” and that “derives independent economic value ... from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.” *Id.* § 1839(3). **Raben Tire** Co. bears the burden of demonstrating that it took reasonable steps to maintain the secrecy of the protected information. *M.C. Dean, Inc. v. City of Miami Beach*, — F. Supp. 3d —, —, 2016 WL 4179807, at *4 (S.D. Fla. 2016); cf. *Niemi v. NHK Spring Co.*, 543 F.3d 294, 302 (6th Cir. 2008) (same under Ohio Uniform Trade Secrets Act).

In this case, **Raben Tire** Co.’s complaint is entirely devoid of any allegations of how it protected the information in question from dissemination. There is no suggestion, for example, that either **McFarland** or Bates were restricted from sharing that information due to a nondisclosure agreement. See *Mission Measurement Corp. v. Blackbaud, Inc.*, — F. Supp. 3d —, —, 2016 WL 6277496, at *6 (N.D. Ill. 2016) (finding plaintiff had adequately pleaded reasonable efforts to maintain secrecy of information by use of confidentiality

and nondisclosure agreements). Beyond referring to the information as “confidential and proprietary,” the complaint contains no factual allegations from which to plausibly infer that **Raben Tire Co.** took *any* steps to maintain its secrecy. Although **McFarland**, Bates, and Tredroc **Tire’s** motion placed that issue squarely in dispute, [see R. 12-1 at 7–8], **Raben Tire Co.** neglected to address the point, [see R. 16 at 4–7]. Even viewing the complaint in the light most favorable to **Raben Tire Co.**, the omission is fatal to its claim for misappropriation of trade secrets under the DTSA.

B.

*3 Having dismissed **Raben Tire Co.’s** sole federal claim, the Court declines to exercise supplemental jurisdiction over the remaining state-law claims. See 28 U.S.C. § 1367(c)(3); *Wee Care Child Ctr., Inc. v. Lumpkin*, 680 F.3d 841, 849 (6th Cir. 2012); see also 13D Charles Alan Wright et al., *Federal Practice and Procedure* § 3567.3 (3d ed.), Westlaw (database updated April 2016) (“As a general matter, a court will decline supplemental jurisdiction if the underlying claims are dismissed before trial.”). “When, as here, ‘all federal claims are dismissed before trial, the balance of considerations usually will point to dismissing the state law claims.’ ” *Booker v. City of Beachwood*, 451 Fed.Appx. 521, 523 (6th Cir. 2011) (quoting *Musson Theatrical, Inc. v. Fed. Express Corp.*, 89 F.3d 1244,

1254–55 (6th Cir. 1996)). Accordingly, the Court will dismiss **Raben Tire Co.’s** state-law claims—though without prejudice.

IV.

Dennis R. **McFarland**, Christopher Bates, and CBA **Tire Inc.** and Antioch **Tire, Inc.**, d/b/a Tredroc **Tire’s** Motion to Dismiss, [R. 12], is **GRANTED IN PART** and **DENIED IN PART**. Pursuant to [Federal Rule of Civil Procedure 12\(b\)\(6\)](#), **Raben Tire Co., LLC’s** claim for misappropriation of trade secrets under the Defend Trade Secrets Act of 2016 is **DISMISSED WITH PREJUDICE** for failure to state a claim upon which relief may be granted. **Raben Tire Co., LLC’s** remaining state-law claims are **DISMISSED WITHOUT PREJUDICE**.

Raben Tire Co., LLC’s Motion for Leave to Conduct Discovery, [R. 8], is **DENIED AS MOOT**.

A separate order and judgment shall issue.

All Citations

Not Reported in Fed. Supp., 2017 WL 741569

Footnotes

- ¹ **Raben Tire Co., LLC’s** claim for misappropriation of trade secrets under the Defend Trade Secrets Act of 2016 (DTSA), 28 U.S.C. § 1831 *et seq.*, is the only basis for subject-matter jurisdiction, see 18 U.S.C. § 1836(c); 28 U.S.C. § 1331, since the parties are not diverse, see 28 U.S.C. § 1332(a).

883 F.3d 169

United States Court of Appeals, Second Circuit.

FOX NEWS NETWORK, LLC,

Plaintiff-Appellee-Cross-Appellant,

v.

TVEYES, INC.,

Defendant-Appellant-Cross-Appellee.

Docket Nos. 15-3885(L), 15-3886(XAP)

August Term, 2016

Argued: March 7, 2017

Decided: February 27, 2018

Synopsis

Background: Television **news** company brought action against media-monitoring service that aggregated **news** reports into searchable database for copyright infringement. The United States District Court for the Southern District of New York, [Alvin K. Hellerstein, J.](#), [124 F.Supp.3d 325](#), granted both parties' motions for summary judgment in part, and issued an injunction. Both parties appealed.

Holdings: The Court of Appeals, [Jacobs](#), Circuit Judge, held that:

[1] service's copying of company's content was transformative;

[2] service's function was not justifiable as fair use;

[3] service engaged in volitional conduct so that it was a direct infringer; and

[4] there was no infringement in the use of the date/time search function.

Affirmed in part, reversed in part, and remanded.

[Kaplan, J.](#), filed a concurring opinion.

[1] Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

In fair use litigation, courts undertake a case-by-case analysis in which each statutory factor is considered, and the results are weighed together, in light of the purposes of copyright. [17 U.S.C.A. § 107](#).

[Cases that cite this headnote](#)

[2] Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

The fair use statutory factors are non-exclusive, but consideration of each is mandatory to determine whether the use of copyrighted material is fair use. [17 U.S.C.A. § 107](#).

[1 Cases that cite this headnote](#)

[3] Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

Some of the fair use statutory factors are more important than others, with the factor regarding the market impact of the copyright infringement being the single most important element. [17 U.S.C.A. § 107](#).

[Cases that cite this headnote](#)

[4] Copyrights and Intellectual Property

🔑 Fair use and other permitted uses in general

Copyrights and Intellectual Property

🔑 Presumptions and burden of proof

Fair use is an affirmative defense in copyright infringement cases, so the alleged infringer bears the burden of proving it. [17 U.S.C.A. §](#)

107.

Cases that cite this headnote

- [5] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

In considering the first fair use factor, the purpose and character of the secondary use, the primary inquiry is whether the use of the copyrighted material communicates something new and different from the original or otherwise expands its utility, that is, whether the use is transformative. 17 U.S.C.A. § 107(1).

2 Cases that cite this headnote

- [6] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

To be “transformative” for purposes of the first fair use factor, the purpose and character of the secondary use, a use must do something more than repackage or republish the original copyrighted work; it must add something new, with a further purpose or different character, altering the first with new expression, meaning or message. 17 U.S.C.A. § 107(1).

3 Cases that cite this headnote

- [7] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Although transformative use is not absolutely necessary for a finding of fair use, transformative works lie at the heart of the fair use doctrine, and a use of copyrighted material that merely repackages or republishes the original is unlikely to be deemed a fair use. 17 U.S.C.A. § 107.

2 Cases that cite this headnote

- [8] **Copyrights and Intellectual Property**
🔑 Motion pictures and other audiovisual works

Media-monitoring service’s copying of television **news** company’s content for use in a function that continuously recorded vast quantities of television programming through which customers could search with a text search and watch up to 10 minutes of the selected program, was transformative for purposes of the first fair use factor, the purpose and character of the secondary use; the copying enabled nearly instant access to a subject of material, and to information about the material, that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means. 17 U.S.C.A. § 107(1).

1 Cases that cite this headnote

- [9] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

That a secondary use can facilitate research does not itself support a finding that the secondary use is transformative for purposes of the first fair use factor, the purpose and character of the secondary use. 17 U.S.C.A. § 107(1).

1 Cases that cite this headnote

- [10] **Copyrights and Intellectual Property**
🔑 Motion pictures and other audiovisual works

Media-monitoring service’s function, which continuously recorded vast quantities of television programming through which customers could search with a text search and watch up to 10 minutes of the selected program, including television **news** company’s programming, was not justifiable as fair use under the Copyright Act, even though it was at least somewhat transformative in that it rendered

convenient and efficient access to a subset of content; the function did not change the content itself or the purpose for which it was used, the function allowed service's clients to see and hear virtually all of the company's programming that they wished, and service had usurped a function for which company was entitled to demand compensation under a licensing agreement. 17 U.S.C.A. § 107.

Cases that cite this headnote

^[11] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

The commercial nature of a secondary use weighs against a finding of fair use under the Copyright Act. 17 U.S.C.A. § 107(1).

2 Cases that cite this headnote

^[12] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

The relevant consideration of the second fair use factor, the amount and substantiality of the portion used in relation to the copyrighted work as a whole, is the amount of copyrighted material made available to the public rather than the amount of material used by the copier. 17 U.S.C.A. § 107(3).

Cases that cite this headnote

^[13] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

The fourth fair use factor, the effect of the copying use upon the potential market for or value of the copyrighted work, focuses on whether the copy brings to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood

that potential purchasers may opt to acquire the copy in preference to the original. 17 U.S.C.A. § 107(4).

2 Cases that cite this headnote

^[14] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

The fourth fair use factor, the effect of the copying use upon the potential market for or value of the copyrighted work, requires consideration of not only the market harm caused by the particular actions of the alleged infringer, but also the market harm that would result from unrestricted and widespread conduct of the same sort. 17 U.S.C.A. § 107(4).

2 Cases that cite this headnote

^[15] **Copyrights and Intellectual Property**
🔑 Licenses in general
Copyrights and Intellectual Property
🔑 Fair use and other permitted uses in general

As a general matter, a copyright holder is entitled to demand a royalty for licensing others to use its copyrighted work, and the impact on potential licensing revenues is a proper subject for consideration in assessing the fourth fair use factor, the effect of the copying use upon the potential market for or value of the copyrighted work. 17 U.S.C.A. § 107(4).

1 Cases that cite this headnote

^[16] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Not every effect on potential licensing revenues enters the analysis under the fourth fair use factor, the effect of the copying use upon the potential market for or value of the copyrighted

work. 17 U.S.C.A. § 107(4).

Cases that cite this headnote

[17] **Copyrights and Intellectual Property**
🔑 Licenses in general

A copyright owner has no right to demand that users take a license unless the use that would be made is one that would otherwise infringe an exclusive right.

1 Cases that cite this headnote

[18] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

Even if a use does infringe an exclusive right, only an impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets should be legally cognizable when evaluating a secondary use's effect upon the potential market for or value of the copyrighted work, for purposes of the fourth fair use factor, the effect of the copying use upon the potential market for or value of the copyrighted work.

3 Cases that cite this headnote

[19] **Copyrights and Intellectual Property**
🔑 Fair use and other permitted uses in general

The fair use factors should not be treated in isolation, one from another; rather, all are to be explored, and the results are to be weighed together, in light of the purposes of copyright. 17 U.S.C.A. § 107.

Cases that cite this headnote

[20] **Copyrights and Intellectual Property**
🔑 Intent or purpose

A "direct infringer" exercises volitional conduct to make the infringing copy.

1 Cases that cite this headnote

[21] **Copyrights and Intellectual Property**
🔑 Motion pictures and other audiovisual works

Media-monitoring service engaged in volitional conduct in its copying of television **news** company's content for use in a function that continuously recorded vast quantities of television programming through which customers could search with a text search and watch up to 10 minutes of a selected program, so that service was a direct infringer under the Copyright Act; service decided what audiovisual content to record, copied that content, and retained the content for 32 days for use in that function. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[22] **Copyrights and Intellectual Property**
🔑 Persons liable

A party that has not committed direct copyright infringement under the Copyright Act may still be liable under the doctrine of contributory infringement, which allows a defendant to be held liable for infringing acts of third parties. 17 U.S.C.A. § 101 et seq.

Cases that cite this headnote

[23] **Federal Courts**
🔑 Injunction

The Court of Appeals reviews the issuance of a permanent injunction for abuse of discretion, which may be found where the district court, in

issuing the injunction, relied on an error of law.

[Cases that cite this headnote](#)

[24] **Copyrights and Intellectual Property**
🔑 **Motion pictures and other audiovisual works**

There was no copyright infringement under the Copyright Act in the use of the date/time search function of media-monitoring service's function, which continuously recorded vast quantities of television programming through which customers could search with a text search, in order to discover the particular program that was playing on a certain channel at a certain time; that information was a historical fact, which was not copyrightable. 17 U.S.C.A. § 101 et seq.

[Cases that cite this headnote](#)

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Before: **NEWMAN**, **JACOBS**, Circuit Judges, and **KAPLAN**, District Judge.*

Opinion

JACOBS, Circuit Judge:

*173 In this copyright infringement suit, defendant **TVEyes**, Inc. (“**TVEyes**”) offers a service that enables its clients to easily locate and view segments of televised video programming that are responsive to the clients’ interests. It does so by continuously recording vast quantities of television programming, compiling the recorded broadcasts into a database that is text-searchable (based primarily on the closed-captioned text copied from the broadcasts), and allowing its clients to search for and watch (up to) ten-minute video clips that *174 mention terms of interest to the clients.¹ Plaintiff **Fox News Network, LLC** (“**Fox**”), which has sued **TVEyes** in the United States District Court for the Southern District of New York, does not challenge the creation of the text-searchable database but alleges that **TVEyes** infringed **Fox’s** copyrights by re-distributing **Fox’s** copied audiovisual content, thereby enabling **TVEyes’s** clients to access that content without **Fox’s** permission. The principal question on appeal is whether **TVEyes’s** enabling of its clients to watch **Fox’s** programming is protected by the doctrine of fair use. See 17 U.S.C. § 107.

The district court held that fewer than all of the functions of **TVEyes’s** service constitute a fair use. Specifically, the district court deemed a fair use the functions enabling clients of **TVEyes** to search for videos by term, to watch the resulting videos, and to archive the videos on the **TVEyes** servers; but the court held that certain other functions were not a fair use, such as those enabling **TVEyes’s** clients to download videos to their computers, to freely e-mail videos to others, or to watch videos after searching for them by date, time, and channel (rather than by keyword). The district court therefore dismissed **Fox’s** challenge to important functions of **TVEyes’s** service, but also held that **TVEyes** was liable to **Fox** for copyright infringement on account of other functions of that service. A permanent injunction limited various aspects of **TVEyes’s** service.²

This appeal shares features with our decision in [Authors Guild v. Google, Inc.](#), 804 F.3d 202 (2d Cir. 2015) (“[Google Books](#)”). That case held that Google’s creation of a text-searchable database of millions of books (including books under copyright) was a fair use because Google’s service was “transformative” and because integral features protected the rights of copyright holders. However, we cautioned that the case “test[ed] the boundaries of fair use.” [Google Books](#), 804 F.3d at 206. We conclude that defendant **TVEyes** has exceeded those bounds.

TVEyes’s re-distribution of **Fox’s** audiovisual content serves a transformative purpose in that it enables **TVEyes’s** clients to isolate from the vast corpus of **Fox’s** content the material that is responsive to their interests, and to access that material in a convenient manner. But because that re-distribution makes available virtually all of **Fox’s** copyrighted audiovisual content—including all of the **Fox** content that **TVEyes’s** clients wish to see and hear—and because it deprives **Fox** of revenue that properly belongs to the copyright holder, **TVEyes** has failed to show that the product it offers to its clients can be justified as a fair use.

Accordingly, we reverse the order of the district court to the extent it held that some of the challenged **TVEyes** functions constituted a fair use. We affirm the order to the extent that it denied **TVEyes’s** request for additional relief. Furthermore, because the district court’s issuance of an injunction was premised on the incorrect conclusion that much of what **TVEyes** offered was a fair use, we remand for the district court to revise the injunction in light of this opinion.

I

TVEyes is a for-profit media company. It offers a service that allows its clients to *175 efficiently sort through vast quantities of television content in order to find clips that discuss items of interest to them. For example, a client in marketing or public relations interested in how a particular product is faring in the media can use the **TVEyes** service to find, watch, and share clips of recent television broadcasts that mention that product.

The service works this way. **TVEyes** records essentially all television broadcasts as they happen, drawing from more than 1,400 channels, recording 24 hours a day,

every day. By copying the closed-captioned text that accompanies the content it records (and utilizing speech-to-text software when necessary), TVEyes creates a text-searchable transcript of the words spoken in each video. The videos and transcripts are consolidated into a database. A client inputs a search term and gets a list of video clips that mention the term. A click on a thumbnail image of a clip plays the video, beginning fourteen seconds before the search term was spoken, and displays a segment of the transcript with the search term highlighted. The parties dispute the quality of the clips. Fox contends that the clips are high definition; TVEyes contends that the clips are grainier than the original broadcasts. The clips can be played for no more than ten minutes, but a user can play an unlimited number of clips. To prevent clients from watching entire programs, TVEyes (during the course of this litigation) implemented a device that is claimed to prevent clients from viewing consecutive segments. The parties dispute whether this measure is effective.

TVEyes's service has ancillary functions. A TVEyes client may "archive" videos permanently on the TVEyes servers and may download videos directly to the client's computer. These services are useful because TVEyes otherwise deletes captured content after thirty-two days. Clients can also email the clips for viewing by others, including those who are not TVEyes clients. And clients can search for videos by date, time, and channel (rather than by keyword). The parties dispute whether clients can watch live broadcasts on TVEyes.

A TVEyes subscription costs approximately \$500 per month, is available for business and professional use, and is not offered to private consumers for personal use. Clients include journalists, government and political organizations, law enforcement, the military, for-profit companies, and non-profits.

TVEyes asserts that it restricts its clients' use of its content in various ways. For example, clients are required to sign a contract that limits their use of clips to "internal purposes only" and are warned upon downloading a clip that it is to be used for only "internal review, analysis or research." Fox contends that these safeguards are ineffective and disputes the assertion by TVEyes that its service is primarily used for "internal" research and analysis.

Fox claims that at some point TVEyes unsuccessfully approached it to procure a license to use Fox programming. Fox demanded that TVEyes stop using its programming; when TVEyes refused, litigation ensued. The lawsuit focuses on nineteen copyrighted Fox

broadcasts. The legal question is whether TVEyes has a "fair use" defense to Fox's copyright infringement claims. 17 U.S.C. § 107.

II

The Copyright Act provides:

[T]he fair use of a copyrighted work ... for purposes such as criticism, comment, news reporting, teaching ..., scholarship, or research, is not an infringement *176 of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (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.

Id.

[1] [2] [3] [4] In fair use litigation, courts undertake a "case-by-case analysis" in which each factor is considered, "and the results [are] weighed together, in light of the purposes of copyright." [Campbell v. Acuff-Rose Music, Inc.](#), 510 U.S. 569, 577-78, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994). The factors are non-exclusive, but consideration of each is mandatory.³ [Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.](#), 756 F.3d 73, 81 (2d Cir. 2014). Some of the factors are more important than others, with the fourth (market impact) being "the single most important element." [Harper & Row Publishers, Inc. v. Nation Enters.](#), 471 U.S. 539, 566, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985). Fair use is an affirmative defense, so TVEyes bears the burden of proving it. [Am. Geophysical Union v. Texaco, Inc.](#), 60 F.3d 913, 918 (2d Cir. 1994).

It is useful to analyze separately distinct functions of the secondary use (i.e., the use by TVEyes of Fox's copyrighted material), considering whether each independent function is a fair use. See [Google Books](#), 804

F.3d at 216-18. **TVEyes** has two core offerings: the “Search function” and the “Watch function.” The Search function allows clients to *identify* videos that contain keywords of interest. The Watch function allows **TVEyes** clients to *view* up to ten-minute, unaltered video clips of copyrighted content. **Fox** does not challenge the Search function on appeal. **Fox’s** challenge is to the Watch function, and we determine that its inclusion renders **TVEyes’s** package of services unprotected by the fair use doctrine. That conclusion subsumes and obviates consideration of certain functions that are subsidiary to the Watch function, such as archiving, downloading, and emailing the video clips.

Turning to the Watch function, we next consider each of the four factors listed in § 107.

A

^[5] ^[6] ^[7]In considering the first statutory factor—the “purpose and character” of the secondary use, 17 U.S.C. § 107(1)—the primary inquiry is whether the use “communicates something new and different from the original or [otherwise] expands its utility,” that is, whether the use is “transformative.” [Google Books](#), 804 F.3d at 214. To be transformative, a use must “do[] something more than repackage or republish the original copyrighted work”; it must “‘add[] something new, with a further purpose or different character, altering the first with new expression, meaning or message....’ ” [Authors Guild, Inc. v. HathiTrust](#), 755 F.3d 87, 96 (2d Cir. 2014) (quoting *177 [Campbell](#), 510 U.S. at 579, 114 S.Ct. 1164). “Although ... transformative use is not absolutely necessary for a finding of fair use, ... [transformative] works ... lie at the heart of the fair use doctrine,” [Campbell](#), 510 U.S. at 579, 114 S.Ct. 1164, and “a use of copyrighted material that ‘merely repackages or republishes the original’ is unlikely to be deemed a fair use,” [Infinity Broad. Corp. v. Kirkwood](#), 150 F.3d 104, 108 (2d Cir. 1998) (quoting Pierre N. Leval, [Toward a Fair Use Standard](#), 103 Harv. L. Rev. 1105, 1111 (1990)).

Precedent is helpful. Both parties rely most heavily on [Google Books](#), which provides the starting point for analysis.

In [Google Books](#), a consortium of libraries collaborated to make digital copies of millions of books, many of them under copyright. Google pooled these digital copies into a

text-searchable database. 804 F.3d at 207. Anyone could search the database free. When a user entered a search term, Google returned a list of books that included the term, and, for each responsive book, Google provided a few “snippets” that contained the term. [Id.](#)

We held that Google’s copying served a transformative purpose because it created a text-searchable database that “communicate[d] something new and different from the original.” [Id.](#) at 214. “[T]he result of a word search is different in purpose, character, expression, meaning, and message from the page (and the book) from which it is drawn.” [Id.](#) at 217 (quoting [HathiTrust](#), 755 F.3d at 97).

We also held that the “snippet view” of unaltered, copyrighted text “add[ed] important value to the basic transformative search function” by allowing users to verify that the list of books returned by the database was responsive to the user’s search. [Id.](#) Thus, a user searching for the term “Hindenburg” could infer from snippets whether the book was referencing the Weimar president or the exploded zeppelin. [See id.](#) at 217-18.

^[8]**TVEyes’s** copying of **Fox’s** content for use in the Watch function is similarly transformative insofar as it enables users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means.

[Sony Corporation of America vs. Universal City Studios, Inc.](#) is instructive. [See](#) 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). In [Sony](#), a television customer, who (by virtue of owning a television set) had acquired authorization to watch a program when it was broadcast, recorded it in order to watch it instead at a later, more convenient time. That was held to be a fair use. While [Sony](#) was decided before “transformative” became a term of art, the apparent reasoning was that a secondary use may be a fair use if it utilizes technology to achieve the transformative purpose of improving the efficiency of delivering content without unreasonably encroaching on the commercial entitlements of the rights holder.

^[9]The Watch function certainly qualifies as technology that achieves the transformative purpose of enhancing efficiency: it enables **TVEyes’s** clients to view all of the **Fox** programming that (over the prior thirty-two days) discussed a particular topic of interest to them, without having to monitor thirty-two days of programming in order to catch each relevant discussion; and it eliminates

the clients' need even to view entire programs, because the ten most relevant minutes are presented to them. Much like the television customer in *178 [Sony](#), [TVEyes](#) clients can view the [Fox](#) programming they want at a time and place that is convenient to them, rather than at the time and place of broadcast. For these reasons, [TVEyes's](#) Watch function is at least somewhat transformative.⁴

* * *

^[10]The first statutory factor also implicates considerations distinct from whether the secondary use is transformative. In particular, [Fox](#) argues that the "commercial nature" of [TVEyes's](#) copying (its sale of access to [Fox's](#) content) weighs against a finding of fair use. 17 U.S.C. § 107(1).

^[11]The commercial nature of a secondary use weighs against a finding of fair use. See [Campbell](#), 510 U.S. at 585, 114 S.Ct. 1164. And it does so especially when, as here, the transformative character of the secondary use is modest. See [id.](#) at 579, 114 S.Ct. 1164 ("[T]he [less] transformative the new work, the [more] will be the significance of other factors, like commercialism...."). The Watch function has only a modest transformative character because, notwithstanding the transformative manner in which it delivers content, it essentially republishes that content unaltered from its original form, with no "new expression, meaning or message." [HathiTrust](#), 755 F.3d at 96 (quoting [Campbell](#), 510 U.S. at 579, 114 S.Ct. 1164); cf. [Kirkwood](#), 150 F.3d at 106 (service that transmits unaltered radio broadcasts in real time over telephone lines is not transformative); [Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.](#), 342 F.3d 191, 199-200 (3d Cir. 2003) (service that streams short previews of movies without commentary is not transformative). The clients of [TVEyes](#) use [Fox's](#) news broadcasts for the same purpose that authorized [Fox](#) viewers use those broadcasts—the purpose of learning the information reported.

The first statutory factor therefore favors [TVEyes](#), albeit slightly.

B

The second statutory factor is "the nature of the copyrighted work." 17 U.S.C. § 107(2). This factor "has rarely played a significant role in the determination of a fair use dispute," and it plays no significant role here. [Google Books](#), 804 F.3d at 220.

[TVEyes](#) presses the argument that, since facts are not copyrightable, the factual nature of [Fox's](#) content militates in favor of a finding of fair use. We have rejected this argument: "Those who report the news undoubtedly create factual works. It cannot seriously be argued that, for that reason, others may freely copy and re-disseminate news reports." [Id.](#) at 220.

C

^[12]The third statutory factor is "the amount and substantiality of the portion *179 used in relation to the copyrighted work as a whole." 17 U.S.C. § 107(3). The relevant consideration is the amount of copyrighted material *made available to the public* rather than the amount of material *used by the copier*. [Google Books](#), 804 F.3d at 222.

This factor clearly favors [Fox](#) because [TVEyes](#) makes available virtually the entirety of the [Fox](#) programming that [TVEyes](#) users want to see and hear. While "courts have rejected any categorical rule that a copying of the entirety cannot be a fair use," "a finding of fair use is [less] likely ... when the copying is extensive, or encompasses the most important parts of the original." [Id.](#) at 221. In this respect, the [TVEyes](#) Watch function is radically dissimilar to the service at issue in [Google Books](#).

Google's snippet function was designed to ensure that users could see only a very small piece of a book's contents. Each snippet was three lines of text, constituting approximately one-eighth of a page; a viewer could see at most three snippets per book for any searched term, and no more than one per page. Users were prevented from performing repeated searches to find multiple snippets that could be compiled into a coherent block of text. Approximately 22% of a book's text was "blacklist[ed]": no snippet could be shown from those pages. [Id.](#) at 222. And snippets were not available at all for such books as dictionaries or cookbooks, in which a snippet might convey all the information that a searcher was likely to need. While the snippets allowed a user to judge whether a book was responsive to the user's needs, they were abbreviated to ensure that it would be nearly impossible for a user to see a meaningful exposition of what the author originally intended to convey to readers.

[TVEyes](#) redistributes [Fox's](#) news programming in

ten-minute clips, which—given the brevity of the average **news** segment on a particular topic—likely provide **TVEyes's** users with all of the **Fox** programming that they seek and the entirety of the message conveyed by **Fox** to authorized viewers of the original. Cf. *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 564-65, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985) (finding no fair use when the copying involved only about 300 words, but the portion copied was “the heart of the book”). **TVEyes's** use of **Fox's** content is therefore both “extensive” and inclusive of all that is “important” from the copyrighted work. *Google Books*, 804 F.3d at 221.

D

^[13] ^[14]The fourth statutory factor is “the effect of the [secondary] use upon the potential market for or value of the copyrighted work.” 17 U.S.C. § 107(4). This factor is “undoubtedly the single most important element of fair use.” *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985). It “focuses on whether the copy brings to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood that potential purchasers may opt to acquire the copy in preference to the original.” *Google Books*, 804 F.3d at 223. Critically, it requires consideration of “not only the ... market harm caused by the particular actions of the alleged infringer,” but also the market harm that would result from “unrestricted and widespread conduct of the [same] sort.” *Campbell*, 510 U.S. at 590, 114 S.Ct. 1164 (internal quotation marks and alteration omitted).

TVEyes argues that its service poses little risk of being a “competing substitute” for **Fox's** offerings. *180 *Google Books*, 804 F.3d at 223. **Fox** argues that **TVEyes** undercuts **Fox's** ability to profit from licensing searchable access to its copyrighted content to third parties. **Fox** has much the stronger point.

^[15] ^[16] ^[17] ^[18]“It is indisputable that, as a general matter, a copyright holder is entitled to demand a royalty for licensing others to use its copyrighted work, and that the impact on potential licensing revenues is a proper subject for consideration in assessing the fourth factor.” *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 614 (2d Cir. 2006) (quoting *Texaco*, 60 F.3d at 929). However, “not every effect on potential licensing revenues enters the analysis under the fourth factor.”

Texaco, 60 F.3d at 929. A copyright owner has no right to demand that users take a license unless the use that would be made is one that would otherwise infringe an exclusive right. See *Bill Graham Archives*, 448 F.3d at 615. Even if a use does infringe an exclusive right, “[o]nly an impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets should be legally cognizable when evaluating a secondary use’s effect upon the potential market for or value of the copyrighted work.” *Texaco*, 60 F.3d at 930 (internal quotation marks omitted).

That limitation does not restrict our analysis here. The success of the **TVEyes** business model demonstrates that deep-pocketed consumers are willing to pay well for a service that allows them to search for and view selected television clips, and that this market is worth millions of dollars in the aggregate. Consequently, there is a plausibly exploitable market for such access to televised content, and it is proper to consider whether **TVEyes** displaces potential **Fox** revenues when **TVEyes** allows its clients to watch **Fox's** copyrighted content without **Fox's** permission.

Such displacement does occur. Since the ability to re-distribute **Fox's** content in the manner that **TVEyes** does is clearly of value to **TVEyes**, it (or a similar service) should be willing to pay **Fox** for the right to offer the content. By providing **Fox's** content to **TVEyes** clients *without* payment to **Fox**, **TVEyes** is in effect depriving **Fox** of licensing revenues from **TVEyes** or from similar entities. And **Fox** itself might wish to exploit the market for such a service rather than license it to others. **TVEyes** has thus “usurp[ed] a market that properly belongs to the copyright-holder.” *Kirkwood*, 150 F.3d at 110. It is of no moment that **TVEyes** allegedly approached **Fox** for a license but was rebuffed: the failure to strike a deal satisfactory to both parties does not give **TVEyes** the right to copy **Fox's** copyrighted material without payment.

In short, by selling access to **Fox's** audiovisual content without a license, **TVEyes** deprives **Fox** of revenues to which **Fox** is entitled as the copyright holder. Therefore, the fourth factor favors **Fox**.

E

^[19]To ascertain whether **TVEyes's** service is protected as a fair use, the final step is to weigh the four statutory

factors together, along with any other relevant considerations. The factors should not be “treated in isolation, one from another”; rather, “[a]ll are to be explored, and the results [are to be] weighed together, in light of the purposes of copyright.” [Campbell](#), 510 U.S. at 577-78, 114 S.Ct. 1164. While the factors are not exclusive, in this case they provide sufficient guidance. See [Kirkwood](#), 150 F.3d at 111.

We conclude that TVEyes’s service is not justifiable as a fair use. As to the first factor, TVEyes’s Watch function is at least somewhat transformative in that it renders convenient and efficient access to a subset *181 of content; however, because the function does little if anything to change the content itself or the purpose for which the content is used, its transformative character is modest at best. Accordingly—and because the service at issue is commercial—the first factor favors TVEyes only slightly. The second factor is neutral in this case. The third factor strongly favors Fox because the Watch function allows TVEyes’s clients to see and hear virtually all of the Fox programming that they wish. And the fourth factor favors Fox as well because TVEyes has usurped a function for which Fox is entitled to demand compensation under a licensing agreement.

At bottom, TVEyes is unlawfully profiting off the work of others by commercially re-distributing all of that work that a viewer wishes to use, without payment or license. Having weighed the required factors, we conclude that the balance strongly favors Fox and defeats the defense of fair use.

III

[20] [21] [22] TVEyes challenges the district court’s conclusion that it is liable to Fox under a theory of *direct* copyright infringement.⁵ A direct infringer exercises “volitional conduct” to make the infringing copy. [Cartoon Network LP, LLLP v. CSC Holdings, Inc. \(“Cablevision”\)](#), 536 F.3d 121, 131 (2d Cir. 2008). The conduct at issue in [Cablevision](#) was *non-volitional*; however, it bears no resemblance to what TVEyes does. The [Cablevision](#) defendant provided a remote DVR service similar to the recording capability of a DVR in a television viewer’s home. Unless the *subscriber* chose to record a program, it remained on the defendant’s server for no more than .1 second. See [id.](#) at 124-25. By contrast, TVEyes decides what audiovisual content to record, copies that content, and retains it for thirty-two days. And

this copying, at least to the extent that it is done to enable the Watch function, is an infringement. Volitional conduct that infringes is clear.

IV

[23] The district court issued a permanent injunction prohibiting TVEyes from enabling its clients to download clips of Fox’s programming or to search for such clips by date and time; the court also imposed restrictions on TVEyes’s enabling of its clients to email clips or to post them to social media sites. We review the issuance of a permanent injunction “for abuse of discretion, which may be found where the Court, in issuing the injunction, relied on ... an error of law.” [S.C. Johnson & Son, Inc. v. Clorox Co.](#), 241 F.3d 232, 237 (2d Cir. 2001) (quoting [Knox v. Salinas](#), 193 F.3d 123, 128-29 (2d Cir. 1999) (per curiam)).

The district court’s injunction was shaped by an error of law: the mistaken assumption that the Watch function (and some features subsidiary to it) had fair-use protection. We therefore remand to the district court to revise the injunction in accordance with this opinion.

[24] Because the product TVEyes currently offers includes the infringing Watch function and its subsidiary features (i.e., clients’ ability to archive, download, and email clips, as well as to view clips after *182 conducting a date/time search⁶), the court should enjoin TVEyes from offering that product. However, because Fox does not dispute TVEyes’s right to offer its Search function, the court’s injunction shall not bar TVEyes from offering a product that includes that function without making impermissible use of any protected audiovisual content.⁷

CONCLUSION

The order of the district court is reversed to the extent it held that TVEyes’s product was a fair use. The order is affirmed to the extent it denied TVEyes’s request for additional relief. We remand for the district court to revise the injunction to conform with this opinion. Any further appeal will be assigned to this panel.

Kaplan, District Judge,* concurring:

I concur in the result as well as part I, the preamble to part II, and parts II.B, III and IV of the majority opinion. With great respect for my learned and distinguished colleagues, however, I do not join in their characterization of **TVEyes'** Watch function as "somewhat transformative." I decline for two reasons.

First, although the majority writes that it "is at least somewhat transformative," it holds that the Watch function nevertheless is not a fair use of **Fox's** copyrighted material. Stated differently, it holds that the other factors relevant to the fair use determination carry the day in favor of **Fox** regardless of whether the Watch function is or is not transformative. The "somewhat transformative" characterization therefore is entirely immaterial to the resolution of this case—in a familiar phrase, it is *obitum dictum*.¹ I would avoid any such characterization even if I agreed with it.

Second, while I prefer not to state a view as to whether the Watch function is transformative, I would be remiss, given the majority's opinion, if I did not express my doubt that the majority's view is correct. To the contrary, were we compelled to reach the point, I would be inclined to conclude that it is not.

I

I do not suggest that this or any appellate court should "purge dictum from [its] opinions."² But there are situations in which sound prudential reasons counsel against making statements that are "superfluous to the court's performance of its function."³ I submit that this is one of them.

*183 1. "[T]he goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works. Such works thus lie at the heart of the fair use doctrine[.]"⁴ "[T]he more transformative the new work, the less will be the significance of other factors."⁵ It therefore is not at all surprising that attempts by alleged infringers to characterize their uses of copyrighted works as "transformative" have become a key battleground in copyright litigation, particularly as technological advances provide ever-new contexts in

which the uncompensated use of copyrighted works is very attractive. And the law governing such controversies often is far from clear. As noted commentators have observed, courts "appear to label a use 'not transformative' as a shorthand for 'not fair,' and correlatively 'transformative' for 'fair.' Such a strategy empties the term of meaning."⁶ Indeed, as will appear, some of our own decisions on the issue are at least in tension with one another.⁷

In these circumstances, a finding of transformative use, while "not absolutely necessary for a finding of fair use,"⁸ is "of crucial importance to the fair use analysis."⁹ And as the issue of fair use, in the words of a distinguished panel of this Court that remain apt despite intervening years, is "the most troublesome in the whole law of copyright," it is one that "ought not to be resolved in cases where it may turn out to be moot, unless the advantage is very plain."¹⁰ The majority's unnecessary characterization of the Watch function as "somewhat transformative" has no "advantage," let alone one that is "very plain." Indeed, I fear it may contribute to confusion and uncertainty regarding this central concept in the law of fair use. Moreover, it threatens to do so in circumstances in which there is no realistic possibility of further appellate review.¹¹ The determination of the transformative use issue should be left for a case in which the question necessarily is presented.

2. The advisability of expressing a view as to whether the Watch function is "transformative" is diminished further because this case passes judgment on a technological innovation. New efficiency-enhancing content delivery technologies that will seek to distribute copyrighted material owned by others doubtless now or soon will exist. Indeed, the efficiency enhancement that the Watch function allegedly provides appears to be, or to have become at least partly, available from Internet-based television subscription services to which **Fox News** presumably licenses its content.¹² *184 Given (a) the rapid pace of technological change, (b) the importance of the concept of transformative purpose in fair use jurisprudence, and (c) the fact that it is unnecessary to address the question in this case, I respectfully disagree with the majority's decision to express a view as to whether the Watch function is transformative.

II

In view of the majority's expression of its opinion that the Watch function is "somewhat transformative," I feel compelled to express my own doubts regarding that conclusion.

1. The majority's opinion begins its analysis by observing, correctly in my view, that "[i]t is useful to analyze separately distinct functions of the secondary use (i.e., the use by **TVEyes** of Fox's copyrighted material), considering whether each independent function is a fair use."¹³ It then turns to the distinction between the Search function and the Watch function. The Search function "allows clients to *identify* videos that contain keywords of interest"¹⁴—it "enables users to isolate, from an ocean of programming, material that is responsive to their interests."¹⁵ The Watch function, in contrast, "allows **TVEyes** clients to *view* up to ten-minute, unaltered video clips of copyrighted content."¹⁶ In short, the Search function, which is not challenged here, is simply a vehicle that locates **Fox's** copyrighted works among other works of interest—it finds the desired species of fish in the majority's metaphorical sea. But the Watch function then catches those fish and delivers them to the fishmonger's stall where **TVEyes** lays them unchanged (one might say untransformed) on cracked ice for the inspection of its patrons.

Metaphor aside, the majority then proceeds to test the Watch function, "consider[ing] each of the four [fair use] factors."¹⁷ It describes our decision in *Google Books*,¹⁸ noting that we there "held that the 'snippet view' of unaltered, copyrighted text 'add[ed] important value to the basic transformative search function' by allowing users to verify that the list of books returned by the database was responsive to the user's search."¹⁹ And it then goes on to say:

*185 "**TVEyes's** copying of **Fox's** content for use in the Watch function is similarly transformative insofar as it enables users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means."²⁰

But, as the majority itself wrote earlier, it is the Search function that enables users to identify the desired fish in the ocean, not the Watch function. What the Watch function does is to enable instant access to digital recordings of **Fox's** content that have been identified by the Search function. And the majority's justification for concluding that the Watch function is "somewhat transformative" is that it "improves] the efficiency of

delivering content."²¹

2. I am inclined to reject the idea that enhancing the efficiency with which copies of copyrighted material are delivered to secondary issuers, in the context in which the Watch function does so, is transformative.

The concept of transformation is a relatively recent addition to copyright jurisprudence, but its antecedents have been around for a long time.

In 1841, Justice Story said that "no one can doubt that a reviewer may fairly cite largely from the original work, if his design be really and truly to use the passages for the purposes of fair and reasonable criticism," but use that "supersede[s] the original work" is not fair.²² Building on that idea, Judge Leval's landmark article, which later was adopted substantially by the Supreme Court in the *Pretty Woman* case,²³ said:

"I believe the answer to the question of justification turns primarily on whether, and to what extent, the challenged use is *transformative*. The use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original. A quotation of copyrighted material that merely repackages or republishes the original is unlikely to pass the test; in Justice Story's words, it would merely 'supersede the objects' of the original. If on the other hand, the secondary use adds value to the original—if the quoted matters is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.

Transformative uses may include criticizing the quoted work, exposing the character of the original author, proving a fact, or summarizing an idea argued in the original in order to defend or rebut it. They may also include parody, symbolism, aesthetic declarations, and innumerable other uses."²⁴

Even on the majority's view that **TVEyes'** Watch function substantially improves the efficiency with which **TVEyes** customers can access **Fox** copyrighted broadcasts of possible interest, it does no more than repackage and deliver the original *186 works. It adds no new information, no new aesthetics, and no new insights or understandings. I therefore doubt that it is transformative. Indeed, I regard *Infinity Broadcast Corp. v. Kirkwood* as having settled the question whether a use is transformative simply because it is more efficient or convenient than what preceded it.²⁵

In that case, the defendant, Kirkwood, offered a service

through which a Kirkwood customer, regardless of its physical location, could dial a Kirkwood device over a phone line, tune to the radio station of its choice in any of the nation's 10 largest radio markets, and listen to the broadcast of its chosen station. Kirkwood marketed the service to "radio stations, advertisers, talent scouts, and others" for purposes such as "auditioning on-air talent, verifying the broadcast of commercials, and listing to a station's programming format and feel."²⁶ No doubt Kirkwood's service was convenient and efficiency-enhancing. It enabled interested clients who, by reason of distance, could not receive the radio stations of interest to them to (a) access those stations through Kirkwood, (b) listen to their broadcasts over telephone lines and (c) do so for reasons that, at least in many cases, had nothing to do with the purposes for which local listeners tuned their radios to their stations of choice. Nevertheless, this Court rejected Kirkwood's fair use defense, stating that there was a "total absence of transformativeness" in Kirkwood's retransmission of the broadcasts.²⁷ And the Watch function at issue here is essentially indistinguishable in principle.

We rejected the argument that convenience of accessing copyrighted material is a transformative purpose in *American Geophysical Union, et al. v. Texaco*²⁸ as well. That involved photocopying of scientific journal articles for use in laboratories. Texaco there argued that "its conversion of the individual [journal] articles through photocopying into a form more easily used in a laboratory might constitute transformative use."²⁹ Notwithstanding the fact that the photocopies often were more convenient or efficient than, for example, buying, borrowing, shelving and carrying about bound volumes of journals, we wrote that "Texaco's photocopying merely transforms the material object embodying the intangible article that is the copyrighted original work. Texaco's making of copies cannot properly be regarded as a transformative use of the copyrighted material."³⁰

Also closely aligned with this case are others that dealt with technologies relating to digitized music, mp3s, and music sharing. Defendants in those cases argued that their technologies should be considered fair use because they permitted "space-shifting"—they allowed users to store music in different, more convenient forms that allowed them to listen to it in venues more desirable to them.³¹ In other words, the technology enhanced efficiency and convenience. But courts presented with this argument either rejected the idea that space-shifting is a transformative purpose or considered the space-shifting argument *187 relevant only to the question of the commercial nature of the use.³²

These cases support my inclination to conclude that a technological means that delivers copies of copyrighted material to a secondary user more quickly, efficiently or conveniently does not render the distribution of those copies transformative, at least standing alone.

Nor does *Google Books* support the conclusion that efficiency-enhancing delivery technology is transformative in the circumstances of this case. *Google Books*, like this case, involved two features: a searchable database and the display of "snippets" from the books containing the search term.³³ We held that copying the books to enable the search function had the transformative purpose of "identifying books of interest to the searcher." That purpose was different than the purpose of the books themselves, which served to convey their content to the reader, and it constituted fair use.³⁴ We held also that the snippets—"horizontal segment[s] comprising ordinarily an eighth of a page"—"add[ed] importantly to the highly transformative purpose of identifying books of interest to the searcher."³⁵ But *Google Books* does not resolve this case.

Google designed the snippet feature "in a manner that substantially protects against its serving as an effectively competing substitute for Plaintiffs' books," employing safeguards such as "blacklisting" (making permanently unavailable for snippet view one snippet per page and one complete page out of every ten) and showing no snippets at all from the sorts of books for which a short snippet would represent all the content a searcher wanted to see (such as dictionaries and cookbooks).³⁶ Here, on the other hand, the Watch function shows ten minute clips, and parties can play unlimited numbers of ten minute clips. Certainly a ten minute clip in many, perhaps most, situations suffices for a user to view an entire news segment. And in situations in which that is not the case, the parties dispute the effectiveness of a preventive measure TVEyes introduced during the course of this litigation to stop users from watching consecutive clips.³⁷ Given the posture of this case—review of a summary judgment decision adverse to Fox on this point—we must view the facts presented by Fox as true and therefore base our decision on the premise that users may access all of Fox's content by stringing clips together.³⁸

*188 The facts here thus differ from *Google Books* quite substantially. The snippet function considered there delivered much less copyrighted content than the Watch function at issue here. Nevertheless, we there concluded that the snippet function only "adds" to the transformative purpose of the Search function. Our conclusion with respect to the Google Books snippet feature therefore does not control the proper characterization of the Watch

function at issue here. Moreover, we cautioned in *Google Books* that the case “test[ed] the boundaries of fair use.”³⁹

3. Nor am I persuaded by the majority’s reliance on *Sony Corporation of America v. Universal City Studios, Inc.*⁴⁰

Sony considered a claim that the manufacturer of Betamax video recorders was liable for contributory copyright infringement because its sale of the recorders facilitated copyright infringement by consumers by virtue of the consumers’ recording of copyrighted broadcasts to enable them to view the programs at times more convenient to them.⁴¹ The Court rejected the contributory infringement claim, essentially on the bases that (a) substantial numbers of copyright holders would not object to the consumers’ use of the Sony equipment for “time shifting,” and (b) the plaintiffs had failed to prove any likelihood of consequent economic harm.⁴²

The majority here reads *Sony* as reasoning “that a secondary use may be a fair use if it utilizes transformative technology to improve the efficiency of delivering content.”⁴³ But *Sony* was decided before Judge Leval’s article introduced the concept of transformative use or purpose into the copyright lexicon.⁴⁴ I thus find what *Sony* teaches about transformative purpose, if anything, to be less than perfectly clear. I certainly do not find within *Sony* the idea that efficiency-enhancing technology is transformative.

The efficiency enhancement at issue in *Sony* was “time-shifting”—the use by a consumer of a Betamax device to record a broadcast so that the consumer could watch that show at a later, presumably more convenient, time.⁴⁵ The Court asked whether time-shifting was a substantial noninfringing use; the answer to that question determined whether Sony could be liable for contributory infringement.⁴⁶ It was in that context that the Court found that unauthorized time shifting—consumers recording copyrighted shows without authorization to watch the shows once at a *189 later time—was “not necessarily infringing.”⁴⁷

The Court’s discussion of time-shifting focused on the non-commercial nature of in-home recording: “[R]espondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works. The Betamax is, therefore, capable of substantial noninfringing uses. Sony’s sale of such equipment to the general public does not constitute contributory infringement of respondent’s copyrights.”⁴⁸

Perhaps the Court in *Sony* would have found

efficiency-enhancing technology to be transformative for that reason alone had that argument been put to it. But I see no indication of that in the opinion. Rather, *Sony* turned on the question whether “time-shifting,” on the facts presented in that case, was a commercial use that affected the broadcasters’ ability to make a profit in the market. And the Court so concluded without considering, at least explicitly, whether the recordings served a purpose different from the original broadcasts. In fact, the Court said that “timeshifting merely enables a viewer to see such a work which he had been invited to witness.”⁴⁹ In other words, time-shifting allows a user to do exactly that which the user could have done with the original: watch the show for whatever entertainment, informational or other purpose it serves. No new purpose had been added. So I hesitate to conclude that *Sony* mandates, or even suggests, the idea that efficiency-enhancing technology is transformative.

My hesitation in this regard is strengthened by this Court’s subsequent treatment of *Sony*. No prior opinion of this Court says, or even suggests, that *Sony* stands for the proposition that time-shifting in particular, or efficiency-enhancing delivery technology in general, is transformative. In *Swatch Group Management Services Ltd v. Bloomberg L.P.*, we described *Sony* as a decision “finding a non-transformative use to be a fair use.”⁵⁰ *Infinity Broadcast Corp.* described *Sony*’s discussion of time-shifting as a “determination] that time-shifting of television programs by consumers in their homes was a non-commercial use.”⁵¹ Indeed, as noted, we there held that an efficiency promoting technology was not transformative and gave no sign that *Sony* was relevant to that conclusion.

Similarly, *Authors Guild, Inc. v. HathiTrust*⁵² and *Google Books*⁵³ cite *Sony* for various principles, but never for the proposition that efficiency-enhancing technology is transformative, despite that idea’s obvious potential application in those cases. Because *HathiTrust* and *Google Books* so clearly confront an issue closely related to that here, I see as instructive their omission of the idea that *Sony* declared efficiency-enhancing delivery technology to be transformative. I would join those cases in declining to construe *Sony* as offering significant guidance regarding transformative use.

In sum, *Sony*’s relevance to transformative use is, at best, unclear. I decline to *190 join in the majority’s novel interpretation of *Sony*.

III

For the foregoing reasons, I concur in the judgment of this Court and in part I, the preamble to part II, and parts II.B, III and IV of the majority opinion. I decline to join in part II.A and its characterization of the Watch function as “somewhat transformative.”

All Citations

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Footnotes

- ** All law students appearing for amici do so pursuant to Local Rule 46.1(e).
- * Judge Lewis A. Kaplan, United States District Court for the Southern District of New York, sitting by designation.
- 1 **TVEyes** also captures radio content. For simplicity, this opinion will focus on only television broadcasts.
- 2 **Fox** does not challenge on appeal the dismissal (on summary judgment) of its claims alleging “hot **news**” misappropriation and “direct competition” misappropriation.
- 3 *Pace* Judge Kaplan’s argument that our discussion of transformative use (which is integral to the first statutory factor) should be omitted from the fair-use analysis—or be deemed dicta. Whether the majority opinion’s discussion “may contribute to confusion and uncertainty” (Concurring Op. at 183) is not for me to say.
- 4 **TVEyes** argues that the Watch function is transformative because it allows clients to conduct research and analysis of television content by enabling them to view clips responsive to their research needs. Research, **TVEyes** argues, is a purpose not shared by users of the original content. This argument proves too much. That a secondary use can facilitate research does not itself support a finding that the secondary use is transformative. See [American Geophysical Union v. Texaco, Inc.](#), 60 F.3d 913 (2d Cir. 1994). In [Texaco](#), a company was allowing each of its 400 to 500 scientists to photocopy journal articles pertinent to their individual research projects, thus enabling three subscriptions to service the needs of hundreds of scientists. *Id.* at 915-16. We stated that if copying were deemed transformative “simply because [it was done] in the course of doing research,” then “the concept of a ‘transformative’ use would be extended beyond recognition.” *Id.* at 924.
- 5 A party that has not committed direct copyright infringement may still be liable under the doctrine of contributory infringement, which allows a defendant to be held liable for infringing acts of third parties. See [Sony](#), 464 U.S. at 435, 104 S.Ct. 774; [Arista Records, LLC v. Doe 3](#), 604 F.3d 110, 117-18 (2d Cir. 2010). **Fox** asserted liability only on the ground of direct infringement, so we do not consider contributory infringement.
- 6 There is no copyright infringement in the use of the date/time search function to discover the particular program that was playing on a certain channel at a certain time. That information is a historical fact, which is not copyrightable. See [Arica Institute, Inc. v. Palmer](#), 970 F.2d 1067, 1075 (2d Cir. 1992). However, enabling a client to view a copied video located on the basis of a date/time search can constitute infringement, and it is not a fair use.
- 7 Because **Fox** has not challenged the Search function on this appeal, and the parties have therefore presented no arguments about it, we express no views on it, neither upholding nor rejecting it.
- * Lewis A. Kaplan, United States District Judge for the Southern District of New York, sitting by designation.
- 1 Contrary to the majority’s suggestion, we are not obliged to reach a definitive decision as to each of the fair use factors in order to decide the fair use issue. [Henley v. Devore](#), 733 F.Supp.2d 1144, 1155 (C.D. Cal. 2010) (assuming but not deciding that secondary use was transformative, but nevertheless rejecting fair use defense).
- 2 Pierre N. Leval *Judging Under the Constitution: Dicta About Dicta*, 81 N.Y.U. L. REV. 1249, 1282 (2006) (hereinafter “*Dicta*”).
- 3 *Id.* at 1257.

4 *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994).

5 *Id.*

6 4 MELVILLE B. NIMMER AND DAVID NIMMER, NIMMER ON COPYRIGHT § 13.05, at 13-169 (2017).

7 *See id.* at 13-170.

8 *Id.* at 13-166.

9 *Id.* at 13-166 to 167.

10 *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939) (per curiam) (L. Hand, A. Hand, Patterson, JJ).

11 *Dicta*, 81 N.Y.U. L. Rev. at 1262.

12 I understand that Internet-based cable subscription services now available allow a subscriber to record cable shows, store (some with limits on the amount that can be stored, some without), and re-watch those shows within a certain time frame (for example, within nine months of the recording). *See* Eric Liston, *How to Watch Fox News Without Cable—Your Top 5 Options*, FLIXED (Dec. 6, 2017), <https://flixed.io/watch-fox-news-without-cable/>. Someone who wanted to “monitor” Fox News could DVR (i.e., direct video record) all Fox News shows using these paid services. Upon using TVEyes’s Search function—the transformative nature of which was not challenged—to identify when a term was said in a broadcast, the user could click directly to that portion of the broadcast and watch it immediately online using their paid subscription service. It is unclear whether these services as they currently exist would allow a user to monitor all local broadcasts throughout the country, but they certainly diminish the Watch function’s convenience value.

And technology will march on, perhaps soon eliminating altogether the efficiency the majority claims renders the Watch function transformative.

I recognize, of course, that there appears to be no discussion of these services in the record. This is at least partially attributable to the fact that the advent of some of these services post-dates this litigation. But this demonstrates handily the point that technology is rapidly evolving, which is all the more reason to decline to pronounce a piece of technology transformative when it is not necessary to do so.

13 Op. at 176. *See also* *Craft v. Kobler*, 667 F.Supp. 120, 128 (S.D.N.Y. 1987) (Leval, J.) (“In assessing claims of fair use, we must consider the number, size and importance of appropriated passages, as well as their individual justifications.” (emphasis added)); 4 WILLIAM N. PATRY, PATRY ON COPYRIGHT § 10.13, at 10-47 to 10-49 (2012).

14 Op. at 176 (emphasis in original).

15 *Id.* at 177.

16 *Id.* at 176 (emphasis in original).

17 *Id.*

18 *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015) (hereinafter “Google Books”).

19 Op. at 177.

20 *Id.* (emphasis added).

21 *Id.*

22 *Folsom v. Marsh*, 9 F. Cas. 342, 344 (No. 4,901).

23 *Campbell*, 510 U.S. at 578-79, 114 S.Ct. 1164.

24 Pierre N. Leval, *Toward a Standard of Fair Use*, 103 HARV. L. REV. 1105, 1111 (1990).

25 150 F.3d 104 (2d Cir. 1998).

26 *Id.* at 106 (internal quotation marks omitted).

27 *Id.* at 109.

28 60 F.3d 913 (2d Cir. 1994).

29 *Id.*

30 *Id.* at 923 (citations omitted).

31 See *A&M Records, Inc. v. Napster, Inc.* 239 F.3d 1004, 1019 (9th Cir. 2001), as amended (Apr. 3, 2001), *aff'd sub nom. A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir. 2002).

32 See *A&M Records, Inc.*, 239 F.3d at 1019 (cases holding space-shifting or time-shifting to be fair use inapposite “because the methods of shifting in [those] cases did not also simultaneously involve distribution of the copyrighted material to the general public”); *Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999) (“The [device at issue] merely makes copies in order to render portable, or ‘space-shift,’ those files that already reside on a user’s hard drive. Such copying is paradigmatic noncommercial personal use entirely consistent with the purposes of the Act.” (citation omitted)); *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F.Supp.2d 349, 351 (S.D.N.Y. 2000) (considering the argument that space-shifting is transformative to be “simply another way of saying that the unauthorized copies are being retransmitted in another medium—an insufficient basis for any legitimate claim of transformation”).

33 804 F.3d at 206.

34 *Id.* at 217-18.

35 *Id.* at 209, 218.

36 *Id.* at 222-23.

37 Op. at 8.

38 Fair use is an affirmative defense to **Fox’s** infringement claim and thus a matter as to which **TVEyes** bears the burden of proof. Accordingly, in resisting a determination that **TVEyes** is entitled to judgment on the basis of fair use, **Fox** is entitled to the view of the evidence most favorable to it with respect to **TVEyes’** contention that the Watch function is transformative, as it is on all other aspects of that defense. *FDIC v. Giammettei*, 34 F.3d 51, 54 (2d Cir. 1994) (“whatever evidence *there is* to support an essential element of an affirmative defense will be construed in a light most favorable to the non-moving defendant”) (emphasis in original); *Frankel v. ICD Holdings, S.A.*, 930 F.Supp. 54, 64-65

(S.D.N.Y. 1996) ("one who relies upon an affirmative defense to defeat an otherwise meritorious motion for summary judgment must adduce evidence which, viewed in the light most favorable to and drawing all reasonable inferences in favor of the non-moving party, would permit judgment for the non-moving party on the basis of that defense").

39 *Google Books*, 804 F.3d at 206.

40 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984).

41 *Id.* at 419, 104 S.Ct. 774.

42 *Id.* at 456, 104 S.Ct. 774.

43 Op. at 12.

44 *Id.*

45 *Sony*, 464 U.S. at 423, 104 S.Ct. 774.

46 *Id.* at 442, 104 S.Ct. 774.

47 *Id.* at 447, 104 S.Ct. 774.

48 *Id.* at 455, 104 S.Ct. 774.

49 *Id.* at 449, 104 S.Ct. 774.

50 756 F.3d 73, 84 (2d Cir. 2014) (emphasis added).

51 150 F.3d at 109 n.3.

52 755 F.3d 87 (2d Cir. 2014).

53 804 F.3d at 202.

855 F.3d 1356

United States Court of Appeals, Federal Circuit.

HELINN HEALTHCARE S.A.,

Plaintiff–Appellee

v.

TEVA PHARMACEUTICALS USA, INC., Teva

Pharmaceutical Industries, Ltd.,

Defendants–Appellants

2016-1284, 2016-1787

|

Decided: May 1, 2017

Synopsis

Background: Owner of patents covering intravenous solution for treating chemotherapy-induced nausea and vomiting brought infringement action under the Hatch–Waxman Act against drug manufacturers that filed Abbreviated New Drug Applications (ANDA) with the Food and Drug Administration (FDA) seeking to market generic versions of the product and challenging those patents as invalid or unenforceable. Following bench trial, the United States District Court for the District of New Jersey, Nos. 3:11-cv-03962-MLC-DEA, 3:11-cv-05579-MLC-DEA, and 3:13-cv-05815-MLC-DEA, [Mary L. Cooper, J.](#), 2016 WL 832089, found that the patents were valid and infringed. Manufacturers appealed.

Holdings: The Court of Appeals, [Dyk](#), Circuit Judge, held that:

^[1] supply and purchase agreement, which obligated purchaser to buy owner’s claimed invention once the solution was approved by FDA, constituted a “sale” of the claimed invention prior to critical date, as required for pre-Leahy-Smith America Invents Act’s (AIA) on-sale bar to patentability to apply;

^[2] supply and purchase agreement constituted a “sale” of the claimed invention prior to critical date, as required for Leahy-Smith America Invents Act’s (AIA) on-sale bar to patentability to apply; and

^[3] claimed invention was “reduced to practice” before the critical date, and thus was ready for patenting, as required for the on-sale bar to patentability to apply.

Reversed.

West Headnotes (19)

- ^[1] **Patents**
🔑 Questions of law or fact
Patents
🔑 Novelty; anticipation

Application of the on-sale bar to patentability is ultimately a question of law that the Court of Appeals reviews de novo; the factual findings underlying the district court’s conclusion are reviewed for clear error. 35 U.S.C.A. § 102(b).

Cases that cite this headnote

- ^[2] **Patents**
🔑 In general; nature, purpose, and elements of statutory bar

The application of the on-sale bar to patentability requires that (1) the product must be the subject of a commercial offer for sale and (2) the invention must be ready for patenting. 35 U.S.C.A. § 102(b).

4 Cases that cite this headnote

- ^[3] **Patents**
🔑 Attempts to sell; offers

As a general proposition, the Court of Appeals will look to the Uniform Commercial Code (UCC) to define whether a communication or series of communications rises to the level of a commercial offer for sale, as required for the pre-Leahy-Smith America Invents Act’s (AIA) on-sale bar to patentability to apply. 35 U.S.C.A. § 102 (2006).

[1 Cases that cite this headnote](#)

[4]

Patents

🔑 **What Constitutes Sale**

Under the pre-Leahy-Smith America Invents Act's (AIA) on-sale bar to patentability, a "sale" occurs when there is a contract between parties to give and to pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold. [35 U.S.C.A. § 102\(b\)](#) (2006).

[1 Cases that cite this headnote](#)

[5]

Patents

🔑 **Sale**

Supply and purchase agreement, which obligated purchaser to buy patentee's claimed invention of intravenous solution for treating chemotherapy-induced nausea and vomiting once the solution was approved by Food and Drug Administration (FDA), constituted a "sale" of the claimed invention prior to critical date, as required for pre-Leahy-Smith America Invents Act's (AIA) on-sale bar to patentability to apply; agreement included terms for price, method of payment, and method of delivery, patentee was obligated to meet purchaser's firm orders, and no ambiguity in agreement was introduced by provision providing for the purchase of either or both doses of the solution. [35 U.S.C.A. § 102\(b\)](#) (2006).

[1 Cases that cite this headnote](#)

[6]

Patents

🔑 **What Constitutes Sale**

The fact that an agreement covered one party's requirements as opposed to a specified quantity does not prevent application of the on-sale bar to

patentability. [35 U.S.C.A. § 102\(b\)](#).

[Cases that cite this headnote](#)

[7]

Sales

🔑 **Conditions precedent to formation**

A contract for sale that includes a condition precedent is a valid and enforceable contract; indeed, conditions precedent such as regulatory approval are a basic feature of contract law.

[Cases that cite this headnote](#)

[8]

Patents

🔑 **Sale**

Supply and purchase agreement, which obligated purchaser to buy patentee's claimed invention of intravenous solution for treating chemotherapy-induced nausea and vomiting once the solution was approved by Food and Drug Administration (FDA), constituted a "sale" of the claimed invention prior to critical date, as required for Leahy-Smith America Invents Act's (AIA) on-sale bar to patentability to apply; agreement was publicly announced, the agreement disclosed all of the pertinent details of the transactions other than price and dosage levels, and although agreement did not disclose details of the invention, that information was not required to be publicly disclosed. [35 U.S.C.A. § 102\(b\)](#).

[Cases that cite this headnote](#)

[9]

Patents

🔑 **Completion of sale; acceptance and delivery**

A primary rationale of the on-sale bar to patentability is that publicly offering a product for sale that embodies the claimed invention places it in the public domain, regardless of when or whether actual delivery occurs; a

patented product need not be on-hand or even delivered prior to the critical date to trigger the on-sale bar. 35 U.S.C.A. § 102(b).

[Cases that cite this headnote](#)

[10]

Patents

🔑 Limitation, restriction, or obligation of secrecy; confidentiality

After the Leahy-Smith America Invents Act (AIA), if the existence of a sale is public, the details of the invention need not be publicly disclosed in the terms of sale in order for the on-sale bar to patentability to apply. 35 U.S.C.A. § 102(b).

[1 Cases that cite this headnote](#)

[11]

Patents

🔑 Completion of Prior Invention; "Ready for Patenting" Requirement

There are at least two ways in which an invention can be shown to be ready for patenting, as required for the on-sale bar to patentability to apply: by proof of reduction to practice before the critical date; or by proof that prior to the critical date the inventor 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. 35 U.S.C.A. § 102(b).

[1 Cases that cite this headnote](#)

[12]

Patents

🔑 Sale

Patentee's claimed invention of intravenous solution for treating chemotherapy-induced nausea and vomiting was "reduced to practice" before the critical date, and thus was ready for patenting, as required for the on-sale bar to

patentability to apply; although patentee had not fully analyzed its final trial studies and Food and Drug Administration (FDA) had not approved the solution, final report from study, patentee's earlier trial studies, and the preliminary results from patentee's final trial studies all showed that solution was effective in reducing the likelihood of vomiting. 35 U.S.C.A. § 102(b).

[Cases that cite this headnote](#)

[13]

Patents

🔑 Completion of Prior Invention; "Ready for Patenting" Requirement

An invention is "reduced to practice," such that the invention is ready for patenting as required for the on-sale bar to patentability to apply, when the inventor (1) constructed an embodiment that met all the limitations and (2) determined that the invention would work for its intended purpose. 35 U.S.C.A. § 102(b).

[6 Cases that cite this headnote](#)

[14]

Patents

🔑 Completion of Prior Invention; "Ready for Patenting" Requirement

Reduction to practice occurs, such that a claimed invention is ready for patenting as required for the on-sale bar to patentability to apply, if the claimant had possession of the subject matter of the claim and that it was shown or known to work for its intended purpose. 35 U.S.C.A. § 102(b).

[2 Cases that cite this headnote](#)

[15]

Patents

🔑 Experimental use or purpose

In patent law, the requisite testing, if any, for showing that an invention will work for its

intended purpose, as used to determine whether the invention was reduced to practice and ready for patenting as required for the on-sale bar to patentability to apply, varies depending on the character of the invention, including the claim language and the nature and complexity of the problem the invention seeks to solve. 35 U.S.C.A. § 102(b).

2 Cases that cite this headnote

[16]

Patents

🔑 Completion of Prior Invention; "Ready for Patenting" Requirement

Generally, there must be some demonstration of the workability or utility of a claimed invention in order to show that an invention will work for its intended purpose, as used to determine whether the invention was reduced to practice and ready for patenting as required for the on-sale bar to patentability to apply; this must show that the invention works for its intended purpose beyond a probability of failure but not beyond a possibility of failure. 35 U.S.C.A. § 102(b).

3 Cases that cite this headnote

[17]

Patents

🔑 Experimental use or purpose

Later refinements to an invention do not preclude reduction to practice, as used to determine whether the invention was ready for patenting as required for the on-sale bar to patentability to apply, and it is improper to conclude that an invention is not reduced to practice merely because further testing is being conducted. 35 U.S.C.A. § 102(b).

Cases that cite this headnote

🔑 In general; utility

US Patent 7,947,724, US Patent 7,947,725, US Patent 7,960,424, US Patent 8,598,219. Invalid.

1 Cases that cite this headnote

[19]

Patents

🔑 In general; utility

US Patent 5,202,333. Cited as Prior Art.

Cases that cite this headnote

*1359 Appeals from the United States District Court for the District of New Jersey in Nos. 3:11-cv-03962-MLC-DEA, 3:11-cv-05579-MLC-DEA, 3:13-cv-05815-MLC-DEA, Judge Mary L. Cooper.

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[18] Patents

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Before Dyk, Mayer, and O'Malley, Circuit Judges.

Opinion

Dyk, Circuit Judge.

Helsinn Healthcare S.A. (“Helsinn”) is the owner of the four patents-in-suit directed *1360 to intravenous formulations of palonosetron for reducing or reducing the likelihood of chemotherapy-induced nausea and vomiting (“CINV”).

Helsinn brought suit against Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries, Ltd. (collectively, “Teva”) alleging that the filing of Teva’s Abbreviated New Drug Application (“ANDA”) constituted an infringement of various claims of those patents. Teva defended, *inter alia*, on the ground that the asserted claims were invalid under the on-sale bar provision of 35 U.S.C. § 102. The district court found that the patents-in-suit were not invalid. With respect to three of the patents, which are governed by the pre-Leahy-Smith America Invents Act (“pre-AIA”) version of § 102, the district court concluded that there was a commercial offer for sale before the critical date, but that the invention was not ready for patenting before the critical date. With respect to the fourth patent, which is governed by the AIA version of § 102, Pub. L. No. 112-29, § 3(b), 125 Stat. 284, 285–86 (2011), the district court concluded that there was no commercial offer for sale because the AIA changed the relevant standard and that, in any event, the invention was not ready for patenting before the critical date.

We reverse. The asserted claims of the patents-in-suit were subject to an invalidating contract for sale prior to the critical date of January 30, 2002, and the AIA did not change the statutory meaning of “on sale” in the circumstances involved here. The asserted claims were also ready for patenting prior to the critical date.

Background

Helsinn owns four patents, U.S. Patent Nos. 7,947,724 (“’724 patent”), 7,947,725 (“’725 patent”), 7,960,424 (“’424 patent”), and 8,598,219 (“’219 patent”) (collectively, “the patents-in-suit”), directed to reducing the likelihood of CINV. CINV is a serious side effect of chemotherapy treatment.

The use of palonosetron to treat CINV was not new. Indeed, U.S. Patent No. 5,202,333 (“’333 patent”) taught that an intravenous formulation of palonosetron is “useful in the prevention and treatment of emesis,” ’333 patent, col. 9 ll. 56–57, including “emesis induced by ... treatment for cancer with ... chemotherapy,” *id.* col. 10 ll. 7–9. The ’333 patent is now expired. The patents-in-suit purport to disclose novel intravenous formulations using unexpectedly low concentrations of palonosetron that were not taught by the prior art. All four of the patents-in-suit claim priority to a provisional patent application filed on January 30, 2003. The critical date for the on-sale bar is one year earlier, January 30, 2002. The significance of the critical date is that a sale of the invention before that date can be invalidating.¹

Helsinn alleged infringement of claims 2 and 9 of the ’724 patent, claim 2 of the ’725 patent, claim 6 of the ’424 patent, and claims 1, 2, and 6 of the ’219 patent (collectively, “the asserted claims”). Claim 2 of the ’725 patent is representative of the asserted claims of the ’724, ’725, and ’424 patents.

2. A pharmaceutically stable solution for reducing emesis or reducing the likelihood of emesis comprising:

a) 0.05 mg/mL palonosetron hydrochloride, based on the weight of the free base, in a sterile injectable aqueous carrier at a pH of from 4.5 to 5.5;

*1361 b) from 0.005 mg/mL to 1.0 mg/mL EDTA; and

c) mannitol in an amount sufficient to tonicify said solution, in a concentration of from about 10 mg/ml to about 80 mg/ml

'725 patent, col. 10 ll. 11–19.

Claim 1 is representative of the asserted claims of the '219 patent.

1. A **pharmaceutical** single-use, unit-dose formulation for intravenous administration to a human to reduce the likelihood of **cancer chemotherapy-induced nausea and vomiting**, comprising a 5 mL sterile aqueous isotonic solution, said solution comprising:

palonosetron hydrochloride in an amount of 0.25 mg based on the weight of its free base;

from 0.005 mg/mL to 1.0 mg/mL EDTA; and

from 10 mg/mL to about 80 mg/mL mannitol,

wherein said formulation is stable at 24 months when stored at room temperature.

'219 patent, col. 10 ll. 2–12. The claims of the patents-in-suit to some extent all express the same concepts in different terms. For instance, the '724, '725, and '424 patents claim a 0.05 mg/ml concentration of palonosetron, which equates to a total dose of 0.25 mg when administered in a 5 ml solution. The '219 patent expressly claims a fixed dose of 0.25 mg of **palonosetron** in a 5 ml solution. It is undisputed that each asserted claim covers the 0.25 mg dose of palonosetron. In order to simplify the relevant discussion, we refer to the patents as covering the 0.25 mg dose.

In 1998, **Helsinn** acquired a license under the '333 patent from Roche Palo Alto LLC ("Roche") to palonosetron and all intellectual property resulting from ongoing palonosetron research. Roche and its predecessor, Syntex (U.S.A.) Inc. ("Syntex"), had already conducted Phase I and Phase II clinical trials. A Phase II trial—Study 2330—found that the 0.25 mg dose "was effective in suppressing chemotherapy-induced emesis for 24 hours." J.A. 32, 1636. **Helsinn** then submitted safety and efficacy protocols for Phase III clinical trials to FDA in early 2000, proposing to study two dosages—0.25 mg and 0.75 mg. By early 2001 the Phase III trials were ongoing but not yet completed.

On April 6, 2001, almost two years before applying for a patent, **Helsinn** and MGI Pharma, Inc. ("MGI"), an oncology-focused **pharmaceutical** company that markets and distributes in the United States, entered into two

agreements: (1) a License Agreement and (2) a Supply and Purchase Agreement. These agreements were announced in a joint press release of the two corporations and in MGI's Form 8-K filing with the Securities and Exchange Commission ("SEC"), which included partially-redacted copies of both agreements. *See* MGI Pharma Inc., Current Report (Form 8-K) Ex. 99.1 (Apr. 25, 2001) [hereinafter License Agreement]; MGI Pharma Inc., Current Report (Form 8-K) Ex. 99.2 (Apr. 25, 2001) [hereinafter Supply and Purchase Agreement].

Under the terms of the License Agreement, MGI agreed to pay \$11 million in initial payments to **Helsinn**, plus additional future royalties on distribution of "products" in the United States. The parties agree that the "products" covered by the License Agreement were 0.25 mg and 0.75 mg doses of palonosetron.

Under the Supply and Purchase Agreement, MGI agreed to purchase exclusively from **Helsinn**, and **Helsinn** agreed to supply MGI's requirements of the 0.25 mg and 0.75 mg palonosetron products, or whichever of the two dosages were approved for sale by FDA. The agreement required MGI to submit purchase forecasts to **Helsinn** and to place firm orders at least 90 *1362 days before delivery. It also specified that such orders would be "subject to written acceptance and confirmation by [**Helsinn**] before becoming binding." Supply and Purchase Agreement, *supra*, art. 4.2. But, in the event that **Helsinn** were unable to meet MGI's firm orders and to the extent they fell within the previously forecasted amount, **Helsinn** would then be obligated to designate a third party manufacturer to supply MGI with the product. The agreement specified price (29% of the gross sales price by MGI with a minimum of \$28.50 per vial), method of payment (wire transfer within 30 days of receipt of an invoice), and method of delivery (DDU—which means delivery duty unpaid). *See* Black's Law Dictionary 481, 521 (10th ed. 2014) (defining "DDU" and "delivery duty unpaid").

The License Agreement made reference to the ongoing clinical trials and stated that in the event that the results were unfavorable and FDA did not approve the sale of either dosage of the product, **Helsinn** could terminate the agreement. If the License Agreement were terminated, the Supply and Purchase Agreement would "terminate automatically." Supply and Purchase Agreement, *supra*, art. 11.1.

All of the above information about the transaction was publicly disclosed with two exceptions. The two features of the agreements that were not publicly disclosed were the price terms and the specific dosage formulations

covered by the agreements—that is the 0.25 and 0.75 mg doses.

Helsinn admitted at oral argument that the agreement was binding as of its effective date, April 6, 2001, and that it would cover either or both of the 0.25 and 0.75 mg doses, subject to FDA approval. **Helsinn** also agreed that, if the Phase III trials were successful and the products were approved by FDA, then the agreement obligated MGI to purchase and **Helsinn** to supply the approved doses. But if FDA did not approve either dose, then the agreement likewise would terminate automatically with the License Agreement. As **Helsinn** stated, in such a scenario “both parties [could] accept that fact and walk away.” Oral Arg. at 36:37–40, <http://oralarguments.ca9.uscourts.gov/default.aspx?fl=2016-1284.mp3>.

After the signing of the agreements, and still before the critical date, **Helsinn** prepared preliminary statistical analysis of the earliest Phase III trial on January 7, 2002. The data showed that 81% of patients who received the 0.25 mg dose of palonosetron experienced relief from CINV for 24 hours. After the critical date of January 30, 2002, **Helsinn** submitted its preliminary Phase III data to FDA in early February. In September 2002, after the successful completion of all Phase III trials, **Helsinn** filed its New Drug Application for the 0.25 mg dose, but did not seek FDA approval of the 0.75 mg dose. On January 30, 2003, **Helsinn** filed a provisional patent application covering the 0.25 mg dose (and also the 0.75 mg dose). FDA issued approval for the 0.25 dose on July 2003. From 2005 to 2006, **Helsinn** filed three patent applications and these issued as the ’724, ’725, and ’424 patents. In May 2013, after the effective date of the AIA, **Helsinn** filed a fourth patent application which issued as the ’219 patent. All four patents cover the 0.25 mg dose, are listed in FDA’s “Orange Book,” and claim priority to the January 30, 2003 date of the provisional application.

*1363 In 2011, **Teva** filed an ANDA seeking FDA approval to market a generic 0.25 mg palonosetron product.³ **Teva**’s ANDA filing included a Paragraph IV certification that the claims of the patents-in-suit were invalid and/or not infringed. **Helsinn** then brought suit under the Hatch–Waxman Act, 35 U.S.C. § 271(e)(2)(A), alleging infringement of the patents-in-suit by the ANDA filing.

The district court held a bench trial. The district court held that **Teva**’s 0.25 mg dose infringed all of the patents-in-suit. In addressing the on-sale issue, the court applied the two-step framework of *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 119 S.Ct. 304, 142 L.Ed.2d

261 (1998), which requires that there was a sale or offer for sale and that the claimed invention was ready for patenting for the on-sale bar under 35 U.S.C. § 102 to apply. As to the ’724, ’725, and ’424 patents, the court found that pre-AIA law applied under § 102(b) and that the MGI Supply and Purchase Agreement was a contract for a future sale of a commercial product embodying the 0.25 mg dose and therefore constituted a sale under § 102(b). But, the court found that the claimed invention was not reduced to practice before the critical date of January 30, 2002, and therefore was not ready for patenting under the second prong of *Pfaff*. The district court did not address whether the invention was ready for patenting on the alternative theory that **Teva** had shown that the inventor had created enabling descriptions before the critical date. See *Pfaff*, 525 U.S. at 67–68, 119 S.Ct. 304.

As to the ’219 patent governed by the AIA, the court held that the AIA changed the meaning of the on-sale bar and § 102(a)(1) now “requires a *public* sale or offer for sale of the claimed invention.” J.A. 113 (emphasis added). The court concluded that, to be “public” under the AIA, a sale must publicly disclose the details of the invention. The court found that the MGI Supply and Purchase Agreement did not constitute a public sale or commercial offer for sale because, although it disclosed the sale agreement and substance of the transaction, it failed to publicly disclose the 0.25 mg dose. The ’219 patent also was not ready for patenting before the critical date. Therefore, the district court found that the asserted claims of the four patents were not invalid.

Teva appeals. We have jurisdiction under 28 U.S.C. § 1295(a).

Discussion

^[1] ^[2]Application of the on-sale bar under 35 U.S.C. § 102 is ultimately a question of law that we review de novo. *Robotic Vision Sys., Inc. v. View Eng’g, Inc.*, 249 F.3d 1307, 1310 (Fed. Cir. 2001). The factual findings underlying the district court’s conclusion are reviewed for clear error. *Id.* Under *Pfaff*, application of the on-sale bar requires that (1) “the product must be the subject of a commercial offer for sale” and (2) “the invention must be ready for patenting.” 525 U.S. at 67, 119 S.Ct. 304.

I

^[3] ^[4]We first address whether the invention of the '724, '725, and '424 patents *1364 was subject to a sale or offer for sale prior to the critical date. We recently had occasion to address the pre-AIA on-sale bar en banc in *Medicines Co. v. Hospira, Inc.*, 827 F.3d 1363 (Fed. Cir. 2016). There we established a framework for determining whether there is an offer for sale. We explained that the question must be “analyzed under the law of contracts as generally understood” and “must focus on those activities that would be understood to be commercial sales and offers for sale ‘in the commercial community.’ ” *Id.* at 1373 (quoting *Grp. One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1047 (Fed. Cir. 2001)). While acknowledging that it is not of “talismanic significance” to our inquiry, “[a]s a general proposition, we will look to the Uniform Commercial Code (‘UCC’) to define whether ... a communication or series of communications rises to the level of a commercial offer for sale.” 827 F.3d at 1373 (alteration in original) (quoting *Grp. One*, 254 F.3d at 1047). A sale occurs when there is a “contract between parties to give and to pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold.” *Trading Techs. Int’l, Inc. v. eSpeed, Inc.*, 595 F.3d 1340, 1361 (Fed. Cir. 2010) (internal quotation marks omitted).

In *Medicines* we also pointed to other factors that are important to this analysis, but noted that, like the UCC itself, none is determinative individually. We noted that the absence of the passage of title, the confidential nature of a transaction, and the absence of commercial marketing of the invention all counsel against applying the on-sale bar. *Id.* at 1375–76. We deemed these factors important because they helped shed light on whether a transaction would be understood “in the commercial community” to constitute a commercial offer for sale. *Id.* at 1373 (quoting *Grp. One*, 254 F.3d at 1047). But those additional factors are not at issue in this case. There is no suggestion that the Supply and Purchase Agreement did not involve transfer of title; it expressly contemplated it. And, while certain details were redacted from the publicly disclosed copy of the Supply and Purchase Agreement, **Helsinn** does not argue that the *transaction* itself between **Helsinn** and MGI remained confidential. **Helsinn** also commercially marketed its invention before the critical date. It publicly sought “marketing partners for its patented [palonosetron] product,” J.A. 63–64 n.26, and ultimately contracted with MGI “to distribute, promote, market, and sell” the claimed invention, J.A. 2255.

^[5]We agree with the district court that there was a sale for purposes of pre-AIA § 102(b) prior to the critical date because there was a sale of the invention under the law of

contracts as generally understood.

Helsinn admits that the Supply and Purchase Agreement was binding as of its effective date, April 6, 2001, and that, if FDA approved the 0.25 mg dose and/or the 0.75 mg dose of palonosetron, the agreement obligated **Helsinn** to sell and MGI to purchase those products. The Supply and Purchase Agreement bears all the hallmarks of a commercial contract for sale.⁴ It obligated MGI to purchase exclusively from **Helsinn** and obligated **Helsinn** to supply MGI’s requirements of the 0.25 and 0.75 mg doses if approved by FDA.

*1365 ^[6]The agreement here included other specific terms, such as price, method of payment, and method of delivery. Even though MGI’s firm orders pursuant to the agreement were ostensibly “subject to written acceptance and confirmation by **Helsinn**” before becoming binding,” J.A. 2260, **Helsinn** was nonetheless obligated to meet or designate a third party manufacturer to meet MGI’s firm orders. The public 8-K filing described the Supply and Purchase Agreement as obligating **Helsinn** to supply MGI’s “requirements of finished product.” MGI Pharma Inc., Current Report (Form 8-K), at 2 (Apr. 25, 2001). Under our decision in *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 424 F.3d 1276 (Fed. Cir. 2005), the fact that an agreement covered one party’s requirements as opposed to a specified quantity does not prevent application of the on-sale bar. *Id.* at 1281–82.

Despite these facts, **Helsinn** argues that the Supply and Purchase Agreement is not invalidating because at the critical date it was uncertain whether FDA would approve the 0.25 mg dose, and FDA approval was a condition precedent to the sale.

^[7]There can be no real dispute that an agreement contracting for the sale of the claimed invention contingent on regulatory approval is still a commercial sale as the commercial community would understand that term. The UCC expressly provides that a “purported present sale of future goods ... operates as a contract to sell.” UCC § 2–105(2) (defining “future goods” as “[g]oods which are not both existing and identified”). This is true irrespective of whether those future goods have yet to receive necessary regulatory approval. A contract for sale that includes a condition precedent is a valid and enforceable contract. See *BG Grp., PLC v. Republic of Argentina*, — U.S. —, 134 S.Ct. 1198, 1207, 188 L.Ed.2d 220 (2014). Indeed, conditions precedent such as regulatory approval are a basic feature of contract law.⁵ See, e.g., 25 Williston on Contracts § 67:73, at 462 (4th ed. 2013) (“Particular construction or development projects may also require specific

governmental or regulatory approvals as conditions precedent to the consummation of the project.”); 8 Corbin on Contracts § 31.11, at 99–101 (1999) (“In many contracts it is expressly provided that some act of a third person shall be a condition of a promisor’s duty ... [such as a duty] to buy property contingent on a zoning board’s approval....”).

It has been implicit in our prior opinions that the absence of FDA or other regulatory approval before the critical date does not prevent a sale or offer for sale from triggering the on-sale bar. For instance, in *Enzo*, we applied the on-sale bar even though the contract for sale covered the buyer’s reasonable requirements for “perform[ing] all preclinical and clinical studies,” by definition before FDA approval, because the “claimed invention, the polynucleotide probe, is a tangible item or product that can be sold or offered for sale.” 424 F.3d at 1279, 1282 (emphasis added). Similarly, in *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), we affirmed a jury verdict of invalidity based on a sale even though the product sold was subject to regulatory approval. There was no majority opinion, but through two separate individual opinions a majority of the panel held that the on-sale bar applied. *Id.* at 1354 n.4. One opinion *1366 explicitly addressed the patentee’s argument that the offer to sell did not trigger the statutory bar because “FDA approval had not been obtained” before the critical date, concluding that “FDA approval is not required before a sale can bar patent rights.” *Id.* at 1376 (Mayer, C.J.). The dissent recognized that the majority was rejecting the argument that the product was not on sale because at the time of the sale it was “still being developed [and] tested” for FDA approval. *Id.* at 1357 (Newman, J.). Thus, while the absence of FDA approval may be a relevant consideration depending upon the other circumstances surrounding a transaction relating to a pharmaceutical formulation, the fact that a transaction was subject to regulatory approval would not, absent more, prevent it from being a sale for purposes of the on-sale bar. We do not find that it does so here. This is not a case like *Elan Corp., PLC v. Andrx Pharm., Inc.*, 366 F.3d 1336 (Fed. Cir. 2004), where the purported offer concerned a product when and if it had been developed, and there was no price or quantity term. *Id.* at 1341.

Helsinn also argues that, even if the agreement of sale for the 0.25 mg dose could be an invalidating sale, the agreement was uncertain because it covered the 0.25 mg dose, the 0.75 mg dose, and both doses. Helsinn is correct that the agreement covered either dose or both doses. Under established contract law, even if the agreement had given MGI, as the purchaser, the option of choosing between the two doses, as opposed to making the decision

dependent on actions of third party regulators, there would still be a binding agreement.⁶

In any event, here there is no ambiguity introduced by the provision for the purchase of either or both doses. This contract is indistinguishable from a situation involving two otherwise identical contracts, one covering the 0.25 mg dose and the other covering the 0.75 mg dose, each contingent on FDA approval. It is clear that these two hypothetical agreements would individually trigger the on-sale bar for the 0.25 mg dose and the 0.75 mg dose, respectively. It cannot be that combining them into a single agreement somehow thwarts application of the on-sale bar. We see no valid reason based in contract law, patent law, or otherwise, to distinguish between a single agreement that covers two potential products—like the one between Helsinn and MGI—and two separate agreements, one for each product.

Our en banc decision in *Medicines* also made clear that the offer or contract for sale must unambiguously place the invention on sale, as defined by the patent’s claims. 827 F.3d at 1374. As discussed below, that is clearly the case here. The Supply and Purchase Agreement described the palonosetron formulation in detail and Helsinn does not assert that the 0.25 mg dose described in the Supply and Purchase Agreement does not embody the asserted claims of the patents-in-suit. The fact that the contract made the selection of which doses to supply contingent on regulatory approval did not create an ambiguity with respect to whether what was on sale fell within the bounds of the patents’ claims.

At oral argument for the first time, Helsinn contended that applying the on-sale bar would be unfair because it would distinguish between vertically-integrated *1367 manufacturers that have in-house distribution capacity and smaller entities like Helsinn that must contract for distribution services from a third party. Helsinn asserts that *Medicines* stands for the proposition that we should not allow commercial activities to be invalidating if those same activities could be performed in-house without triggering the on-sale bar. Such a broad principle would largely eviscerate the on-sale bar provision except as to sales to end users; that was not the holding of *Medicines*. There we concluded that “stockpiling,” including purchases from a supplier, “does not trigger the on-sale bar.” 827 F.3d at 1374. We also expressed concern over a policy of “penalizing a company for relying, by choice or by necessity, on the confidential services of a contract manufacturer.” *Id.* at 1378. But the concern that *Medicines* focused on is not applicable here. Helsinn did not contract for MGI’s confidential marketing or distribution services as *Medicines* contracted for Ben

Venue's confidential manufacturing services. Instead, the Supply and Purchase Agreement between **Helsinn** and MGI unambiguously contemplated the sale by **Helsinn** of MGI's requirements of the claimed invention.

It is clear that the Supply and Purchase Agreement constituted a commercial sale or offer for sale for purposes of § 102(b) as to the asserted claims of the '724, '725, and '424 patents.

II

¹⁸We next address whether the AIA changed the meaning of the on-sale bar under 35 U.S.C. § 102 so that there was no qualifying sale as to the '219 patent. The parties agree that the '219 patent is governed by the AIA. See 35 U.S.C. § 102(a)(1); AIA, Pub. L. No. 112-29, § 3(n), 125 Stat. 284, 293 (2011).

Before the AIA, § 102(b) barred the patentability of an invention that 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." 35 U.S.C. § 102(b) (2006) (emphasis added). Under that earlier provision, we concluded that, although confidentiality weighs against application of the on-sale bar, see *Medicines*, 827 F.3d at 1376, 1377 n.2, that fact alone is not determinative.⁷ For instance, in *In re Caveney*, a British company offered to sell the claimed invention to an American company that would be its exclusive seller in the United States before the critical date. *In re Caveney*, 761 F.2d 671, 673–74 (Fed. Cir. 1985). The court rejected the argument that a sale or offer for sale did not trigger the on-sale bar when it had been "kept secret from the trade," concluding that "sales or offers by one person of a claimed invention ... bar another party from obtaining a patent if the sale or offer to sell is made over a *1368 year before the latter's filing date." *Id.* at 675.

By enacting the AIA, Congress amended § 102 to bar the patentability of an "invention [that] 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).

Teva and various amici assert that by reenacting the existing statutory term, "on sale," Congress did not change the meaning of the on-sale bar or disturb settled

law. **Helsinn**, the government, and other amici argue that the AIA changed the law by adding the "otherwise available to the public" phrase. They argue that the on-sale bar now does not encompass secret sales and requires that a sale make the invention available to the public in order to trigger application of the on-sale bar. Apart from the additional statutory language, this argument primarily relies on floor statements made by individual members of Congress. While recognizing that such floor statements are typically not reliable as indicators of congressional intent, see, e.g., *Exxon Mobil Corp. v. Allapattah Servs., Inc.*, 545 U.S. 546, 568, 125 S.Ct. 2611, 162 L.Ed.2d 502 (2005), they argue that here we should look to the floor statements to determine the meaning of the provision. These floor statements include material such as the following:

[S]ubsection 102(a) was drafted in part to do away with precedent under current law that *private offers for sale* or private uses or secret processes practiced in the United States that result in a product or service that is then made public may be deemed patent-defeating prior art. That will no longer be the case.

157 Cong. Rec. 3415 (2011) (remarks of Sen. Leahy) (emphasis added).

[T]he current on-sale bar imposes penalties not demanded by any legitimate public interest. There is no reason to fear 'commercialization' that merely consists of a *secret sale or offer for sale* but that does not operate to disclose the invention to the public.... The present bill's new **section 102(a)** precludes extreme results such as these....

157 Cong. Rec. 3424 (2011) (remarks of Sen. Kyl) (emphasis added).⁸

We decline the invitation by the parties to decide this case more broadly than necessary. At most the floor statements

show an intent “to do away with precedent under current [§ 102] law,” 157 Cong. Rec. 3415 (2011) (remarks of Sen. Leahy). Such precedent had held certain secret uses to be invalidating under the “public use” prong of § 102(b). Senator Kyl explicitly referenced cases such as *Egbert v. Lippman*, 104 U.S. 333, 26 L.Ed. 755 (1881), *Beachcombers International, Inc. v. Wildewood Creative Products, Inc.*, 31 F.3d 1154 (Fed. Cir. 1994), and *JumpSport, Inc. v. Jumping, Inc.*, Nos. 05–1182, 05–1196, 05–1197, 2006 WL 2034498 (Fed. Cir. July 21, 2006), and stated that “new section 102(a) precludes extreme results such as these.” 157 Cong. Rec. 3424 (2011) (remarks of Sen. Kyl). Each of those cases involved a public use where the invention was not, as a result of the use, disclosed to *1369 the public. This public use issue is not before us, and we decline to address it.

The floor statements do not identify any *sale* cases that would be overturned by the amendments. Even if the floor statements were intended to overrule those secret or confidential sale cases discussed above and cited in footnote 7, that would have no effect here since those cases were concerned entirely with whether the existence of a sale or offer was public. Here, the existence of the sale—*i.e.*, the Supply and Purchase Agreement between **Helsinn** and MGI—was publicly announced in MGI’s 8-K filing with the SEC. The 8-K filing also included a copy of the contract for sale as an attachment, albeit partially redacted. Detailed information about palonosetron, its benefits and uses in treating CINV were also disclosed. The statements disclosed the chemical structure of palonosetron and specified that the covered products were “**pharmaceutical** preparations for human use in [intravenous] dosage form, containing [palonosetron] as an active ingredient.” Supply and Purchase Agreement, *supra*, art. 1.9.⁹ And, as described above, the agreements disclosed all the pertinent details of the transaction other than the price and dosage levels.

Helsinn argues that the AIA did more than overrule the “secret sale” cases, and relies on the “otherwise available to the public” language in the statute and the floor statements. **Helsinn** argues that those statements suggest that the on-sale bar does not apply unless the sale “disclose[s] the invention to the public” before the critical date. 157 Cong. Rec. 3424 (2011) (remarks of Sen. Kyl). It urges that since the 0.25 mg dose was not disclosed, the invention was not disclosed and the on-sale bar does not apply. The suggestion is that Congress required that the details of the claimed invention be publicly disclosed before the on-sale bar is triggered.

Requiring such disclosure as a condition of the on-sale

bar would work a foundational change in the theory of the statutory on-sale bar. Indeed, the seminal Supreme Court decision in *Pennock* addressed exactly such a situation¹⁰—the public sale of an item but the withholding from “the public the secrets of [the] invention.” *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 19, 7 L.Ed. 327 (1829). Failing to find such a sale invalidating, said the Court, “would materially retard the progress of science and the useful arts, and give a premium to those who should be least prompt to communicate their discoveries.” *Id.*

*1370 So too under our cases, an invention is made available to the public when there is a commercial offer or contract to sell a product embodying the invention and that sale is made public. Our cases explicitly rejected a requirement that the details of the invention be disclosed in the terms of sale. See *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056, 1060 (Fed. Cir. 1989), overruled in part on other grounds by *Grp. One*, 254 F.3d at 1048 (rejecting the argument “that the bid documents themselves must disclose the invention with respect to all claim elements” since that is “clearly not legally correct” and there can be “a definite offer for sale or a sale of a claimed invention even though *no* details are disclosed”).

¹⁰A primary rationale of the on-sale bar is that publicly offering a product for sale that embodies the claimed invention places it in the public domain, regardless of when or whether actual delivery occurs.¹¹ The patented product need not be on-hand or even delivered prior to the critical date to trigger the on-sale bar.¹² And, as previously noted, we have never required that a sale be consummated or an offer accepted for the invention to be in the public domain and the on-sale bar to apply, nor have we distinguished sales from mere offers for sale.¹³ We have also not required that members of the public be *1371 aware that the product sold actually embodies the claimed invention. For instance, in *Abbott Laboratories v. Geneva Pharmaceuticals, Inc.*, 182 F.3d 1315 (Fed. Cir. 1999), at the time of the sale, neither party to the transaction knew whether the product sold embodied the claimed invention and had no easy way to determine what the product was. *Id.* at 1317–18.

Thus, our prior cases have applied the on-sale bar even when there is no delivery, when delivery is set after the critical date, or, even when, upon delivery, members of the public could not ascertain the claimed invention. There is no indication in the floor statements that these members intended to overrule these cases. In stating that the invention must be available to the public they evidently meant that the public sale itself would put the patented product in the hands of the public. Senator Kyl himself seems to have agreed with this proposition,

stating explicitly that “once a product is sold on the market, any invention that is inherent to the product becomes publicly available prior art and cannot be patented.” 157 Cong. Rec. 3423 (2011) (remarks of Sen. Kyl).¹⁴ There are no floor statements suggesting that the sale or offer documents must themselves publicly disclose the details of the claimed invention before the critical date. If Congress intended to work such a sweeping change to our on-sale bar jurisprudence and “wished to repeal ... [these prior] cases legislatively, it would do so by clear language.” *Dir., OWCP v. Perini N. River Assocs.*, 459 U.S. 297, 321, 103 S.Ct. 634, 74 L.Ed.2d 465 (1983).

^[10]We conclude that, after the AIA, if the existence of the sale is public, the details of the invention need not be publicly disclosed in the terms of sale. For the reasons already stated, the Supply and Purchase Agreement between **Helsinn** and MGI constituted a sale of the claimed invention—the 0.25 mg dose—before the critical date, and therefore both the pre-AIA and AIA on-sale bars apply. We do not find that distribution agreements will always be invalidating under § 102. We simply find that this particular Supply and Purchase Agreement is.

III

^[11] ^[12]We finally address whether the invention was ready for patenting as of the critical date of January 30, 2002. Under *Pfaff*, there are at least two ways in which an invention can be shown to be ready for patenting: “by proof of reduction to practice before the critical date; or by proof that prior to the critical date the inventor 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, 119 S.Ct. 304. We conclude that the invention here was ready for patenting because it was reduced to practice before the critical date, and we need not address the alternative enablement approach, not addressed by the district court.¹⁵

A. Reduction to Practice

^[13] ^[14]An invention is reduced to practice when “the inventor (1) constructed *1372 an embodiment ... 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 quotation marks and citations omitted) (citing *Z4 Techs., Inc. v. Microsoft Corp.*, 507 F.3d 1340, 1352 (Fed. Cir. 2007)). Reduction to practice occurs if “the claimant had possession of the subject matter of the [claim] and that it was shown or known to work for its intended purpose.”¹⁶ *Streck, Inc. v. Research & Diagnostic Sys., Inc.*, 659 F.3d 1186, 1193 (Fed. Cir. 2011); accord *Sanofi-Aventis v. Pfizer Inc.*, 733 F.3d 1364, 1367–68 (Fed. Cir. 2013).

Before trial, the parties stipulated that they would contest ready for patenting “only with respect to the limitations and intended uses of ‘reducing emesis or reducing the likelihood of emesis’ and ‘to reduce the likelihood of cancer chemotherapy-induced nausea and vomiting’ of the asserted claims” and not “for any other reason.” J.A. 26081. Thus, for instance, it is uncontested that the formulation had been made and was stable prior to the critical date. Accordingly, the only issue with respect to ready for patenting before the district court and on appeal is whether **Helsinn** had determined that the invention would work for its intended purpose, which, according to the claims, is “reducing the likelihood” of emesis and CINV.

^[15] ^[16] ^[17]Our cases distinguish between the standard required to show that a particular invention would work for its intended purpose and the standard that governs FDA approval of new drugs, including the various stages of clinical trials. See, e.g., *Scott v. Finney*, 34 F.3d 1058, 1063–64 (Fed. Cir. 1994) (addressing reduction to practice in the priority context). In patent law, the requisite testing, if any, for showing that an invention will “work for its intended purpose” varies depending on “the character of the invention,” including the claim language and the “nature and complexity of the problem” the invention seeks to solve. *Id.* at 1061–62; see also *Slip Track Sys., Inc. v. Metal-Lite, Inc.*, 304 F.3d 1256, 1265 (Fed. Cir. 2002). Generally there must be some “demonstration of the workability or utility of the claimed invention.” *Honeywell Int’l Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 997 (Fed. Cir. 2007). This must show that the invention works for its intended purpose “beyond a probability of failure” but not “beyond a possibility of failure.” *Scott*, 34 F.3d at 1062. “[L]ater refinements do not preclude reduction to practice, [and] it is improper to conclude that an invention is not reduced to practice merely because further testing is being conducted.” *Atlanta Attachment Co. v. Leggett & Platt, Inc.*, 516 F.3d 1361, 1367 (Fed. Cir. 2008).

Approval of a new drug by FDA, however, is a more demanding standard than that involved in the patents-in-suit. The patents here make no reference to FDA standards and broadly claim a palonosetron formulation for reducing the likelihood of emesis and CINV. For FDA approval, however, an applicant must submit, *inter alia*, “adequate tests by all methods reasonably applicable to show whether or not such drug is safe for use” and “substantial evidence that the drug will have the effect it purports or is represented to have under the conditions of use prescribed.” 21 U.S.C. § 355(d). This requires “adequate and well-controlled investigations, including clinical investigations, by experts qualified by scientific training and experience to evaluate the effectiveness of *1373 the drug involved, on the basis of which it could fairly and responsibly be concluded by such experts that the drug will have the effect it purports or is represented to have under the conditions of use prescribed, recommended, or suggested in the labeling or proposed labeling thereof.” *Id.* This is understood to be “a rigorous standard.” *Ams. for Safe Access v. DEA*, 706 F.3d 438, 451 (D.C. Cir. 2013).

Here, the district court based its finding that the invention was not reduced to practice before the critical date on insufficient testing for **Helsinn** to have “determined that the invention would work for its intended purpose.” J.A. 159. The district court appeared to believe that **Teva** needed to meet the FDA standard, which requires finalized reports with fully analyzed results from successful Phase III trials. This is clear from the district court’s reliance on the testimony of **Helsinn**’s expert who “referred to FDA standards in forming his opinions in this case” and stated that FDA “articulated a statistical framework for being able to really know from the [clinical trial] data ... that a drug is working.” J.A. 148. Through-out its opinion the district court found lack of reduction to practice for failure to establish “efficacy” under FDA standards, and the lack of fully analyzed Phase III studies as required by FDA. J.A. 159. The district court was influenced particularly by the fact that FDA found the so-called Study 2330 insufficient to demonstrate efficacy.¹⁷ *See, e.g.*, J.A. 34, 48–50, 56, 147, 151, 154–55.

The district court clearly erred by applying too demanding a standard. The completion of Phase III studies and final FDA approval are not pre-requisites for the invention here to be ready for patenting. The evidence is overwhelming that before the critical date of January 30, 2002, it was established that the patented invention would work for its intended purpose of reducing the likelihood of emesis.

- The 1995 report from Study 2330 demonstrated that three different doses, including the 0.25 mg

dose, produced statistically significant results at the 5% level for the median time it took patients to experience an emetic episode after administration of **palonosetron**. While this study did not show statistical significance for complete control of emesis or CINV for 24 hours, complete control is not a claim requirement. The invention is for reducing the likelihood of emesis, not necessarily completely preventing it, and the statistical significance for mean time to failure demonstrates that the product reduced the likelihood of emesis. Indeed, the Study 2330 final report concluded that the relevant dose of palonosetron “was effective in suppressing” CINV. J.A. 1636. Under our cases this is sufficient to establish that the invention here would work for its intended purpose of reducing the likelihood of CINV. *See, e.g.*, **4 Techs.**, 507 F.3d at 1352 (concluding that the intended purpose of the invention at issue was to reduce piracy, not to completely stop its occurrence).

- Giorgio Calderari, one of the named inventors of the patents-in-suit, characterized the results of the Phase II trial, Study 2330, as “yes, the product was showing some efficacy clearly.” J.A. 524.

- Minutes from a July 1998 meeting of **Helsinn**’s palonosetron team indicated that their “proposal [wa]s to test *effective* *1374 doses seen in Phase 2,” including the 0.25 mg dose. J.A. 1424 (emphasis added).

- The proposed protocols for Phase III trials that **Helsinn** submitted to FDA in November 1999 stated that the “[r]esults achieved in Phase II CINV studies suggest that **palonosetron** is safe and effective in preventing nausea and vomiting following emetogenic chemotherapy,” J.A. 3846, and “[d]ata from this study clearly demonstrate that the 3 µg/kg dose of **palonosetron** is the minimal effective dose in preventing CINV,” J.A. 3851.

- On September 14, 2000, **Helsinn** announced in a press release that “Phase II trials [had] demonstrated the efficacy of Palonosetron in the prevention of emesis with no significant side effects.” J.A. 9983.

- On January 7, 2002, **Helsinn** prepared preliminary data tables analyzing the results from the first Phase III trial.¹⁸ “[T]he preliminary data for Complete Response, which is the primary efficacy outcome measure for acute CINV, was 81.0% (153/189) for **palonosetron** 0.25 mg.” J.A. 81. This means that 81% of patients who received the 0.25 mg dose of **palonosetron** experienced relief from CINV for 24

hours. As one of the named inventors of all four patents explained, these data showed that the 0.25 mg dose of [palonosetron](#) “reduced the likelihood of CINV in those subjects.” J.A. 593.

- In a 2007 declaration submitted to overcome an initial rejection by the examiner during prosecution, Giorgio Calderari and four of the other named inventors of the patents-in-suit stated that “[t]he formulations ... were completed sometime before March 24, 1999” and that they “had invented and were in possession of all of the subject matter currently claimed ... as of March 24, 1999.” J.A. 1411–12. This was clarified at trial as referring to the claimed invention, *i.e.*, “a [pharmaceutically](#) stable solution for reducing emesis or reducing the likelihood of emesis.” J.A. 527 (154:16–22; 156:1–9).

- In a 2010 declaration corresponding to another related palonosetron patent application,¹⁹ Sergio Cantoreggi and two named inventors of the [’724](#), [’725](#), and [’424 patents](#) submitted a declaration stating that they “had conceived the invention ..., and reduced it to practice, before November 16, 2001,” J.A. 2921 ¶ 2, and “had conceived the idea to use [palonosetron](#) for the treatment of acute and delayed-onset CINV, and had conducted clinical trials in humans to test this idea, at least as early as October 2, 2001,” J.A. 2921 ¶ 3. The declaration concluded that “[m]ost important, [they] had successfully tested the method in human patients, and [they] had done so before October 2, 2001 (the date the [Phase III] study was completed).” J.A. 2923 *1375 ¶ 18. The district court found that these statements in the 2010 declaration “were literally true.” J.A. 158.

These results consistently showed that the invention worked for its intended purpose, from the final report for the 1995 Phase II trial to the preliminary results in January 2002 from a Phase III trial. Under the district court’s unduly restrictive standard, [Helsinn](#) could not have filed a valid patent application before the critical date of January 30, 2002. Such a standard would preclude the filing of meritorious patent applications in a wide variety of circumstances. The evidence that the formulation was ready for patenting is overwhelming, and the District Court’s contrary conclusion—applying the wrong standard—was clearly erroneous. There is simply

no tenable argument that, before the critical date, [Helsinn](#) was unable to file a patent application that met the requirements of 35 U.S.C. § 112.²⁰

The district court and [Helsinn](#) on appeal rely on our decision in [Omeprazole](#) to argue that the results from Phase III trials must be analyzed in order to draw a valid conclusion regarding whether the invention works for its intended purpose. *See Omeprazole*, 536 F.3d 1361. But there is no general rule that Phase III trials must be completed before a product is ready for patenting, just as there is no general rule that Phase III trials are irrelevant. Each case must be decided based on its own facts. And this case is not like [Omeprazole](#). In [Omeprazole](#), there was significant uncertainty going into Phase III trials regarding whether the formulation would “solve the twin problems of *in vivo* stability and long-term storage” that had been identified *after* Phase II trials. *Id.* at 1373 (internal quotation marks omitted). Indeed, between Phase II and Phase III the researchers needed to attempt “a number of modifications to the Phase II formulation” since achieving the “two goals seemingly conflicted.” *Id.* Here, of course, there was no similar need to modify the formulation in between the Phase II and Phase III trials, as [Helsinn](#) stipulated to the formulation’s stability.

We conclude that the invention was reduced to practice and therefore was ready for patenting before the critical date.

CONCLUSION

We hold that the asserted claims, claims 2 and 9 of the [’724 patent](#), claim 2 of the [’725 patent](#), claim 6 of the [’424 patent](#), and claims 1, 2, and 6 of the [’219 patent](#), are invalid under the on-sale bar.

REVERSED

All Citations

855 F.3d 1356, 123 U.S.P.Q.2d 1045

Footnotes

¹ The parties agree that the [’219 patent](#) has the same critical date as the pre-AIA patents for the on-sale bar even though it is governed by the AIA. The one-year grace period in the AIA is less protective than under pre-AIA § 102(b)

for reasons not relevant here.

- 2 Even if FDA approval were not an express condition of a contract for sale of a **pharmaceutical**, there would be a strong argument for implying such a condition since federal law prohibits the introduction of new drugs into interstate commerce without FDA approval. See 21 U.S.C. § 355.
- 3 We treat this case as involving only the 0.25 mg dose of **palonosetron**. **Teva** also filed an ANDA for a 0.075 mg dose of **palonosetron** in 1.5 ml of solution. It is undisputed that this product has a concentration of 0.05 mg/ml and falls within the asserted claims of the '724, '725, and '424 patents. There is no contention that the 0.075 mg dose was on sale before the critical date or that the Supply and Purchase Agreement covered the 0.075 mg dose. But the parties agree that the same claims cover both the 0.25 mg dose and the 0.075 mg dose, and the case stands or falls on whether the asserted claims covering the 0.25 mg dose are invalid under the on-sale bar. In other words, if the claims covering the 0.25 mg dose are invalid, there are not valid and asserted claims covering the 0.075 mg dose.
- 4 See, e.g., *Merck & Cie v. Watson Labs., Inc.*, 822 F.3d 1347, 1351 (Fed. Cir. 2016) (offer “provid[ed] essential price, delivery, and payment terms”); *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1369 (Fed. Cir. 2007) (offer “explicitly set[] forth an amount ... to be delivered to P & G, at a specified unit price, and under a standard contract designation, FOB (free on board)”); *Linear Tech. Corp. v. Micrel, Inc.*, 275 F.3d 1040, 1052 (Fed. Cir. 2001) (offers “included quantity terms and clearly identified the requested product”).
- 5 “A condition precedent is either an act of a party that must be performed or a certain event that must happen before a contractual right accrues or a contractual duty arises.” 13 Williston on Contracts § 38:7, at 434–37 (4th ed. 2013); see also *id.* § 38:7, at 434–46; Restatement (Second) of Contracts § 224 (1981); 2 Anderson U.C.C. § 2-301:11, at 149–52 (3d. ed. 2013); 8 Corbin on Contracts §§ 30.6–30.7, at 9–15 (1999).
- 6 See, e.g., 1 Corbin on Contracts § 4.6 (citing *Dolly Parker Motors, Inc. v. Stinson*, 220 Ark. 28, 245 S.W.2d 820 (1952); *Delaney v. Shellabarger*, 76 Nev. 341, 353 P.2d 903 (1960); *Langer v. Lemke*, 78 N.D. 383, 49 N.W.2d 641 (1951); *Calder v. Third Judicial Dist. Court*, 2 Utah 2d 309, 273 P.2d 168 (1954)); *C.W. Hull Co. v. Westerfield*, 107 Neb. 705, 186 N.W. 992, 994 (1922).
- 7 See, e.g., *Woodland Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1368, 1370 (Fed. Cir. 1998) (stating 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”); *J.A. LaPorte, Inc. v. Norfolk Dredging Co.*, 787 F.2d 1577, 1581–83 (Fed. Cir. 1986) (stating that the on-sale bar “is not limited to sales by the inventor or one under his control, but may result from activities of a third party” and rejecting the argument that “secret commercialization by a third party” is not invalidating since “the invention ... was discoverable from the device which was sold” and the “device ... embodie[d] the invention” (emphasis omitted)); *In re Caveney*, 761 F.2d 671, 675 (Fed. Cir. 1985) (rejecting the argument that a secret sale by a third party was not invalidating because “sales or offers by one person of a claimed invention will bar another party from obtaining a patent”); see also 2 R. Carl Moy, Moy’s Walker on Patents § 8:228 (4th ed. 2016) (“[E]ven a private sale or offer for sale can be a barring event.”); 3 John Gladstone Mills III et al., Pat. L. Fundamentals § 10:12 (2d ed. 2017) (“An invention is ‘on sale’ even though the only sale was a ‘private’ one.”).
- 8 See also 157 Cong. Rec. 3423 (2011) (remarks of Sen. Kyl) (“The word ‘otherwise’ makes clear that the preceding clauses describe things that are of the same quality or nature.... As the committee report notes at page 9, ‘the phrase ‘available to the public’ is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it ... must be publicly available.’ ”); 157 Cong. Rec. 9782 (2011) (remarks of Sen. Smith) (“[C]ontrary to current precedent, in order to trigger the bar in the new 102(a) in our legislation, an action must make the patented subject matter ‘available to the public’ before the effective filing date.”).
- 9 The joint April 10, 2001 press release stated that “[p]alonosetron is a potent and selective 5-HT3 antagonist with an extended half-life, in Phase 3 development for the prevention of chemotherapy-induced nausea and vomiting (CINV).” MGI Pharma Inc., Current Report (Form 8-K) Ex. 99.5, at 1 (Apr. 25, 2001). It also disclosed that, once launched, it would “be one of four products competing in the \$1 billion North American market for 5-HT3 antagonists ... [and its] extended half-life ... as compared to the other agents and the results of Phase 2 trials assessing efficacy beyond 24 hours differentiate[] **palonosetron** from the three currently marketed 5-HT3 antagonists indicated for CINV.” *Id.* at 2.
- 10 *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 19, 7 L.Ed. 327 (1829) (“If an inventor should be permitted to hold back from the knowledge of the public the secrets of his invention; if he should for a long period of years retain the monopoly, and make, and sell his invention publicly, and thus gather the whole profits of it, relying upon his superior skill and knowledge of the structure; and then, and then only, when the danger of competition should force him to secure the exclusive right, he should be allowed to take out a patent, and thus exclude the public from any farther use than what

should be derived under it during his fourteen years; it would materially retard the progress of science and the useful arts, and give a premium to those who should be least prompt to communicate their discoveries.”).

- 11 See, e.g., *Pfaff*, 525 U.S. at 64, 119 S.Ct. 304 (“§ 102 of the Patent Act serves as a limiting provision, both excluding ideas that are in the public domain from patent protection and confining the duration of the monopoly to the statutory term.... A similar reluctance to allow an inventor to remove existing knowledge from public use undergirds the on-sale bar.”); *Merck & Cie*, 822 F.3d at 1355 n.4 (“One of the primary purposes of the on-sale bar is to prohibit the withdrawal of inventions that have been placed into the public domain through commercialization.” (internal quotation marks omitted) (quoting *Abbott Labs. v. Geneva Pharm., Inc.*, 182 F.3d 1315, 1319 (Fed. Cir. 1999))); *J.A. LaPorte*, 787 F.2d at 1583 (“The date of the purchase agreement is, therefore, the effective date on which the invention became part of the public domain. That delivery of the device embodying the invention occurred later is immaterial.”).
- 12 See, e.g., *Pfaff*, 525 U.S. at 58, 67, 119 S.Ct. 304 (applying the on-sale bar where the sale order was not filled until after the critical date); *STX, LLC v. Brine, Inc.*, 211 F.3d 588, 590 (Fed. Cir. 2000) (same); *Buildex Inc. v. Kason Indus., Inc.*, 849 F.2d 1461, 1464 (Fed. Cir. 1988) (“Proof of delivery before the critical date would have been conclusive in this case, but it is not necessary to holding that the device was on sale before then.”); *Robbins Co. v. Lawrence Mfg. Co.*, 482 F.2d 426, 431 (9th Cir. 1973) (“A simple placing on sale is sufficient to establish the ‘on sale’ defense—even an executory contract under which the patented matter is delivered after the critical date.”).
- 13 See, e.g., *Pfaff*, 525 U.S. at 67, 119 S.Ct. 304 (“[A]cceptance of the purchase order prior to April 8, 1981, makes it clear that ... an offer had been made.”); *Merck & Cie*, 822 F.3d at 1352 (“An offer to sell is sufficient to raise the on-sale bar, regardless of whether that sale is ever consummated.”); *Hamilton Beach Brands, Inc. v. Sunbeam Prods., Inc.*, 726 F.3d 1370, 1374, 1377 (Fed. Cir. 2013) (“An actual sale is not required for the activity to be an invalidating commercial offer for sale.”); *Cargill*, 476 F.3d at 1370 (“There is no requirement that the sale be completed.”); *Scaltech, Inc. v. Retec/Tetra, LLC*, 269 F.3d 1321, 1328 (Fed. Cir. 2001) (“An offer for sale does not have to be accepted to implicate the on sale bar.”); *A.B. Chance Co. v. RTE Corp.*, 854 F.2d 1307, 1311 (Fed. Cir. 1988) (“A single offer to sell is enough to bar patentability whether or not the offer is accepted.”); *Buildex*, 849 F.2d at 1464 (“It is not necessary that a sale be consummated for the bar to operate.”); *In re Theis*, 610 F.2d 786, 791 (CCPA 1979) (“For § 102(b) to apply, it is not necessary that a sale be consummated.”); *Mfg. Research Corp. v. Graybar Elec. Co.*, 679 F.2d 1355, 1362 (11th Cir. 1982) (“The statutory on sale bar applies when the invention that is the subject of a patent application is merely offered for sale; there is no requirement that a sale be consummated before the statutory bar attaches.”).
- 14 Senator Kyl quoted our anticipation decision in *Rosco, Inc. v. Mirror Lite Co.*, 304 F.3d 1373 (Fed. Cir. 2002). “Under the doctrine of inherency, if an element is not expressly disclosed in a prior art reference, the reference will still be deemed to anticipate a subsequent claim if the missing element is necessarily present in the thing described in the reference, and that it would be so recognized by persons of ordinary skill.” 157 Cong. Rec. 3423 (2011) (remarks of Sen. Kyl) (internal quotation marks omitted) (quoting *Rosco*, 304 F.3d at 1380).
- 15 See J.A. 130 n.53.
- 16 See, e.g., *Honeywell Int’l Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 997 (Fed. Cir. 2007) (citing to *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1563 (Fed. Cir. 1996), a case that addresses ready for patenting in the priority context, for the ready for patenting standard in the context of the on-sale bar).
- 17 FDA found Study 2330 insufficient on its own to support Phase III trials since, “[w]hen compared to the lowest doses (0.3 and 1 mcg/kg) only the 30 mcg/kg dose was statistically significant; a significant dose response trend was not evident.” J.A. 10907. We view this as irrelevant to whether the invention was ready for patenting.
- 18 Even though the purported sale or offer for sale occurred before these data tables were prepared, post-contract developments are relevant such that even if an invention is not ready for patenting at the time of the offer or sale, it may become so before the critical date and thereby trigger application of the on-sale bar, a point to which both parties agreed at oral argument.
- 19 The patent application claimed a method of treating CINV with the 0.25 mg dose: “A method of treating chemotherapy or radiotherapy-induced acute and delayed emesis in an adult human for five days after an emesis inducing chemotherapy or radiotherapy event, comprising administering to said human a single dose of a treatment-effective amount of about 0.25 mg of *palonosetron* in the form of *palonosetron* hydrochloride prior to said emesis-inducing event, without administering any further *palonosetron* during said give day period.” J.A. 2922.
- 20 See *Space Sys./Loral, Inc. v. Lockheed Martin Corp.*, 271 F.3d 1076, 1080 (Fed. Cir. 2001) (“To be ‘ready for

patenting' the inventor must be able to prepare a patent application, that is, to provide an enabling disclosure as required by 35 U.S.C. § 112.... [W]hen development and verification are needed in order to prepare a patent application that complies with § 112, the invention is not yet ready for patenting."); *Clock Spring, L.P. v. Wrapmaster, Inc.*, 560 F.3d 1317, 1328 (Fed. Cir. 2009) ("By filing the 1992 [patent] application, the inventors represented that the invention was then ready for patenting...."); see also *In re Brana*, 51 F.3d 1560, 1568 (Fed. Cir. 1995) ("FDA approval, however, is not a prerequisite for finding a compound useful within the meaning of the patent laws.").

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Richard has supported multiple patent litigation matters involving software, computer hardware, photonics and mechanical technologies. Richard's practice also includes drafting and prosecuting patents largely in the software and data storage spaces including secure software patents. As an electrical engineer with a strong background in the software industry Richard brings a unique perspective to his legal practice.

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Publications

- 18 May 2016 "Federal Circuit's Enfish is an Important 101 Decision"
Reed Smith Client Alerts; Co-Authors: Gerard M. Donovan, Amardeep (Sonny) Grewal, Marc S. Kaufman
- 12 May 2016 "The Brand New Defend Trade Secrets Act of 2016 – What You Need to Know"
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