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WHAT'S INSIDE

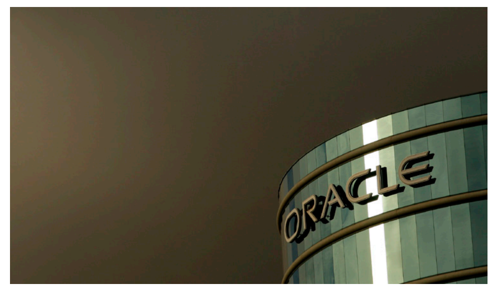
EXPERT INTERVIEW

Q&A: Copyright and trademark litigator Brian Darville on *Google v. Oracle*

By Patrick H.J. Hughes

Oblon attorney Brian Darville answers questions about Oracle's copyright wins over Google and the impact the case could have if the U.S. Supreme Court decides to intervene in the dispute.

REUTERS/Robert Galbraith



REUTERS/Robert Galbraith

The U.S. District Court for the Northern District of California ruled that Google's creation of source code that provided the same functions as Oracle's copyrighted application programming interface packages did not constitute infringement and later said Google's actions were protected as a fair use.

Each time, the U.S. Court of Appeals for the Federal Circuit overturned the lower court, siding with Oracle. Google has now asked the U.S. Supreme Court to provide guidance on these issues.

Thomson Reuters: In its certiorari petition filed in January, Google says Oracle's case against it has been aptly described as the "copyright lawsuit of the decade." Why is it so important?

Brian Darville: The Google appeal is important for several reasons. It involves the scope of copyright as applied to software interfaces and the application of the fair use defense in copying software code for purposes of interoperability.

Oracle's position is that its application programming interfaces, or APIs — both the

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EXPERT ANALYSIS

Software inventions face new USPTO standards for patenting

Bradley Arant Boult Cummings LLP attorney Dennis H. Núñez explains how the U.S. Patent and Trademark Office's revised patent eligibility guidelines can help attorneys advise clients about patent protection for software.

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Software inventions face new USPTO standards for patenting

By Dennis H. Núñez, Esq.
Bradley Arant Boult Cummings LLP

The lack of clarity in the law with respect to patent subject matter eligibility under Section 101 of the Patent Act, 35 U.S.C.A. § 101, has made it difficult for patent attorneys to advise their clients regarding patent protection for software inventions.

Since the case law regarding subject matter eligibility is nebulous and fluid, the USPTO's guidance to its examiners regarding the eligibility of software is also nebulous. To make matters worse, patent examiners do not consistently apply the guidance.

Given this lack of clarity and uneven application, it is exceedingly difficult for patent attorneys to advise their clients regarding their chances of receiving patent protection for software inventions.

To get more consistent rulings from their patent examiners, the USPTO has published the 2019 Revised Patent Subject Matter Eligibility Guidance. The revised guidelines synthesize the current case law and provide clearer standards for patent examiners to follow when determining if an invention, such as software, is too abstract to receive patent protection.

Understanding the revised guidelines should make it somewhat easier for patent attorneys to advise their clients regarding software inventions.

BACKGROUND BEHIND REVISED GUIDELINES

It is no secret that the USPTO has struggled to apply the Supreme Court's "*Alice/Mayo* test" for patent subject matter eligibility in a clear and consistent manner.

The high court developed the test in *Alice Corp. Pty. Ltd. v. CLS Bank International*, 573 U.S. 208 (2014), building on its earlier ruling in *Mayo Collaborative Services v. Prometheus Laboratories Inc.*, 566 U.S. 66 (2012).

The USPTO uses a two-step framework that includes the *Alice/Mayo* test for determining whether a claim is drawn to patent-eligible subject matter:

Step 1: A claim must be directed to a process, machine, manufacture or composition of matter.

Step 2: If so, the two-part analysis from *Alice Corp*. applies.

Step 2A: Determine whether a claim is directed to a judicial exception (e.g., an abstract idea, a law of nature or a natural phenomenon).

Step 2B: Even if a claim is determined to be directed to an abstract idea (or another judicial exception), the claim may still be patentable if any element, or combination of elements, in the claim is sufficient to ensure that the claim as a whole amounts to significantly more than an abstract idea.

The USPTO published the revised guidelines Jan. 7 to provide clarity regarding the application of the above-mentioned *Alice/Mayo* test in step 2.

The agency has explicitly stated that the revised guidelines supersede the corresponding section of the Manual of Patent Examining Procedure, MPEP § 2106.04(II), to the extent that section equates claims "reciting" a judicial exception with claims "directed to" a judicial exception, along with any other portion of the MPEP that conflicts with this guidance.

> It is exceedingly difficult for patent attorneys to advise their clients regarding their chances of receiving patent protection for software inventions.

The revised guidelines also supersede all versions of the USPTO's Eligibility Quick Reference Sheet Identifying Abstract Ideas and any eligibility-related guidance issued prior to the Ninth Edition, R-08.2017, of the MPEP (published January 2018).

The USPTO, however, has also said that "any claim considered patent eligible under prior guidance should be considered patent eligible under this guidance."

THE REVISED GUIDELINES: A SUMMARY

The Patent Office asserts that the revised guidelines are "designed to more accurately and consistently identify claims that recite a practical application of a judicial exception."

To do this, the USPTO has segmented the *Alice/Mayo* test under step 2 into three prongs. The first two prongs apply to step 2A, and the last applies to step 2B.

In the first two prongs of the USPTO's version of the *Alice/Mayo* test under the revised guidelines, the USPTO makes the distinction between claims that merely "recite" and claims that are "directed to" a judicial exception.

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In prong 1, the examiner must determine whether the claim recites a judicial exception. In prong 2, the examiner must determine whether the recited judicial exception is integrated into a practical application.

If a claim recites a judicial exception but fails to integrate the exception into a practical application, then the claim is "directed to" a judicial exception and further analysis is needed under prong 3 (i.e., step 2B).

In prong 3, a claim that does not integrate a judicial exception into a practical application may nonetheless be patent eligible if additional elements recited in the claim recite "significantly more" than the judicial exception.

PRONG 1: EVALUATE WHETHER THE CLAIM RECITES A JUDICIAL EXCEPTION

Prong 1 is the first prong of the analysis under step 2A. Prong 1 requires an examiner to evaluate whether the claim recites a judicial exception (i.e., an abstract idea, a law of nature or a natural phenomenon).

If no judicial exception is recited, this concludes the analysis and the claim is eligible. However, if the claim does recite a judicial exception, then it requires further analysis under prong 2 of revised step 2A to determine whether it is directed to the recited judicial exception.

For laws of nature and natural phenomena, the guidance does not change, and examiners will continue to follow existing guidance to identify whether a claim recites one of these exceptions under MPEP § 2106.04 (b)-(c).

However, there is a change to previous guidance with respect to abstract ideas. According to the revised guidelines at page 16:

> To determine whether a claim recites an abstract idea in prong one, examiners are now to: (a) identify the specific limitation(s) in the claim under examination (individually or in combination) that the examiner believes recites an abstract idea; and (b) determine whether the identified limitation(s) falls within the subject matter groupings of abstract ideas enumerated in Section I of the 2019 Revised Patent Subject Matter Eligibility Guidance.

The abstract idea exception under Section I, pages 9-11, of the revised guidelines includes the following groupings of abstract subject matter:

(1) Mathematical concepts — mathematical relationships, mathematical formulas or equations, mathematical calculations;

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

(3) Mental processes — concepts performed in the human mind (including an observation, evaluation, judgment, opinion).

Claims that do not fall within the enumerated categories should not be treated as abstract ideas except in the rare circumstance that the claim limitation does not fall within the enumerated categories but the examiner nonetheless believes that the claim limitation should be treated as an abstract idea.

In such a case, the examiner is to follow the guidance described in Section III C of the revised guidelines.

According to Section III C, the examiner should initially treat the claim limitation as a tentative abstract idea and continue with the analysis in prong 2 and prong 3 to determine if the claim would be considered "directed to" the judicial exception and if the claim has additional elements that recite significantly more than the judicial exception.

If the examiner believes that the tentative abstract idea is directed to the judicial exception and there aren't additional elements that make the claims so the judicial exception cannot apply, then the tentative abstract idea must be approved as an abstract idea by the technology center director before the examiner moves to the next phase.

PRONG 2: EVALUATE WHETHER THE JUDICIAL EXCEPTION IS INTEGRATED INTO A PRACTICAL APPLICATION

Prong 2 is the second part of the analysis under step 2A.

In prong 2, the claim is evaluated to determine whether the claim "as a whole integrates the recited judicial exception into a practical application of the exception."

According to the revised guidelines, a practical application "will apply, rely on, or use the judicial exception in a manner that imposes a meaningful limit on the judicial exception, such that the claim is more than a drafting effort designed to monopolize the judicial exception."

To analyze the claim, the examiner should identify whether there are "additional elements" recited in the claim beyond a judicial exception and then evaluate the additional elements individually and in combination to determine whether they integrate the exception into a practical application.

> The Patent Office asserts that the revised guidelines are "designed to more accurately and consistently identify claims that recite a practical application of a judicial exception."

To determine whether the claim is directed to a judicial exception, the USPTO points the examiner to the case law of the U.S. Court of Appeals for the Federal Circuit and the Supreme Court.

This clearly marks a place in the analysis where the patent practitioner should be able to draft claims and make arguments based on analogous case law.

The revised guidelines at pages 20-21 specifically list exemplary and non-exclusive "considerations" indicative that judicial exception has been integrated into a practical application, including when an additional element:

- Reflects an improvement in the functioning of a computer, or an improvement to other technology or technical field.
- Applies or uses a judicial exception to effect a particular treatment or prophylaxis for a disease or medical condition.

- Implements a judicial exception with, or uses a judicial exception in conjunction with, a particular machine or manufacture that is integral to the claim.
- Effects a transformation or reduction of a particular article to a different state or thing.
- Applies or uses the judicial exception in some other meaningful way beyond generally linking the use of the judicial exception to a particular technological environment, such that the claim as a whole is more than a drafting effort designed to monopolize the exception.

If the claim is not integrated into a judicial exception, then the claim is "directed to" the judicial exception, and one must analyze it under step 2B and prong 3.

One interesting part of the analysis from the revised guidelines is that it specifically excludes evaluations of whether the additional element is well-understood, routine, conventional activity from the analysis of step 2A.

In fact, the Patent Office expressly admits that a claim that includes conventional elements may still integrate the exception into a practical application and thus be patent eligible.

Instead, the analysis with respect to well-understood, routine, conventional activity has been shifted to step 2B and prong 3.

STEP 2B: EVALUATE WHETHER THE CLAIM PROVIDES AN INVENTIVE CONCEPT

A claim that does not integrate a judicial exception into a practical application may nonetheless be patent eligible if the additional elements recited in the claims provide "significantly more" than the judicial exception.

More specifically, if the element is unconventional and is more than well-understood, routine, conventional activity in the field, the claim may have an inventive concept (i.e., additional elements that amount to significantly more than the judicial exception itself) that makes the claim patent eligible.

Whether any additional elements amount to significantly more may depend on whether the additional element or combination of elements "adds a specific limitation or combination of limitations that are not well-understood, routine, conventional activity in the field, which is indicative that an inventive concept may be present" or instead "simply appends well-understood, routine, conventional activities previously known to the industry, specified at a high level of generality, to the judicial exception, which is indicative that an inventive concept may not be present."

One specific example of a situation where additional elements may provide significantly more relates to data gathering.

In this example, the USPTO states that the examiner may consider the data gathering steps to be insignificant extra-solution activity under revised step 2A, but may then determine under step 2B that the data is gathered in an unconventional way and therefore includes an "inventive concept" that makes the claim patent eligible under step 2B.

However, a claim that does not meaningfully integrate the judicial exception into a practical application and does not include additional subject matter that amounts to significantly more should be rejected as patent ineligible.

> To determine whether the claim is directed to a judicial exception, the USPTO points the examiner to the case law of the U.S. Court of Appeals for the Federal Circuit and the Supreme Court.

USE CAUTION IN DRAFTING CLAIMS

Given the analysis under the revised guidelines, it is advisable that the patent practitioner stay away from the categories enumerated by the Patent Office under prong 1 of the analysis.

In some circumstances, this may not be possible. In those cases, whenever it is possible to do so patent practitioners should draft claims that are analogous to patent eligible claims that are either written in Federal Circuit or Supreme Court cases or that clearly and unequivocally fall under the principles of patent eligibility in those cases.

Such claims are more likely to be considered integrated into a practical application of a judicial exception and thus be patent eligible under prong 2.

When it is not possible to draft claims based on favorable existing case law, the patent practitioner should attempt to identify what is unconventional about a client's invention and focus the claims on those unconventional features to satisfy prong 3 of the analysis under the revised guidelines. WJ

PATENT

PTO director tells Congress it is time to retire 'patent troll' label

(Reuters) – U.S. Patent and Trademark Office director Andrei Iancu on March 13 said during an oversight hearing on Capitol Hill that he dislikes the term "patent troll," calling it "counterproductive."

"I think we should avoid pejorative terms that paint with a broad brush and fail to identify specific problems that would allow us to turn to specific solutions," said Iancu, a Trump appointee confirmed in February 2018.

Iancu made the remarks during wide-ranging testimony before the U.S. Senate Judiciary Committee's subcommittee on intellectual property.

Sen. John Cornyn, a Texas Republican, had asked Iancu for his thoughts on "patent trolls" without explaining his definition of the term.

The term is often used to refer to patent owners that threaten a large number of companies with nuisance infringement lawsuits and then collect low-value settlements.

But the "troll" label has also been used more generally in the technology press to refer to entities that monetize patents but don't make products of their own.

The perception that trolls were flooding corporate America, especially big tech companies, with frivolous litigation led Congress to pass the America Invents Act of 2011 creating the Patent Trial and Appeal Board, which has the power to invalidate patents through streamlined post-grant proceedings.

U.S. Patent and Trademark Office

U.S. Patent and Trademark Office Director Andrei Iancu

Cornyn said that abusive litigation by patent owners remains a concern for a wide range of businesses, including both "main street" shops and technology firms.

The senator brought up a recent report by the publication MacRumors that Apple Inc. had closed two stores in the Eastern District of Texas, a jurisdiction favored by patent plaintiffs, in what is widely believed to be a move to avoid patent litigation in that forum.

Apple issued a statement confirming the store closings but did not explain the company's reasons.

"That litigation is so burdensome to Apple that it would close these two profitable stores, one of which generates more than $70 million in annual sales, strikes me as a pretty dramatic and drastic move," Cornyn said.

Iancu responded that he was concerned about "all sorts of abuse from all sides," including the use of "blunderbuss demand letters sent out without a reasonable basis to many entities."

Iancu added, "What I want to make sure though is that we identify specifically what the abuse is so we can work on solutions to eliminate it." WJ

(Reporting by Jan Wolfe)

PATENT

Patent office veteran elevated to chief PTAB judge

(Reuters) – The U.S. Patent and Trademark Office on March 13 said it had appointed longtime employee Scott Boalick to the role of chief judge of the Patent Trial and Appeal Board, the administrative court empowered to invalidate granted patents.

Boalick had served as the acting chief judge of PTAB since September 2018, when his predecessor David Ruschke stepped down and accepted a new position in the agency as a senior adviser.

"The USPTO has implemented key PTAB reforms over the last year, and Scott Boalick has been essential in helping develop and carry out these updates," said PTO director Andrei Iancu in a statement. "Chief Judge Boalick will continue leading PTAB's efforts to ensure that its proceedings are balanced and transparent."

Iancu said Boalick will help implement new guidance issued by the agency in January on how to interpret Section 101 of the Patent Act, which deals with patentable subject matter.

The new PTO guidance seeks to provide clarity on what constitutes the sort of "abstract ideas" that the U.S. Supreme Court has said in recent cases are not eligible for patenting.

Congress created PTAB through the America Invents Act of 2011 to offer a streamlined, low-cost alternative to patent litigation in federal court.

Many technology companies have flocked to the forum, saying it has helped them quickly and cheaply defeat abusive patent lawsuits. But some inventors have argued PTAB is biased against them and is too quick to invalidate patents on legitimate innovations.

In addition to conducting post-grant review proceeding, PTAB hears appeals of patent application rejections by examiners.

Boalick has held a number of roles at PTAB and a predecessor body, the Board of Patent Appeals and Interferences, since 2007.

Earlier in his career Boalick practiced at intellectual property law firm Fish & Richardson and worked as a patent attorney for the Department of the Navy.

The PTO also announced March 13 that Jacqueline Bonilla had been appointed as the deputy chief judge of the PTAB.

Bonilla, a former Foley & Lardner partner who joined the PTO in 2012, held that role in an acting capacity since September. WJ

(Reporting by Jan Wolfe)

PATENT

Generic drugmakers say sovereign immunity patent claim has 'myriad problems'

By Patrick H.J. Hughes

Allergan should not be allowed to stop the review of its patents merely because it transferred ownership to an American Indian tribe, according to a brief filed in opposition to St. Regis Mohawk Tribe's petition for certiorari.

Saint Regis Mohawk Tribe et al. v. Mylan Pharmaceuticals Inc. et al., No. 18-899, opposition brief filed, 2019 WL 1080896 (U.S. Mar. 6, 2019).

Generic drugmakers Mylan Pharmaceuticals Inc., Teva Pharmaceuticals USA Inc. and Akorn Inc. ask the U.S. Supreme Court to recognize that tribal sovereign immunity cannot be asserted in an inter partes review proceeding, one of the ways the U.S. Patent and Trademark Office sees if patents were mistakenly issued.

> The tribe says the Supreme Court should decide if any sovereign entity should have the right to exclude its patents from review.

The U.S. Court of Appeals for the Federal Circuit said tribal sovereign immunity could not shield patents from the process because the PTO is an agency that serves the public by reviewing patents, regardless of who is feuding over infringement claims. *Saint Regis Mohawk Tribe v. Mylan Pharm. Inc.*, 896 F.3d 1322 (Fed. Cir. 2018).

The St. Regis Tribe says the Supreme Court should decide if any sovereign entity should have the right to exclude its patents from review, a right that has been exercised at the PTO and in courts.

But Allergan transferred its patents for Restasis, a drug for treating chronic dry eye disease, to the St. Regis Tribe "for the improper purpose of defeating federal agency jurisdiction," the opposition brief says.

With the "myriad problems" involved in this dispute, "this is not the case in which to decide the issue," the brief says.

PATENT REVIEW: 'IMPORTANT PUBLIC PURPOSE'

Allergan is the owner of numerous patents related to an eye treatment method used to apply cyclosporine, the active ingredient in Restasis.

In August 2015 Allergan filed suit against several generic drugmakers, accusing them of infringing the Restasis patents through the filing of abbreviated new drug applications with the Food and Drug Administration.

In June 2016, one of those generics, Mylan, filed petitions with the PTO's Patent Trial and Appeal Board to institute inter partes review proceedings for the patents.

The PTAB agreed to review the patents for validity and instituted the review process in December 2016.

In September 2017 the St. Regis Tribe, a federally recognized Mohawk population in New York with more than 15,000 members, informed the PTAB that it had acquired the patents from Allergan and moved to dismiss the proceedings.

The PTAB denied the Tribe's motion to terminate. *Mylan Pharm. Inc. v. Saint Regis Mohawk Tribe*, No. IPR2016-01127, 2018 WL 1100950 (P.T.A.B. 2018).

A federal agency granted the patents and that agency can review them, the PTAB said. This is an "important public purpose," and the review proceedings cannot "merely serve as a forum for the parties to resolve private disputes that only affect themselves," it said.

The St. Regis Tribe appealed, arguing that the federal government has recognized the St. Regis Tribe as a sovereign state that has made diverse investments to overcome economic disadvantages.

The PTAB has granted sovereign immunity to state universities and other countries and it should extend that same right to the St. Regis Tribe, it said.

After the Federal Circuit found tribal sovereign immunity could not be asserted in any inter partes review proceedings, the St. Regis Tribe appealed again.

'ABUSE OF TRIBAL SOVEREIGN IMMUNITY'

In its certiorari petition, the tribe asks the justices to decide whether an American Indian tribe — "or indeed any sovereign" — may assert sovereign immunity in an inter partes review.

While the Federal Circuit decided that inter partes reviews are hybrid proceedings, the Supreme Court has called them an adversarial process similar to litigation, the petition says.

The Federal Circuit said its decision only applies to tribal immunity, but that decision was based on the attributes of inter partes review proceedings, so it could apply to other sovereign states despite the PTAB's current practice of granting immunity to state universities and other entities, the petition says.

In their opposition brief, Mylan, Teva and Akorn say the certiorari petition is "mistaken at every turn."

State and foreign sovereign immunity differ from the way the doctrine is applied to American Indian tribes, which are subject to comprehensive regulatory schemes, the brief says.

For instance, the 11th Amendment provides sovereign immunity to state organizations such as universities, and that amendment does not apply to American Indian tribes, the brief says.

The Federal Circuit has called an inter partes review a hybrid proceeding, with attributes like a court proceeding, but that also means it shares characteristics with agency actions, and as such can be like a grant rather than an adversarial process, it says.

Even if a tribe could assert sovereign immunity in an inter partes review, the St. Regis Tribe should not be allowed to stop the proceeding because it is not the real party in interest, according to the drugmakers.

The tribe did not make any investment in the Restasis patents and was only approached by Allergan to further a scheme to protect the patents from being invalidated, the brief says.

The St. Regis Tribe is not an indispensable party in any sense, so the high court should reject its petition as "an abuse of tribal sovereign immunity," the brief concludes.

The St. Regis Tribe filed its reply to the opposition brief March 18. WJ

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Related Filings:
Opposition brief: 2019 WL 1080896
Petition for certiorari: 2018 WL 7020877
Federal Circuit opinion: 896 F.3d 1322
Appellees' brief: 2018 WL 2234327
Appellant's brief: 2018 WL 1989302
P.T.A.B. decision: 2018 WL 1100950

See Document Section A (P. 19) for the opposition brief.

COPYRIGHT

Another copyright suit says 'Gimme Some Lovin'' infringes '60s jazz tune

By Patrick H.J. Hughes

"Gimme Some Lovin'," the classic rock song with Steve Winwood on vocals, infringes a tune penned by a pair of Memphis jazz scribes, according to a suit filed by plaintiffs who are simultaneously appealing a similar dispute.

Parker et al. v. Davis, No. 19-cv-214, complaint filed, 2019 WL 1109391 (M.D. Tenn. Mar. 8, 2019).

Songwriting collaborators Homer Banks and Willa Dean "Deanie" Parker composed "Ain't That a Lot of Loving," which includes a riff that the suit says was used in the Spencer Davis Group's 1966 hit.

Banks' widow, Rose, and Parker filed the suit March 8 in the U.S. District Court for the Middle District of Tennessee, naming as the sole defendant guitarist Spencer Davis, "individually and as representative of" the band.

The British band, which along with Davis consisted of Steve and brother Mervyn "Muff" Winwood, are credited with writing "Gimme Some Lovin'" in the mid-1960s, before Steve left to join the group Traffic and later perform as a solo act.

Banks and Parker first filed a complaint in March 2016 against the Winwood brothers, Davis, the band, Kobalt Music Publishing and Universal-Songs of Polygram International Inc.

In that suit, U.S. District Judge Jon P. McCalla said his Nashville court lacked personal jurisdiction over Muff Winwood and Universal could not be named as a defendant because it was a partial owner of the allegedly infringed work. *Parker v. Winwood*, No. 16-cv-684, 2017 WL 6886076 (M.D. Tenn. Oct. 17, 2017).

Judge McCalla also said Banks and Parker failed to show those defendants had access to "Ain't That a Lot of Loving," which the U.S. Copyright Office registered in April 1966.

The defendants said they created "Gimme Some Lovin'" around the same time Banks and Parker registered "Ain't That a Lot of Loving" and several months before it was released in the U.K.

Banks and Parker filed an appeal to the 6th U.S. Circuit Court of Appeals in March 2018. That case remains pending.

'BORROWED RIFF'

According to the instant suit, Banks and Parker were working for a record label in 1966 in Memphis, producing hits for Isaac Hayes, Otis Redding and Sam & Dave, among other artists.

The plaintiffs say they have proof Davis and his collaborators ripped off musical features of "Ain't That a Lot of Loving," which is

REUTERS/Shannon Stapleton

Spencer Davis, the sole defendant in the infringement suit, is pictured here rehearsing in New York in 2006.

sometimes referred to as "Ain't That a Lot of Love" or "Whole Lot of Lovin'."

Davis admitted as much in a 1988 interview with Billboard magazine, when the guitarist said, "Muff had a bass riff from an old record by Homer Banks … called "Whole Lotta Lovin'." I hadn't heard that song, but I thought the riff Muff was playing was fantastic," according to the suit.

Steve Winwood posted an interview on his professional website with another member of Traffic, who said "Gimme Some Lovin'" had a "borrowed riff," the suit says.

The suit quotes a music historian's book that mentions how Banks and Parker's song's "heavy staccato opening and soaring melody morphed into the Spencer Davis Group hit."

The suit also includes a report from a musicologist who said the two works "exhibit a clear and unmistakable overall similarity of sound …. This combination of identical and similar compositional features, in my opinion, is extremely unlikely to have been the result of independent creation."

HEARSAY?

In the 2016 suit, Judge McCalla found that the evidence the plaintiffs submitted constituted hearsay, impermissible to show a "reasonable possibility" that the band members had access to the allegedly infringed work.

That issue is also on appeal.

The plaintiffs say that because they registered their work in the U.S. before the Spencer Davis Group did, they are entitled to statutory damages pursuant to Section 412 of the Copyright Act, 17 U.S.C.A. § 412.

They also say that under Section 504(d) of the act, 17 U.S.C.A. § 504(d), they should collect royalties for all infringing actions within the past three years, the limitations period for copyright infringement suits.

They seek treble and punitive damages, equitable relief, attorney fees and costs. WJ

Attorneys:
Plaintiffs: Taylor A. Cates and Lani D. Lester, Burch, Porter & Johnson, Memphis, TN

Related Filings:
Complaint: 2019 WL 1109391
Appellants' brief: 2018 WL 2357594
District Court opinion: 2017 WL 6886076

COPYRIGHT

Online garden center's alleged photo infringement feeds copyright suit

By Sanaa A. Ansari

Online plant nursery Wilson Bros Gardens has infringed a horticultural library's copyrighted plant photo by publishing the image on its website to promote and sell its nursery products, according to a Georgia federal court lawsuit.

Garden World Images Ltd. v. WilsonBrosGardens.com LLC, No. 19-cv-1035, complaint filed, 2019 WL 1060197 (N.D. Ga. Mar. 5, 2019).

Horticultural image library Garden World Images Ltd. claims in a suit filed March 5 in the U.S. District Court for the Northern District of Georgia that Wilson Bros unlawfully reproduced the gardening archive's photo in violation of copyright law.

Garden World was established in 1951 as a horticultural image library with "unique high-quality" plant photos for use in publications and media, according to the complaint.

Georgia-based Wilson Bros, founded in 1989, sells plants and trees online to the public at WilsonBrosGardens.com.

The suit alleges the online retailer illegally used Garden World's copyrighted photo "BEP112115" depicting a leafy green plant to promote its internet nursery business.

Garden World registered all rights to the image created in 2009 with the U.S. Copyright Office on April 1, 2012, according to the complaint.

Wilson Bros never obtained a license or asked permission to use Garden World's copyrighted photos, the suit says.

Garden World says it sent Wilson Bros notices of the alleged infringement Oct. 25 and Nov. 27, but the parties have failed to resolve the matter.

Garden World seeks injunctive relief, damages, Wilson Bros' profits from use of the photo and attorney fees. WJ

Related Filings:
Complaint: 2019 WL 1060197

Trademarkia trademark owner loses claims over 'trademarkia' domain

By Patrick H.J. Hughes

LegalForce Inc. cannot proceed with its latest suit against competitor LegalZoom.com Inc. because it did not show injury to its Trademarkia trademark advice service from LegalZoom's use of the domain name legalzoomtrademarkia.com, a San Francisco federal judge has ruled.

LegalForce Inc. v. LegalZoom.com Inc., No. 18-cv-7274, 2019 WL 1170779 (N.D. Cal. Mar. 13, 2019).

U.S. District Judge Maxine M. Chesney of the Northern District of California on March 13 granted online law service LegalZoom's motion to dismiss but gave plaintiff LegalForce the chance to amend its complaint by April 5.

Mountain View, California-based law firm LegalForce federally registered a Trademarkia trademark in 2011, three years before competitor LegalZoom started using the disputed domain, according to the judge's opinion.

Still, the judge said, LegalForce did not show it has standing to assert its trademark infringement and cyberpiracy allegations because its claims of lost revenues and injury to reputation were only "conclusory in nature."

LEGALFORCE'S COMPLAINTS

LegalForce says on its website that it has operated its Trademarkia trademark watch and monitoring service at trademarkia.com since 2009.

It says in court documents that it registered a legalforcetrademarkia.com domain, which resolves to the site of its trademark service, in 2013.

In addition to registering a Trademarkia mark, LegalForce federally registered a trademark for "LegalForce Trademarkia" in January, claiming use in commerce since 2012.

Glendale, California-based LegalZoom offers many of the same services that Trademarkia does. Visitors to legalzoomtrademarkia.com are redirected to legalzoom.com, which resolves to its online legal advice website.

In December 2017, LegalForce filed a lawsuit in California's Northern District, accusing LegalZoom of employing unqualified workers to give trademark advice online.

The suit said LegalZoom's services violated federal false-advertising laws and California unfair-competition laws. It also named the U.S. Patent and Trademark Office and several state bar associations as defendants for allegedly conspiring with LegalZoom to restrain trade.

After Judge Chesney dismissed that suit for failure to state a claim, LegalForce refiled those allegations in the U.S. District Court for the Central District of California, but the Los Angeles federal judge ruled in November that the Northern District was the proper venue.

While the false-advertising and unfair-competition claims were pending in Los Angeles, LegalForce filed a trademark suit in July 2018 in California's Northern District, naming LegalZoom as the sole defendant.

Among the allegations in its most recent suit, LegalForce accused LegalZoom of infringing the Trademarkia registered trademark in violation of Sections 32 and 43(a) of the Lanham Act, 15 U.S.C.A. §§ 1114 & 1125(a).

It also said LegalZoom was liable for cyberpiracy, pursuant to Section 43(d)(1) of the Lanham Act, 15 U.S.C.A. § 1125(d)(1).

The complaint said LegalZoom was trying to cash in on Trademarkia's "hard-earned fame and reputation," by registering a domain confusingly similar to LegalForce's Trademarkia mark, offering the same services in the same channels of commerce.

"LegalZoom intentionally misleads consumers into thinking that they are going to Trademarkia's website when they enter LegalZoomTrademarkia.com … or that LegalZoom has acquired or merged with Trademarkia, or that LegalZoom and Trademarkia are affiliated," the complaint said.

LegalForce said it had suffered financially from LegalZoom's actions, with a 70 percent drop in revenues from 2012 to 2017. LegalForce also claimed it lost market share and had to pay more for its advertising.

JUDGE DOES NOT 'ASSUME THE TRUTH'

LegalZoom said LegalForce failed to show any injury from "putatively illegal action" and therefore lacks standing.

Judge Chesney agreed. Allegations of lost sales and damage to reputation can be sufficient to establish standing for Lanham Act claims, but courts cannot "assume the truth" of such allegations merely because they were presented as facts, she said.

LegalForce showed Trademarkia's trademark watch and monitoring services dropped from 2012 to 2017, but losses from 2012 through March 2014 could not be blamed on LegalZoom, which started using the domain in April 2014, the judge noted.

And LegalForce provided no evidence that LegalZoom was responsible for whatever loss of revenue Trademarkia experienced beginning in April 2014, the judge concluded. WJ

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Defendant: Michelle C. Doolin, Cooley LLP, San Diego, CA

Related Filings:
Order granting dismissal: 2019 WL 1170779

London-based Paysafe loses venue fight in trademark case

(Reuters) – A trademark lawsuit Paysafe Group PLC filed against a smaller company using the "Paysafe" brand name must be moved to Colorado, a federal judge in Manhattan said March 11.

Paysafe Holdings UK Ltd. et al. v. Accruit LLC et al., No. 18-cv-75, 2019 WL 1115054 (S.D.N.Y. Mar. 11, 2019).

U.S. District Judge Edgardo Ramos granted a request by the defendant in the case, Denver-based financial technology firm Accruit LLC, to transfer the case on convenience grounds.

London-based Paysafe Group offers prepaid cash cards and online wallets frequently used for online gambling. Private equity firms Blackstone Group LP and CVC Capital Partners acquired the company for $3.9 billion in 2017.

Accruit serves as an intermediary for commercial transactions and offers escrow services under the brand name PaySAFE Escrow.

Both Paysafe Group and Accruit hold U.S. trademark rights relating to the brand name "Paysafe." Paysafe registered the term in connection with certain financial services, while a company acquired by Accruit, Paysafe LLC, registered it for escrow services.

Paysafe Group sued in January 2018, seeking a declaratory judgment that it did not infringe on Accruit's trademark rights because consumers would not confuse their services.

Accruit sought a transfer of the case to Colorado, saying it had virtually no sales in New York.

Paysafe argued that venue was proper in New York because both companies offered their services in the state. Colorado would be "highly inconvenient" for Paysafe, which has a subsidiary with an office in Manhattan, the company said.

Judge Ramos sided with Accruit in the March 11 ruling, saying various factors, "when considered together, overwhelmingly favor transfer of this action to the District of Colorado."

The judge put little stock in an argument by Paysafe that it would be more convenient for witnesses residing in the U.K. to travel to New York. If courts were to accept this line of argument, the Southern District of New York would become the venue for most trans-Atlantic disputes, he said. WJ

(Reporting by Jan Wolfe)

Related Filings:
Opinion: 2019 WL 1115054
First amended complaint: 2018 WL 6304601

High court nixes review of ruling that asset buyer did not get patent license

By Donna Higgins

The U.S. Supreme Court has let stand a federal appeals court's ruling that a company purchasing the assets of three bankrupt medical technology companies did not acquire, at the same time, a license for a patented system that allows drugs to be dispensed remotely.

RPD Holdings LLC v. Tech Pharmacy Services, No. 18-988, cert. denied, 2019 WL 358426 (U.S. Mar. 18, 2019).

Petitioner RPD Holdings LLC had asked the high court to review a decision from the 5th U.S. Circuit Court of Appeals that said the license agreement was never part of the debtors' bankruptcy estates, so it could not have been included in the asset sales.

In its certiorari petition, RPD argued that the 5th Circuit wrongly decided an issue of first impression: What happens when a debtor fails to include an executory contract in its bankruptcy schedules?

An executory contract is one that requires continued performance from both parties.

The Bankruptcy Code states that all executory contracts that a debtor has not assumed by the relevant deadline are deemed rejected but says nothing about what happens to undisclosed contracts, RPD said in its petition.

PATENT INFRINGEMENT SUITS

Tech Pharmacy Services owned U.S. Patent No. 7,698,019, covering a system that allows pharmaceuticals to be dispensed remotely.

Tech Pharm filed patent infringement suits in 2010 against multiple parties, including a group of related entities that operated OnSite, a system for remotely distributing drugs to nurses in medical facilities through the use of dispensing machines and software, the 5th Circuit's opinion said.

The OnSite parties then filed counterclaims challenging the patent's validity, the opinion said.

Tech Pharm and the OnSite parties later reached a settlement under which all but one of the OnSite entities acquired a non-exclusive, perpetual license to use the patent, in exchange for paying a $4,000 fee for each machine placed into operation after the settlement agreement was executed, according to the opinion.

The pact also required each OnSite entity to provide quarterly reports showing all new machines placed into service, the opinion said.

During 2012 and 2013, six of the OnSite entities, five of which had settled with Tech Pharm, filed separate Chapter 11 bankruptcy cases in the U.S. Bankruptcy Court for the Northern District of Texas. Each case was later converted to Chapter 7.

RPD, a secured creditor, purchased its collateral from three of the bankruptcy estates, but none of the purchase agreements mentioned the patent license, the opinion said.

After the Bankruptcy Court approved those sales, the opinion said, the trustees for the other three bankruptcy estates reached a "global agreement" with RPD and another secured creditor, CERx. That agreement divided the debtors' assets between RPD and CERx and provided that the two firms would own the OnSite source code.

About a year after the global agreement was approved, Tech Pharm sued several defendants, including two of the OnSite debtors, alleging they had failed to comply with their obligations under the license agreement, including paying the $4,000 fee and filing quarterly reports.

RPD intervened and removed the suit to the Bankruptcy Court, arguing that the debtors' estates had transferred the license agreement to RPD.

The Bankruptcy Court rejected RPD's assertion, saying the agreement had never been part of the OnSite debtors' bankruptcy estates, so the estates could not have transferred it to RPD. *Tech Pharmacy Servs. Inc. v. RPD Holdings LLC (In re Provider Meds LLC),* No. 13-30678, 2017 WL 213814 (Bankr. N.D. Tex. Jan. 18, 2017).

On appeal, the U.S. District Court for the Northern District of Texas affirmed. *Tech Pharmacy Servs. Inc. v. RPD Holdings LLC (In re Provider Meds LLC)*, No. 17-cv-441, 2017 WL 3764630 (N.D. Tex. Aug. 31, 2017).

RPD then appealed to the 5th Circuit, which affirmed. *RPD Holdings v. Tech Pharmacy Servs. (In re Provider Meds),* 907 F.3d 845 (5th Cir. 2018).

The company then petitioned the Supreme Court for review. The justices denied the petition without comment March 18. WJ

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Related Filings:
Order denying certiorari: 2019 WL 358426
5th Circuit opinion: 2018 WL 5317445

Debtor's Utah suit over movie filtering must yield to California case, Utah judge says

By Donna Higgins

A Utah federal judge has dismissed a Chapter 11 debtor's suit seeking to disallow copyright infringement claims by several movie studios that sued the debtor in California federal court more than two years ago over its streaming service that removes objectionable content from films.

VidAngel Inc. v. Disney Enterprises Inc. et al., No. 18-cv-145, 2019 WL 1099708 (D. Utah Mar. 8, 2019).

The California case was filed well before debtor VidAngel Inc. filed for bankruptcy and is further along, U.S. District Judge David Nuffer of the District of Utah said, abstaining from exercising jurisdiction over the adversary complaint.

PRIOR LITIGATION

VidAngel Inc. filed for Chapter 11 bankruptcy in October 2017 in the U.S. Bankruptcy Court for the District of Utah. The Provo, Utah-based company's service allows users to filter violence, profanity and sexually explicit content from movies.

The year before the bankruptcy filing, four movie studios — Disney Enterprises Inc., LucasFilm Ltd., Twentieth Century Fox Film Corp. and Warner Bros. Entertainment — had filed a copyright infringement suit against VidAngel in the U.S. District Court for the Central District of California.

The District Court granted the studios a preliminary injunction blocking VidAngel's streaming service. The court held that the studios were likely to succeed on their infringement claims and had demonstrated that, without an injunction, they were likely to suffer an irreparable injury. *Disney Enters. v. VidAngel Inc.,* 224 F. Supp. 3d 957 (C.D. Cal. 2016).

That decision was affirmed by the 9th U.S. Circuit Court of Appeals in August 2017, shortly before VidAngel filed for bankruptcy. *Disney Enters. Inc. v. VidAngel Inc.*, 869 F.3d 848 (9th Cir. 2017).

Following VidAngel's bankruptcy filing, the studios filed a motion to lift the automatic stay, which the Bankruptcy Court granted. *In re VidAngel Inc.,* No. 17-29073, 2018 WL 5905867 (Bankr. D. Utah Nov. 9, 2018).

FIRST-TO-FILE RULE APPLIES

VidAngel filed an adversary action in the Bankruptcy Court in February 2018, seeking to disallow the studios' claims and to obtain a court ruling that it did not infringe the studios' copyrights.

The U.S. District Court for the District of Utah granted VidAngel's request to "withdraw the bankruptcy reference" and transfer the suit to that court.

The Utah District Court, after ordering briefing on jurisdictional issues, concluded that it should abstain from exercising jurisdiction over the adversary action.

There is no question that the Utah District Court has jurisdiction under 28 U.S.C.A. § 1334(b), because the adversary action "arises in" and is "related to" VidAngel's Chapter 11 case, Judge Nuffer said.

Section 1334(c)(1) allows district courts to abstain from exercising that jurisdiction when doing so would "serve the interest of justice," he said.

In cases where two federal suits are pending, the 10th U.S. Circuit Court of Appeals, which includes Utah, has instructed that courts should examine three factors to determine whether the "first to file" rule should apply.

Here, Judge Nuffer said, all three of those factors — the chronology of events, similarity of the parties, and similarity of the issues or claims — favor abstention.

The parties and issues in the adversary action and the California District Court action "substantially overlap," and the California case was filed more than 20 months before VidAngel filed for bankruptcy, he said.

"Overall, abstention from exercising jurisdiction over the adversary complaint is merited," he concluded. WJ

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Defendants: Brent O. Hatch, Hatch James & Dodge, Salt Lake City, UT

Related Filings:
Opinion: 2019 WL 1099708

Insurer can snip coverage for fashion designer's IP row with licensing partner

By Thomas Parry

Hartford Fire Insurance Co. can enforce a pair of exclusions that bar coverage for a fashion designer facing claims that she breached a contract made with her licensing partner, a Manhattan federal judge has ruled.

Lepore et al. v. Hartford Fire Insurance Co., No. 18-cv-689, 2019 WL 1129614 (S.D.N.Y. Mar. 12, 2019).

U.S. District Judge Katherine P. Failla of the Southern District of New York found that both an intellectual-property exclusion and a breach-of-contract exclusion in designer Nanette Lepore's commercial general liability policy clearly applied to relieve Hartford of its coverage duties.

Judge Failla found that underlying infringement allegations fell within the broad IP exclusion.

And because Lepore's licensing partner was suing her only for alleged breaches of their licensing agreement, the suit also triggered the breach-of-contract exclusion, the judge said.

LICENSING PARTNERS

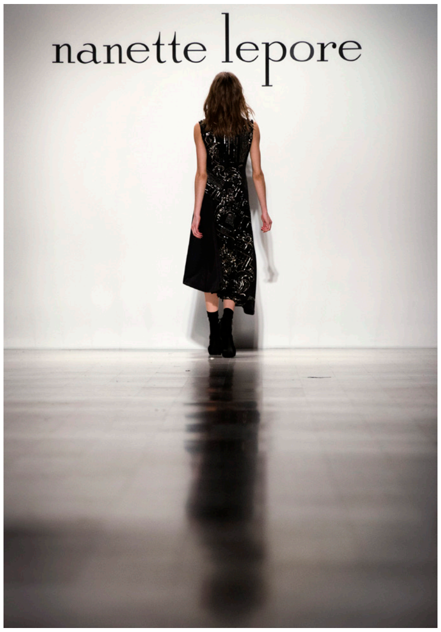
According to Judge Failla's opinion, Lepore, her husband and business partner Robert Savage, and their company Robespierre Inc. sold licensing rights in 2014 that included the "Nanette Lepore" trademarks, copyrights and social media accounts.

A group of buyers named in the opinion as NL Brand Holdings LLC paid millions of dollars for the rights and provided Lepore a minority ownership share in the new company, the opinion said.

In December 2016, NL filed an action in New York state court against Lepore, Savage and Robespierre, alleging breaches of the IP purchase agreement, the opinion said.

NL alleged that Lepore had ignored licensing restrictions connected to sales and pricing and had broken noncompete and nondisparagement obligations.

Additionally, NL asserted that Lepore had diminished the purchased rights by associating the brand with sexist language and support for Hillary Clinton's 2016 presidential bid, according to the opinion.



REUTERS/Brendan McDermid

The judge found that designer Nanette Lepore's commercial general liability policy did not cover the intellectual-property and breach-of-contract claims. Here, a model presents Nanette Lepore clothing during New York Fashion Week in 2014.

Lepore turned to Hartford for defense coverage under a series of CGL and umbrella policies, but the insurer refused, citing the IP and breach-of-contract exclusions.

The IP exclusion precluded coverage for "infringement or violation of any intellectual property right," according to the opinion.

The exclusion also contained a second paragraph that broadened its scope to include "damage alleged in any … 'suit' that also alleges an infringement or violation of any intellectual property."

The breach-of-contract exclusion blocked coverage for "'personal and advertising injury' arising out of a breach of contract," according to the opinion.

Lepore filed a declaratory action against Hartford in the Southern District of New York, arguing that the insurer owed a duty to defend the designer against the NL lawsuit.

Both Lepore and Hartford moved for summary judgment.

Lepore argued the second paragraph of the IP exclusion was so broad that it rendered the policy worthless, and that the exclusion was improperly buried within the policy.

She also contended that the defamation claims fell outside the exclusions.

Alternatively, Lepore asserted that the breach-of-contract exclusion lacked the words "actual or alleged," meaning that it could only apply to actual breaches.

2ND PARAGRAPH

Judge Failla granted summary judgment to Hartford.

The judge found that the second paragraph of the IP exclusion broadly banned coverage for any lawsuit that included allegations of IP violations.

Consequently, Judge Failla rejected Lepore's argument that NL's disparagement claims could escape the IP exclusion's reach, noting that the NL lawsuit clearly contained IP claims.

She explained that Lepore had failed to highlight any ambiguity and that other courts had found the exclusion clear and enforceable, despite its breadth.

The judge also noted that the exclusion was featured in a prominent policy endorsement and did not appear in footnotes or in fine print.

'NONSENSICAL' RESULT

Judge Failla also found that the breach-of-contract exclusion applied because the underlying suit made no claims that were independent of the licensing agreement between Lepore and NL.

The judge said NL specifically alleged that the defamatory language breached the licensing agreement.

Finally, she rejected Lepore's argument that the exclusion only barred actual breaches, explaining that would lead to the "nonsensical" result that Hartford had to defend against claims that, if proven true, would fall outside the policy. WJ

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Related Filings:
Opinion: 2019 WL 1129614

See Document Section B (P. 35) for the opinion.

Expert interview

CONTINUED FROM PAGE 1

declaring code and implementing code — are copyrightable, and Google's wholesale copying of over 11,000 lines of code and the structure, sequence and organization of its APIs to facilitate Java programmers writing apps for Google's Android system was not a fair use.

Google submits that the APIs are not copyrightable, and, even if they were, Google's interest in copying the APIs to facilitate Android system app development was a fair use.

The Federal Circuit ruled for Oracle on both issues.

The case addresses the copyrightability of APIs and the ability of third parties to copy their underlying software code in an effort to make interoperable programs.

In *Oracle v. Google I*, the Federal Circuit reversed the District Court's judgment that the Java APIs were not copyrightable, notwithstanding the jury's verdict of copyright infringement.

Second, the decision involves the somewhat complicated application of long-standing copyright doctrines — merger, scenes a faire, and the idea/expression dichotomy embodied in Section 102(b) of the Copyright Act — to software.

Third, in *Oracle v. Google II*, the Federal Circuit reversed the jury's verdict that Google's copying of substantial portions of Oracle's APIs — both the declaring code and structure, sequence and organization of the APIs — was a fair use excused from copyright infringement.

Fourth, a Supreme Court decision on copyrightability and fair use in the context of software interfaces would impact the use of existing software interfaces to build new programs, thereby significantly impacting the software industry.

> There is a long-standing circuit split on the issue of the copyrightability of software interfaces, Brian Darville says.

Last, Oracle's potential damages in the case have been estimated variously at between $8 billion and $9 billion, a number staggeringly large for a copyright software case (or any other case for that matter).

TR: Why should software owners register their works with the Copyright Office?

BD: As the U.S. Supreme Court made clear in *Fourth Estate Public Benefit Corp. v. Wallstreet.com LLC et al.*, No. 17-571, 2019 WL 1005829 (U.S. Mar. 4, 2019), "registration occurs, and a copyright claimant may commence an infringement suit, when the Copyright Office registers a copyright."

Apart from being a precondition for filing suit in federal court, timely copyright registration provides the ability for the prevailing party in a lawsuit to recover statutory damages and attorney fees, in the exercise of the court's discretion. (See Sections 504 and 505 of the Copyright Act, 17 U.S.C.A. §§ 504 & 505.)

The ability to recover statutory damages and fees provides tremendous leverage to plaintiffs in copyright litigation.

That leverage can lead to successful settlements or where a case is tried to a judgment, an award of attorney fees, which can be substantial.

TR: What does this mean for software companies and their relationships with independent contractors?

BD: Software companies often use both employees and independent contractors to write software code.

When employees write the code within the scope of their employment, the company owns the code by operation of law based on the definition of a "work made for hire" in the Copyright Act.

Section 101 of the Copyright Act, in part, defines a "work made for hire" as "(1) a work prepared by an employee within the scope of his or her employment."

Where independent contractors are involved, however, a "work made for hire" must be one of nine enumerated works in the statute and "the parties [must] expressly agree in a written instrument signed by them that the work shall be considered a work made for hire." 17 U.S.C.A. § 101.

Only a few of these nine enumerated works may cover software — a "contribution to a collective work," part of an "audiovisual work," or a "compilation" — and courts are divided on this issue.

Brian Darville, Esq., is senior counsel and chair of the trademark and copyright practice group at **Oblon**, one of the largest law firms in the United States focused exclusively on intellectual property law. He has over two decades of litigation experience in federal courts throughout the U.S. focused primarily on trademark and copyright litigation. He can be reached at bdarville@oblon.com.

So, when independent contractors are involved in writing code, software companies should have a written invention/creation disclosure and work made for hire agreement with the independent contractor requiring disclosure of the work, agreement that the work shall be considered a work made for hire, and an assignment of all right, title and interest in the work to the company.

This "belt and suspenders" agreement ensures that the company owns copyrights in the software it creates using independent contractors.

TR: Twice the District Court sided with Google, first ruling that the Java APIs were not copyrightable and then the jury returned a verdict that Google's actions constituted fair use. Both times the Federal Circuit reversed, siding with Oracle. Does this demonstrate a discrepancy between how ordinary people, federal judges and the top IP appeals court view software? Or view copyright law?

BD: The Federal Circuit's decisions reversing the District Court's decision that the Java APIs were not copyrightable and the jury's verdict that Google's copying of the APIs was a fair use demonstrates that the Federal Circuit viewed the technical evidence on these issues differently from how the District Court and jury viewed that evidence.

In reversing in *Oracle v. Google I*, the Federal Circuit held that, in light of the evidence and controlling precedent, the Java APIs were copyrightable.

In *Oracle v. Google II*, the Federal Circuit held that no reasonable jury could conclude that Google's copying of over 11,000 lines of code, where it only had to copy 170 lines of code for interoperability, was a fair use.

These decisions probably reflect the difficulty for juries in handling highly technical evidence, and the advantage to a reviewing appellate court of having the entire written record of the proceedings below in rendering a decision.

These decisions may also reflect that the Federal Circuit holds a strong view of the copyrightability of software interfaces, and that view informed its decision on fair use, particularly regarding the first and fourth fair use factors, namely, the overwhelming commercial nature of Google's use of the Java APIs and the substantial evidence of market harm to Oracle from Google's unauthorized copying of the Java APIs.

But Google has challenged the Federal Circuit's reversal of the jury's fair use verdict and its assessment and application of the fair use factors.

TR: These Federal Circuit decisions have garnered much criticism, especially from technology companies and open internet advocates. Is their criticism justified?

BD: Some of the criticism may be justified.

There is a long-standing circuit split on the issue of the copyrightability of software interfaces and the construction of Section 102(b), which precludes copyright protection for a "method of operation."

Some circuits view a finding that a software interface is a method of operation as conclusively precluding copyright protection for those interfaces under Section 102(b).

The Federal Circuit held that even if the Java APIs constitute a method of operation the protectable expression they include can still be copyrightable.

Resolving this issue would be one reason for the Supreme Court to grant certiorari.

Another criticism is that the Federal Circuit's reversal on the issue of fair use is an isolated instance in which a jury's fair use verdict in favor of a defendant was reversed on appeal.

However, the entire purpose of a motion for judgment as a matter of law is for the reviewing court to reverse a jury verdict if, based on the available evidence, no reasonable jury could reach the verdict that it reached.

If in fact, the evidence did not support the jury's verdict of fair use, it was the trial court's duty to grant Oracle's JMOL, and once it denied that motion, the issue was left to the Federal Circuit.

Google has challenged the Federal Circuit's reversal on fair use.

If the Supreme Court grants certiorari, the Federal Circuit's construction, application and weighing of the fair use factors and the relevant evidence will be in play.

Some software developers have taken the position that they are used to copying other's software code to ensure interoperability, but there are limits.

Significantly, Google only had to copy 170 lines of code to ensure interoperability.

It copied the 37 APIs in their entirety and their structure, sequence and organization — over 11,000 lines of code in total — so that programmers developing apps for Android mobile could use the programming shortcuts with which they were familiar from Java app development.

It was undisputed that the copied APIs could have been written in multiple ways, and Google could have written its own APIs.

It would have required more time and effort, and it would have required more effort by developers of mobile applications for Android mobile, but it could have been done.

Other commentators take the position that they are disappointed that the Federal Circuit reversed the jury finding that Java is open and free for everyone, but Google had sought a license from Oracle to use Java, but the negotiations broke down.

Google refused to make the implementation of its programs compatible with the Java virtual machine or interoperable with other Java programs, which violates Java's "write once, run anywhere" philosophy.

TR: As you know, the certiorari petition Google filed in January is its second petition for this case. The first asked if copyright law protects elements of software, a question the high court refused to answer. The second again asks essentially the same question, but also asks whether Google's actions constitute fair use.

Why ask the question twice? Is it fair to say Google just can't take "no" for an answer?

BD: Plainly, Google won't take "no" for an answer, but there is more at play here.

At the time of Google's original petition for certiorari, it was early in the case, such that the Federal Circuit's decision could be viewed as interlocutory, meaning much of the case remained unresolved.

Although the Supreme Court does not provide its reasons for denying certiorari, the interlocutory nature of the case may have played a role.

Now that the Federal Circuit has ruled for Oracle on the issue of fair use, only the damages phase of the case remains.

At this juncture, there are two issues which potentially could be dispositive of the case if the Supreme Court granted certiorari and ruled for Google.

If Google were to prevail on either copyrightability or fair use, the case would be over, and there would be no need for a trial on Oracle's damages.

So, if the Supreme Court believes either Federal Circuit decision may be erroneous, it may be more likely to grant certiorari this second time around.

If the Supreme Court doesn't grant certiorari, you can bet on a third petition for certiorari after a damages trial.

TR: If the Supreme Court decides to resolve the case, are there other copyright disputes that could be impacted by the high court's decision? How about software piracy cases?

BD: Any Supreme Court decision in the Google appeal could have substantial impact on the issue of copyrightability and the application of long-standing copyright doctrines such as the merger doctrine, scenes a faire doctrine, the noncopyrightability of names and short phrases, and Section 102(b), which prohibits copyright protection for a command structure, system or method of operation, among other things.

A decision on these subsidiary issues in assessing copyrightability (or as affirmative defenses) could have substantial impact on how these doctrines are applied in the software context, and could impact copyrightability of software interfaces.

Similarly, a Supreme Court decision on fair use also would carry great weight.

Assuming that the court does not invalidate copyrightability of software across the board, which is unlikely, piracy cases probably will not be impacted greatly by the decision.

Piracy cases typically involve willful, wholesale copying of an entire software program.

The programs are presumed to be copyrightable based on the issued copyright registration.

Although the fair use defense is available to piracy defendants, it typically does not alter the liability calculus in piracy cases because all or most fair use factors generally favor the plaintiff in a piracy case.

CASE AND DOCUMENT INDEX

SAINT REGIS MOHAWK TRIBE

2019 WL 1080896 (U.S.) (Appellate Petition, Motion and Filing)
Supreme Court of the United States.

SAINT REGIS MOHAWK TRIBE and Allergan, Inc., Petitioners,
v.
MYLAN PHARMACEUTICALS INC., Teva Pharmaceuticals USA, Inc., and Akorn, Inc., Respondents.
No. 18-899.
March 6, 2019.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

Brief for the Respondents in Opposition

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***i Question Presented**

The Patent Trial and Appeal Board of the Patent and Trademark Office instituted *inter partes* review of patents owned by Petitioner Allergan, Inc. Shortly before the final hearing, Allergan paid Petitioner Saint Regis Mohawk Tribe millions of dollars to take nominal title to the patents and assert sovereign immunity as a defense to any PTO review of patentability. At the same time, Allergan obtained from the Tribe an exclusive license to exploit the patents - a license that was "effectively co-extensive with the scope of the claimed inventions." Pet. App. 57a. The Tribe then moved to terminate the proceedings for lack of jurisdiction based on tribal sovereign immunity.

The Board denied the Tribe's motion for three independent reasons, holding that (a) tribal sovereign immunity cannot prevent the PTO from reassessing patentability through procedures established by Congress; (b) even if tribal sovereign immunity applied in *inter partes* reviews in general, it would not apply here because Allergan retained all substantial rights in and thus remained the owner of the patents; and (c) the Tribe was not in any event an indispensable party because Allergan retained control of the defense and would adequately represent the Tribe's interests. The Federal Circuit affirmed on the first ground and did not reach the others.

The question presented is:

May an Indian tribe that claims to acquire ownership of a patent assert tribal sovereign immunity in an *inter partes* review to prevent the PTO from completing its reconsideration of patentability?

***ii Rule 29.6 Statement**

Respondent Mylan Pharmaceuticals Inc. is wholly owned by Mylan Inc., which is indirectly wholly owned by Mylan N.V., a publicly held company.

The following entities are parent corporations or publicly held companies that own 10% or more of the stock of Respondent Teva Pharmaceuticals USA, Inc.: Teva Pharmaceuticals Holdings Cooperatieve U.A; IVAX LLC; Orvet UK; Teva Pharmaceuticals Europe B.V.; and Teva Pharmaceutical Industries Ltd.

Respondent Akorn, Inc. has no parent corporations, and no publicly held companies own 10% or more of its stock.

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*1 Introduction

The Federal Circuit correctly concluded that an Indian tribe's assertion of sovereign immunity cannot prevent the PTO from reconsidering the validity of PTO-issued patent claims in an *inter partes* review (IPR). Petitioners offer no reason why that decision warrants this Court's review. The Federal Circuit's decision was consistent with this Court's jurisprudence. There are no circuit splits. And contrary to Petitioners' assertion, the Federal Circuit expressly did not decide - and this case thus does not present - the question whether state or federal entities may invoke sovereign immunity in IPRs.

Moreover, even if the applicability of tribal sovereign immunity in IPRs were an issue worthy of this Court's review, this case would be an exceptionally poor vehicle for deciding it. What Petitioners delicately call their "business arrangement" (Pet. 9) was a cash-for-immunity deal in which Allergan paid the Saint Regis Mohawk Tribe to take nominal title to the patents and grant an exclusive license back to Allergan, leaving Allergan with all substantial rights in the patents and 99% of the revenue. This case is not a "clean []" vehicle for considering the question presented, as Petitioners claim (Pet. 35), but a deeply tainted one.

Indeed, the myriad problems with Petitioners' "business arrangement" mean that this Court's intervention would make no difference to the outcome. The PTAB correctly held that even if tribal ***2** sovereign immunity applied in IPRs generally, it would not bar IPR here because Allergan, not the Tribe, is the true owner of the patents. Pet. App. 47a-65a. As the PTAB found, Allergan's rights are "effectively co-extensive with the scope of the claimed inventions." *Id.* at 57a. The Tribe simply receives fixed royalty payments in exchange for allowing Allergan to shield its patent monopoly behind the Tribe's claim to sovereign immunity. The PTAB also properly determined that the Tribe is not indispensable to the proceedings, given its close alignment with Allergan on the merits and its contractual assignment to Allergan of the right to control the defense of the IPRs. *Id.* at 65a-70a.

Thus, even if the availability of tribal sovereign immunity in IPRs warranted this Court's attention, this is not the case in which to decide the issue. The Court should wait for a case in which the patents at issue are actually owned by a tribe, instead of by a private pharmaceutical company that has attempted to misappropriate tribal sovereign immunity to evade its obligations under federal law and preserve its patent monopoly.

Statement

A. The IPRs and Allergan's assignment of nominal patent ownership to the Tribe

The PTO issued patents to Allergan that cover Restasis®, a cyclosporine formulation marketed by Allergan for alleviating symptoms of "dry-eye." Respondents filed Abbreviated New Drug Applications with the Food and Drug Administration seeking approval to market generic versions of the drug. Allergan then sued Respondents in the ***3** District Court for the Eastern District of Texas alleging patent infringement under the Hatch-Waxman Act.

In addition to defending the lawsuit, Respondents filed IPR petitions asserting that claims of six Allergan patents should be canceled because they were obvious over prior art. The PTAB instituted review, and the IPRs proceeded normally for nine months. Pet. App. 5a, 30a. At that point, Allergan recognized that its patents were in trouble and that it faced the prospect of losing exclusivity over a drug that had generated over $1 billion in annual revenue. C.A.J.A. 1938, 2191.

A week before the final hearing, Allergan tried to derail the IPRs by paying the Tribe to take nominal title to the Restasis patents in exchange for the Tribe's agreement to assert sovereign immunity. Pet. App. 5a, 30a-31a. Allergan did so even though neither the Tribe nor any tribal entity or member had had anything to do with the conception, discovery, development, licensing, or marketing of Restasis.

This "business arrangement" (Pet. 9) had two components. First, Allergan assigned the patents to the Tribe, for no consideration other than the Tribe's promise not to waive sovereign immunity in the IPR proceedings or on appeal. C.A.J.A. 2565 § 12(i); *see also* C.A.J.A. 2597 § 10.8.9. The Tribe did "not invest[] any money" in the venture, has not paid for any PTAB or litigation expenses, and faces no downside risk. C.A.J.A. 1910-1911. Second, the Tribe simultaneously granted back to Allergan an "irrevocable, perpetual, transferable and exclusive" license under the patents "for all FDA- ***4** approved uses in the United States." C.A.J.A. 2578-2579 § 2.1. In exchange for this license, Allergan paid the Tribe $13.75 million up-front and promised ongoing royalties of $3.75 million per quarter. C.A.J.A. 2579-2580 §§4.1, 4.2; C.A.J.A. 2597 § 10.8.9; C.A.J.A. 2565 § 12(i).

Allergan structured the license so that the Tribe "owns" the patents in name only: Allergan continues to exercise all practical control over the patent rights and continues to receive the vast bulk (99%) of the revenue from sales of Restasis. Pet. App. 47a-65a. Allergan retains, among other things, the sole right to practice the patents for purposes of marketing Restasis products, the right to make all regulatory and litigation decisions about the patents, the right to control sublicenses, and the right to receive proceeds from litigation and licensing activities. C.A.J.A. 2575-2576, 25782579, 2581-2584, 2594, 2603 §§1.19, 1.31, 1.33, 2.1, 2.3, 3.1, 5.1.1, 5.2.2, 5.2.5, 5.3, 10.4 & Schedule 1.31. Allergan's rights are "perpetual" and "irrevocable," and the license will remain "in force either until the challenged patents expire or all the claims are rendered invalid in a non-appealable final judgment." Pet. App. 61a.[1]

***5** Petitioners' declared goal was to block the IPRs and prevent the PTAB from deciding that the claims are unpatentable. Allergan touted its strategy as "creat[ing] a playbook ... both for us and for others" to avoid IPRs. C.A.J.A. 1956. The Tribe, in turn, invited other patent owners "to pay [it] for holding [their] patents and protecting them" from exposure to IPRs. C.A.J.A. 1910. The Tribe characterized its sovereign immunity as an "arbitrage opportunity" because "there's a huge value difference between patents which can be subject to IPRs and patents that are not." C.A.J.A. 1914, 1921.

B. The district court's conclusion that all patent claims asserted in the litigation are invalid for obviousness

After Allergan and the Tribe entered into their arrangement, Allergan moved in the district court to join the Tribe as an additional plaintiff. The Tribe conceded that asserting infringement in the district court waived any claims of sovereign immunity to Respondents' invalidity counterclaims in that litigation. The Tribe made clear, however, that it nevertheless intended to assert sovereign immunity in any review by the PTAB.

The district court (Circuit Judge Bryson, sitting by designation) described Petitioners' arrangement as a scheme "to avoid the IPR proceedings that are currently pending in the PTO by invoking the Tribe's sovereign immunity as a bar to those proceedings." Supp. App. 5a. "If that ploy succeeds," the court observed, "any patentee facing ***6** IPR proceedings would presumably be able to defeat those proceedings by employing the same artifice." *Id.* at 5a. The court also expressed "serious reservations about whether the contract between Allergan and the Tribe should be recognized as valid, rather than being held void as being contrary to public policy." *Id.* at 6a (citing Restatement (Second) of Contracts §§ 178-179, 186 (1981)).

The district court also doubted whether the Tribe held any true ownership interest in the patents, noting that although "[s]ome provisions" of the agreement appeared to transfer nominal ownership rights, it was "questionable whether those rights have any practical value." *Id.* at 9a. "There is no doubt," the court continued, "that at least with respect to the patent rights that protect Restasis against third-party competitors, Allergan has retained all substantial rights in the patents, and the Tribe enjoys only the right to a revenue stream in the form of royalties." *Id.*

The district court nevertheless concluded that it did not need to decide the legality of Petitioners' enterprise because the Tribe was voluntarily joining the litigation as a plaintiff and waiving any claims of sovereign immunity from the invalidity counterclaims. The better course, the court concluded, was to add the Tribe to ensure that it would be fully bound by the court's resolution of Allergan's infringement claims and the defendants' invalidity counterclaims. *Id.* at 11a-13a.

On the merits, the district court found that representative claims of all four patents still asserted by Petitioners are invalid for obviousness. ***7** *Allergan, Inc. v. Teva Pharm. USA, Inc.,* No. 2:15-cv-1455-WCB, 2017 WL 4803941 (E.D. Tex. Oct. 16, 2017).

C. The PTAB's rejection of the Tribe's sovereign-immunity assertion

Meanwhile, at the PTO, the Tribe moved to terminate the long-pending IPR proceedings based on its sovereign immunity. Allergan later moved to withdraw from the IPRs on the ground that it no longer owned the patents. The PTAB denied both motions. Pet. App. 29a-80a. It denied the Tribe's motion to terminate on three independent grounds.

First, while acknowledging previous PTAB rulings deciding to terminate or not institute certain IPRs in view of a State's Eleventh Amendment immunity, the PTAB concluded that tribal sovereign immunity did not require termination of the IPRs. *Id.* at 39a-47a. The PTAB noted that the Eleventh Amendment does not extend to Indian tribes, which are subject to comprehensive federal regulatory schemes, and that "Indian tribes have not enjoyed immunity in other types of federal administrative proceedings used to enforce generally applicable federal statutes." *Id.* at 42a. The PTAB also explained that IPRs do "not adjudicate[e] any claims in which [a party] may seek relief from the Tribe." *Id.* at 45a. Instead, the PTAB's authority "is limited to assessing the patentability of the challenged claims." *Id.*

Second, the PTAB concluded that even if an Indian tribe could assert sovereign immunity in an IPR when it actually owned the challenged patent, ***8** these IPRs should nevertheless continue because Allergan remains the true owner of the Restasis patents. *Id.* at 48a. The PTAB based this determination on a close examination of the license agreement, which it found had "transferred 'all substantial rights' in the challenged patents back to Allergan." *Id.* at 47a-65a.

Third, the PTAB determined that the IPRs could continue without the Tribe's participation because the Tribe was not an indispensable party and Allergan could sufficiently represent the Tribe's interests. *Id.* at 65a-70a. The PTAB found "particularly relevant" the Tribe's contractual agreement with Allergan that "Allergan shall retain control of the defense" of the patents in the IPRs, related litigation, and all appeals, with the Tribe limited to assisting as instructed by Allergan. *Id.* at 63a. The PTAB concluded that the Tribe could not claim to be indispensable when, by contract, Allergan "retained the primary right to defend the challenged patents in these proceedings." *Id.*

D. The Federal Circuit's affirmance of the PTAB's ruling

Allergan and the Tribe sought interlocutory review of the PTAB's decision. The Federal Circuit stayed the IPR proceedings pending appeal, but a unanimous panel ultimately affirmed the PTAB's ruling that tribal sovereign immunity cannot prevent the PTO from conducting an IPR. Pet. App. 1a-28a.

Judge Moore's opinion for the court recognized that IPR "is a 'hybrid proceeding' with ***9** 'adjudicatory characteristics' similar to court proceedings, but [that] in other respects it 'is less like a judicial proceeding and more like a specialized agency proceeding.' " Pet. App. 8a (quoting *Cuozzo Speed Techs., LLC v. Lee,* 136 S. Ct. 2131, 2143-44 (2016)). "Ultimately, several factors convince[d the court] that IPR is more like an agency enforcement action than a civil suit brought by a private party" and hence that "tribal immunity is not implicated." *Id.* at 9a. The panel pointed to the PTO Director's unreviewable discretion whether to institute review; the PTAB's authority to determine patentability even in the absence of one or both parties; the substantial procedural differences between IPR proceedings and civil litigation; and Petitioners' concession that tribal sovereign immunity does *not* bar the functionally and procedurally similar reconsideration mechanisms of *ex parte* and *inter partes* reexamination. *Id.* at 9a-13a.

Given its affirmance of the PTAB's first ground for decision, the court did not reach the other two grounds. *Id.* at 13a. The court also made clear that it was "only deciding whether tribal immunity applies in IPRs" and "le[ft] for another day the question of" state sovereign immunity. *Id.*

In a concurring opinion, Judge Dyk emphasized that the history of IPRs and their evolution from *ex parte* and *inter partes* reexamination proceedings confirmed that IPRs are "fundamentally agency reconsiderations of the original patent grant ... to which sovereign immunity does not apply." *Id.* at 15a-28a. He explained that IPR "is not fundamentally different from [the earlier] reexamination procedures"; that it "shares many of the same ***10** procedural features and is designed to address the same problems"; and that "like the reexaminations from which it descends, it is fundamentally agency reconsideration, assisted by third parties, rather than agency adjudication of a private dispute." *Id.* at 17a; *see also id.* at 28a.

Allergan and the Tribe petitioned for rehearing en banc, but the Federal Circuit denied that petition without dissent. Pet. App. 84a-86a. The Federal Circuit also denied Petitioners' motion to stay its mandate without dissent. Pet. App. 87a-88a. The case thus returned to the PTAB for a determination on the merits.

E. The Federal Circuit's affirmance of the district court's judgment of invalidity

Shortly after the Federal Circuit's mandate in this case issued, the court of appeals heard oral argument in Petitioners' appeal from the district court's judgment that the claims asserted there are invalid for obviousness. A unanimous panel affirmed that judgment. Pet. App. 89a-91a. A petition for rehearing en banc is pending.

At this point, all representative claims of all four patents at issue in the district-court litigation have been declared invalid. This case is not moot, however, because Petitioners' time for petitioning for certiorari in the district-court case has not expired. Moreover, Allergan and the Tribe have argued in the IPR proceedings that the district court's judgment does not render invalid all claims of all six patents challenged in the IPRs. The PTAB is now considering the merits of the IPRs.

*11 Reasons for Denying the Petition

The petition should be denied because Petitioners' arguments for certiorari are mistaken at every turn. *First,* the Federal Circuit's decision faithfully applies this Court's jurisprudence involving both IPRs and sovereign immunity. *Second,* contrary to Petitioners' arguments, the Federal Circuit's decision is consistent with this Court's decisions in *SAS, Alden,* and *FMC,* and there is no conflict among the circuits on any relevant issue. *Third,* the Federal Circuit's decision does not, as Petitioners contend, necessarily implicate the sovereign immunity of the several States or the United States; the court of appeals expressly restricted its decision to tribal sovereign immunity. *Finally,* even if the question Petitioners presented otherwise warranted review, this case would be a poor vehicle to decide it.

A. The Federal Circuit correctly followed this Court's precedent in holding that tribal sovereign immunity cannot prevent a federal agency from reconsidering its own grant of public rights.

Sovereign immunity rests on the principle that "[i]t is inherent in the nature of sovereignty not to be amenable to the suit of an individual without [the sovereign's] consent." *Alden v. Maine,* 527 U.S. 706, 716 (1999) (emphasis and citation omitted). The Federal Circuit correctly recognized that an IPR is not "the suit of an individual" against a patent holder, but instead a mechanism by which a federal agency reconsiders its own grant of a public franchise. Pet. App. 8a-13a. Simply put, tribal sovereign immunity cannot bar IPRs because ***12** reconsideration of patentability is an action by an agency of a "superior sovereign," the federal government. *Id.* at 13a; *see also id.* at 16a & n.1 (Dyk, J., concurring).

As the Federal Circuit explained, tribal sovereign immunity generally "does not apply where the federal government acting through an agency engages in an investigative action or pursues an adjudicatory agency action." *Id.* at 6a (citing authorities). Although IPRs have some " 'adjudicatory characteristics' similar to court proceedings," *id.* at 8a, at their core they are agency proceedings in which "the USPTO is acting as the United States in its role as a superior sovereign to reconsider [its] prior administrative grant and protect the public interest in keeping patent monopolies within their legitimate scope.' " *Id.* at 13a (quoting *Cuozzo,* 136 S. Ct. at 2144).

1. Petitioners rely heavily on *Federal Maritime Commission v. South Carolina State Ports Authority,* 535 U.S. 743 (2002), but that case supports the Federal Circuit's decision. In *FMC,* this Court set forth the legal test to determine whether *state* sovereign immunity applies in a given federal agency proceeding: whether the proceeding is "the type of proceeding[] from which the Framers would have thought the States possessed immunity when they agreed to enter the Union." *Id.* at 756. Even if *FMCs* standard applied here - as explained below, there are multiple reasons to treat tribal sovereign immunity differently - it would compel the conclusion that tribal sovereign immunity does not apply in IPRs.

***13** *FMC* involved an agency adjudicatory proceeding in which a private claimant was seeking monetary "reparations" and a cease-and-desist order against a state agency. *Id.* at 748-49. This Court held that state sovereign immunity barred the suit, relying primarily on the fact that "the similarities between FMC proceedings and civil litigation are overwhelming." *Id.* at 759. "[I]f the Framers thought it an impermissible affront to a State's dignity to be required to answer the complaints of private parties in federal courts," the Court explained, "we cannot imagine that they would have found it acceptable to compel a State to do exactly the same thing before the administrative tribunal of an agency." *Id.* at 760.

The situation here is very different. An IPR does not require a sovereign entity to defend itself against the claims of a private individual. The subject of an IPR is a *patent,* which is "the grant of a public franchise," a right that "did not exist at common law" and "a 'creature of statute law.' " *Oil States Energy Services, LLC v. Greene's Energy Group, LLC,* 138 S. Ct. 1365, 1373-74 (2018) (citations omitted). An IPR is merely a "reconsideration of the Government's decision to grant [that] public franchise." *Id.* at 1373. It is *not* the equivalent of a private-party lawsuit and instead is more akin to the historical practice of "cancellation" of a patent "in [an] executive proceeding." *Id.* at 1377. Thus, "[a]lthough inter partes review includes some of the features of adversarial litigation, it ... remains a matter involving public rights, one 'between the government and others ....' " *Id.* at 1378 (citation omitted); *contra* Pet. 31 (incorrectly asserting that *Oil States* did not say that IPR is a matter arising ***14** between the government and a patent owner). Under *FMCs* analysis, sovereign immunity should not apply in IPRs.[2]

The Tribe objects to "being subject to the PTAB's jurisdiction." Pet. 35. But an IPR "does not involve exercise of personal jurisdiction over the patent holder" by the PTO, and "[t]he only possible adverse outcome is the cancelation of erroneously granted claims." Pet. App. 27a-28a (Dyk, J., concurring). As the PTAB emphasized, the agency is "not adjudicating any claims in which [Respondents] may seek relief from the Tribe," and the PTAB can "neither restrain the Tribe from acting nor compel it to act in any manner based on [the PTAB's] final decisions." *Id.* at 45a. The issue is not potential "monetary damages or an injunction as a 'remedy' " against any patent owner because the PTAB's authority "is limited to assessing the patentability of the challenged claims." *Id.*

Contrary to Petitioners' argument, Pet. 4-6, the Federal Circuit did not err in concluding that IPR is a " 'hybrid proceeding' " that combines elements of private adjudication with elements of agency reconsideration of prior action involving public rights. Quoting extensively from ***15** *SAS Institute, Inc. v. Iancu,* 138 S. Ct. 1348 (2018), Petitioners focus solely on the "adjudicative" side of the coin while ignoring the "public rights" side. They then argue that "[n]either *SAS* nor *Oil States* referred to IPRs as a 'hybrid proceeding.' " Pet. 14. But in *Cuozzo* this Court characterized IPR in exactly those terms: "Congress designed a hybrid proceeding" that is "like a judicial proceeding" in many respects but "in other significant respects ... is less like a judicial proceeding and more like a specialized agency proceeding" in which the PTO reconsiders its own "earlier administrative grant of a patent." 136 S. Ct. at 2143-44. *Cuozzo* acknowledged the "adjudicatory characteristics" of IPR: "an opposing party can trigger inter partes review"; engage in discovery, including depositions; present evidence and expert opinions; and participate in briefing and oral argument. *Id.* at 2143. Nevertheless, this Court concluded that although IPRs are "*similar* to court proceedings" in some ways, they serve a fundamentally different purpose and are "more like a specialized agency proceeding." *Id.* (emphasis added).

Petitioners also pay insufficient attention to the evolution of the PTO's post-issuance proceedings to review patent validity. Petitioners conceded below that tribal sovereign immunity would *not* apply to IPR's two statutory predecessors, *ex parte* and *inter partes* reexamination. Pet. App. 12a, 17a (Dyk, J., concurring). But as Judge Dyk explained, IPR "is not fundamentally different" and "shares many of the same procedural features." *Id.* at 17a.

In particular, IPRs and *inter partes* reexamination are both *inter partes.* Both are initiated by a ***16** "party" filing a request with the PTO to reconsider whether a patent should have issued over certain prior art. Neither moves forward without the PTO's unreviewable decision, in its sole discretion, to reconsider its own patent grant. The party challenging the patent may participate in both types of proceedings and respond to the patent owner's filings, and it bears the burden of proving unpatentability and risks being estopped from raising certain arguments in subsequent litigation. *See id.* at 23a-27a (Dyk, J., concurring); 35 U.S.C. §§ 311-318 (2006 ed.); 37 C.F.R. §§1.903-1.959 (*inter partes* reexamination rules).

To be sure, Congress adopted additional "adjudicatory" features in creating IPR, such as limited opportunities for discovery as well as a "hearing" (oral argument) after the close of written submissions. Pet. App. 25a (Dyk, J. concurring). But "like the reexaminations from which it descends," IPR remains "fundamentally agency reconsideration, assisted by third parties, rather than agency adjudication of a private dispute." *Id.* at 17a. As the Federal Circuit held, IPR remains an agency error-correction mechanism in which "the USPTO is acting as the United States in its role as a superior sovereign to reconsider [its] prior administrative grant" of a "patent monopol[y]." *Id.* at 13a. It is thus not the sort of proceeding in which sovereign immunity is applicable.

2. Moreover, even if *state* sovereign immunity applied in IPRs under the standard articulated in *FMC,* the same conclusion would not follow for *tribal* sovereign immunity.

***17** This Court repeatedly has emphasized that "the immunity possessed by Indian Tribes is not coextensive with that of the States." *Kiowa Tribe of Okla. v. Mfg. Techs., Inc.,* 523 U.S. 751, 756 (1998). Rules of state sovereignty "provide a helpful point of reference" in tribal sovereignty cases, but they "do not dictate a result." *City of Sherrill v. Oneida Indian Nation of N.Y.,* 544 U.S. 197, 218 (2005). That is because tribal sovereign immunity is narrower than, "not congruent with," state sovereign immunity. *Three Affiliated Tribes of the Fort Berthold Reservation v. Wold Eng'g, P.C.,* 476 U.S. 877, 890-91 (1986).

State sovereign immunity is anchored in the Eleventh Amendment, "a specific [constitutional] text with a history that focuses upon the State's sovereignty vis-a-vis the Federal Government." *Lapides v. Bd. of Regents,* 535 U.S. 613, 623 (2002). State sovereign immunity is thus part of "[t]he constitutionally mandated balance of power between the States and the Federal Government." *FMC,* 535 U.S. at 769 (alterations and citation omitted). But whereas "[t]he Constitution specifically recognizes the States as sovereign entities," tribes were not parties to the Constitutional Convention, and the Constitution does not guarantee their reserved sovereignty. *Seminole Tribe of Fla. v. Florida,* 517 U.S. 44, 71 n.15 (1996). Instead, "tribes are subject to plenary control by Congress," which can modify or even abolish tribal sovereignty and sovereign immunity as it sees fit. *Michigan v. Bay Mills Indian Cmty.,* 572 U.S. 782, 788-89 (2014); *United States v. Wheeler,* 435 U.S. 313, 323 (1978) (tribal sovereignty "exists only at the sufferance of Congress and is subject to complete defeasance").

***18** The limited immunity that tribes enjoy "does not extend to preventing the federal government from exercising its superior sovereign powers." *United States v. Yakima Tribal Ct.,* 806 F.2d 853, 861 (9th Cir. 1986) (citation omitted); *see also United States v. Red Lake Band of Chippewa Indians,* 827 F.2d 380, 382 (8th Cir. 1987). Thus, federal agencies may apply and enforce generally applicable federal statutes to tribes and tribal entities, including through licensing and enforcement proceedings, even if the applicable laws do not expressly mention tribes. *Pauma v. NLRB,* 888 F.3d 1066, 1076-79 (9th Cir. 2018) (enforcement of federal labor laws); *NLRB v. Little River Band of Ottawa Indians Tribal Gov't,* 788 F.3d 537, 555 (6th Cir. 2015) (same); *Menominee Tribal Enters, v. Solis,* 601 F.3d 669, 670-71 (7th Cir. 2010) (enforcement of OSHA); *see generally Fed. Power Comm'n v. Tuscarora Indian Nation,* 362 U.S. 99, 116 (1960) ("a general statute in terms applying to all persons includes Indians and their property interests").

IPRs are actions of a federal agency carrying out generally applicable federal law. Accordingly, they are not barred by tribal sovereign immunity. Just like a private patent owner, an Indian tribe that owns a patent is subject to the system of administrative reconsideration of federal patent rights established by Congress. Indeed, that is part of the statutory bargain: one takes a patent "subject to the conditions and requirements of" the patent laws. 35 U.S.C. § 101.

***19 B. The Federal Circuit's decision does not conflict with *SAS, Alden,* or *FMC,* or any appellate decision citing them.**

Petitioners argue that the Federal Circuit's decision conflicts with *SAS, Alden,* and *FMC.* Petitioners also claim the decision conflicts with other circuits' applications of *Alden* and *FMC.* But the Federal Circuit's decision is fully consistent with all these precedents.

1. The Federal Circuit's decision is consistent with *SAS,* and Petitioners do not assert any circuit split over *SAS.*

Petitioners argue that the Federal Circuit's holding rests on reasoning "that this Court squarely rejected in *SAS.*" Pet. 15. On the contrary, the panel and concurring opinions carefully considered *SAS* and recognized that *SAS* must be read in conjunction with *Oil States,* which was decided the same day. Pet. App. 8a-9a; *id.* at 26a-27a (Dyk, J., concurring).

Oil States addressed the essential character and constitutionality of IPRs. Petitioners discuss *SAS* as if it addressed the sovereign-immunity question, but *SAS* had nothing to do with sovereign immunity. Instead, *SAS* focused on a specific, narrow question of statutory construction: the meaning of 35 U.S.C. § 318(a), which provides that when an IPR has been instituted, the PTAB "shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner." *SAS* held that although the PTO has complete discretion *whether* to institute IPR, ***20** Section 318(a) requires it to address *each* challenged claim if it chooses to institute review. 138 S. Ct. at 1354-57.

That requirement does not undermine the holdings in *Oil States* and *Cuozzo,* which recognized that IPRs differ fundamentally from lawsuits between private parties. The Federal Circuit correctly concluded that although the PTO Director's discretion in *how* to conduct an IPR is constrained by statute, the Director has sole, unreviewable authority *whether* to conduct an IPR, a "decision [that] embraces the entirety of the proceeding." Pet. App. 9a. And "if IPR proceeds on patents owned by a tribe, it is because a politically accountable, federal official has authorized the institution of that proceeding." *Id.* at 9a-10a.

SAS did emphasize the adversarial characteristics of IPRs, and Petitioners rely heavily on this language. But *Oil States* made clear that IPRs are *not* equivalent to common-law suits between private parties even though they borrow "court-like procedures" and "use terms typically associated with courts." 138 S. Ct. at 1378; *see also Cuozzo,* 136 S. Ct. at 2143 (rejecting argument that given their many "adjudicatory characteristics," IPRs are "a 'surrogate for court proceedings' ") (citations omitted). Despite borrowing from the adversarial model, an IPR of a federal patent "remains a matter involving public rights, one 'between the government and others,' " not a determination of one party's liability to another. *Oil States,* 138 S. Ct. at 1378 (citations omitted).

As the Federal Circuit observed, the differences between IPRs and civil litigation are "substantial," ***21** and "[a]n IPR hearing is nothing like a district court patent trial." Pet. App. 11a-12a. For example, IPR procedures "limit discovery, typically preclude live testimony in oral hearings, and do not mirror the Federal Rules of Civil Procedure." *Id.* at 27a (Dyk, J., concurring). "Very seldom do IPR proceedings have the hallmarks of what is typically thought of as a trial." *Ultratec, Inc. v. CaptionCall, LLC,* 872 F.3d 1267, 1270 n.2 (Fed. Cir. 2017).

Indeed, IPRs do not even require the presence of adverse parties. As this Court observed in *Cuozzo,* "challengers need not remain in the proceeding; rather, the Patent Office may continue to conduct an inter partes review even after the adverse party has settled." 136 S. Ct. at 2144 (citing 35 U.S.C. § 317(a)). The Director may also defend the PTAB's decision on appeal "even if the private challengers drop out." *Id.* Likewise, the PTAB may proceed with IPR "even in the absence of patent owner participation." Pet. App. 11a; *see also id.* at 13a (emphasizing "the Board's authority to proceed in the absence of the parties"); *id.* at 27a (Dyk, J., concurring) (IPR "does not involve exercise of personal jurisdiction over the patent holder"); *id.* at 45a-46a (PTAB decision stressing that "a patent owner's participation is not required" and that IPRs have proceeded where the owner "has chosen not to participate").

SAS held only that Section 318 requires the PTO to address all challenged claims if it decides to institute an IPR. *SAS* neither held nor suggested that IPR proceedings are so like civil lawsuits that sovereign immunity (tribal or otherwise) should operate as a bar to them. The decision ***22** below does not conflict with *SAS,* and Petitioners do not suggest that it conflicts with any other court of appeals decisions applying *SAS.*

2. The Federal Circuit's decision is consistent with *Alden,* and there is no circuit split over *Alden.*

Petitioners' allegation of a conflict with *Alden* is equally misguided.

Alden explained that state sovereign immunity does not apply to "[s]uits brought by the United States itself" and noted that such suits "require the exercise of political responsibility for each suit prosecuted against a State, a control which is absent from a broad delegation to private persons to sue nonconsenting States." 527 U.S. at 756. The Federal Circuit correctly concluded that an IPR is "more like" a proceeding brought by the United States than a private "suit" because "although the Director's discretion in how he conducts IPR is significantly constrained, he possesses broad discretion in deciding whether to institute review." Pet. App. 9a. That decision "embraces the entirety of the proceeding" and is made solely by "the Director, the politically appointed executive branch official," rather than a private party. *Id.* at 9a-10a.

Petitioners claim the Federal Circuit erred in relying on *Alden* because the "Director has delegated to the PTAB responsibility to make institution decisions, and thus plays no role (and exercises no political accountability) in deciding which cases to institute." Pet. 18 (citations omitted). But that is not how things work in the Executive Branch. From the President on down, federal ***23** officials routinely delegate authority to subordinates, but that does not eliminate their oversight duties under the Take Care Clause of Article II, Section 3, nor does it diminish their political accountability for any errors or overreaching by those subordinates. *See, e.g., Free*

Enter. Fund v. Pub. Co. Accounting Oversight Bd., 561 U.S. 477, 496-97 (2010); *SEC v. FLRA,* 568 F.3d 990, 997 (D.C. Cir. 2009) (Kavanaugh, J., concurring) (executive agencies are "subordinate parts of a single organization headed by one CEO"). As Justice Gorsuch emphasized last Term, the PTO Director *is* "politically accountable": he is "a political appointee who serves at the pleasure of the President," "supervises and pays the Board members responsible for deciding patent disputes," and has a variety of "statutory powers to secure the 'policy judgments' he seeks." *Oil States,* 138 S. Ct. at 1380-81 (Gorsuch, J., dissenting) (citations omitted).

Petitioners argue that in other IPRs the PTAB "has asserted jurisdiction prior to institution to order discovery, sanction parties, and decide motions." Pet. 21. They claim this undermines the view that IPRs proceed only after the PTO has made a discretionary decision whether to institute review. *Id.* The fact remains, however, that IPRs never proceed to a final written decision unless the Director or his delegee chooses to institute review.

Moreover, the pre-institution papers Petitioners cite (*id.* at 21 n.7) all involved early challenges *by the patent owner* to the petitioner's identification of the real party in interest. None of those pre-institution inquiries would have occurred if the ***24** patent owner itself had not initiated the pre-institution dispute. As the PTAB and Federal Circuit both emphasized below, a patent owner is never required to participate at the pre-institution stage and, indeed, may decline to participate in an IPR even after institution. Pet. App. 10a-11a, 45a-46a.[3]

Petitioners also argue that the Federal Circuit's decision conflicts with decisions from other circuits that have applied *Alden.* Pet. 22-25. But only one of those decisions involved the PTO, and it had nothing to do with patents. *Goldstein v. Moatz,* 364 F.3d 205, 211-20 (4th Cir. 2004) (rejecting PTO officials' claims of absolute immunity in a *Bivens* action growing out of an internal attorney-disciplinary investigation). More generally, none of the supposedly conflicting decisions involved a federal agency's reconsideration of its own prior decisions involving matters of public rights. Most involved efforts to obtain damages, civil penalties, and other coercive relief against unconsenting state and ***25** tribal sovereigns for their alleged violations of federal law.[4] This case involves nothing of the sort.

Moreover, most of the supposedly conflicting decisions involved *state* sovereign immunity, not *tribal* sovereign immunity, and accordingly relied heavily on the Constitution's allocation of federal and state sovereignty. The decisions that discuss tribal sovereign immunity recognize that federal statutes of general application presumptively apply to Indian tribes and their members (with a few exceptions not relevant here) and that tribal sovereignty is displaced by "a statute creating a comprehensive regulatory scheme." *Little River Band,* 788 F.3d at 547; *see also EEOC v. Karuk Tribe Housing Auth.,* 260 F.3d 1071, 1075 (9th Cir. 2001) (emphasizing the "clear rule that Indian tribes do not enjoy sovereign immunity" from administrative ***26** proceedings brought by a federal agency). Those are apt descriptions of the IPR process that Congress crafted for the PTO to reconsider its prior grants of patent rights.

Petitioners also argue that several circuits "have recognized that sovereign immunity applies in declaratory judgment actions." Pet. 23. But that is not what the cited decisions say. Instead, they recognize that private litigants *may* obtain declaratory and injunctive relief against state and tribal officials under *Ex Parte Young,* 209 U.S. 123 (1908), *without* triggering sovereign immunity, *unless* the suit seeks "monetary relief to be financed by" the sovereign. *Seminole Tribe,* 750 F.3d at 1243-44 (tribe could not sue state officials under *Ex Parte Young* for a tax refund to be "paid by the State"); *see also Progressive Consumers Fed. Credit Union v. United States,* 79 F.3d 1228, 1233 (1st Cir. 1996) (Declaratory Judgment Act by its terms allows issuance of declaratory judgments "except with respect to Federal taxes"). Again, IPRs determine only whether the federal government has properly issued a *patent;* they do not adjudicate damage claims (or any other claims) against *patent owners.*

3. The Federal Circuit's decision is consistent with *FMC,* and there is no circuit split over *FMC.*

The Federal Circuit correctly held that even assuming *FMC* applies to Indian tribes, application of *FMC*'s standard demonstrates that IPRs are not the sort of proceeding in which sovereign immunity applies. Pet App. 6a-8a.

***27** As discussed above, the private claimant in *FMC* sought an award of monetary "reparations" from the state entity and a cease-and-desist order and injunctive relief targeted directly at the state entity. 535 U.S. at 748-49. Because the FMC lacked "discretion to refuse to adjudicate complaints brought by private parties," it "had no choice but to adjudicate th[e] dispute." *Id.* at 764 (citation omitted). In carrying out that duty, the FMC followed rules and procedures that bore "a remarkably strong resemblance to civil litigation in federal courts" - indeed, the similarities were "overwhelming." *Id.* at 757, 759.

Unlike in *FMC,* "[t]he decision whether to institute inter partes review is committed to the [PTO] Director's discretion." *Oil States,* 138 S. Ct. at 1371; *see also Cuozzo,* 136 S. Ct. at 2140. Because IPRs are instituted only by the PTO and at the Director's sole discretion, they do not impose the "affront to a [sovereign's] dignity" that comes from being "required to answer the complaints of private parties." *FMC,* 535 U.S. at 760. Patent owners are invited, not required, to respond to a discretionary determination by the PTO that one or more patent claims are reasonably likely to be unpatentable and should therefore be reevaluated. 35 U.S.C. § 314(a); *see also Wi-Fi One, LLC v. Broadcom Corp.,* 878 F.3d 1364, 1372 (Fed. Cir. 2018) (en banc) (Section 314(a) "identifies a threshold requirement for institution, and ... grants the Director discretion not to institute even when that threshold is met"). Unlike the private claims for reparations and injunctive relief in *FMC,* an IPR cannot impose "liability" on anyone; it is a matter "between the [federal] government and others" ***28** regarding the validity of federally issued patent claims. *Oil States,* 138 S. Ct. at 1378 (citations omitted). Finally, unlike the proceedings before the FMC, IPRs are less like a judicial proceeding and more like a specialized agency proceeding in which the PTO reconsiders its own "earlier administrative grant of a patent." *Cuozzo,* 136 S. Ct. at 2143-44.

Petitioners contend that the Federal Circuit's decision has "created a conflict with other circuits that have followed *FMC*" Pet. 29-30 (citing *R.I. Dep't of Envt'l Mgmt. v. United States,* 304 F.3d 31 (1st Cir. 2002), and *Conn. Dep't of Envt'l Protection v. OSHA,* 356 F.3d 226 (2d Cir. 2004)). But this conjured conflict is illusory. Both cited decisions were federal whistleblower cases in which federal agencies were required to adjudicate private complaints against state agencies, with no discretion whether to initiate action in response to the complaints. 304 F.3d at 38-39 (Department of Labor adjudication of private whistleblower complaints against a state agency); 356 F.3d at 229-30 (OSHA adjudication of private whistleblower claims against state agency). Neither case involved a request that the federal agency reconsider its own previous grant of a public franchise. Instead, both involved private-party suits for back pay, compensatory damages, reinstatement, attorneys' fees, and other coercive relief against a State. 304 F.3d at 38; 356 F.3d at 229.

This case, by contrast, involves a discretionary federal agency proceeding to reconsider that agency's own previous grant of a public franchise conferring private monopoly power. An IPR ***29** reconsidering the PTO's own prior action simply does not fall within the scope of *FMC*.

C. The Federal Circuit did not address state or federal sovereign immunity in IPRs.

Petitioners argue that "[t]his case cleanly presents the question of sovereign immunity in IPRs" - not just with respect to patents owned by Indian tribes, but also patents owned by States, the federal government, "or indeed any sovereign entity." Pet. 3, 35. But this case presents no such question because the Federal Circuit expressly limited its decision to *tribal* sovereign immunity. Specifically, it emphasized that "[i]n this case *we are only deciding whether tribal immunity applies in IPR,*" and it left other sovereigns' immunity to IPRs "for another day." Pet. App. 13a (emphasis added).

Although Petitioners insist that rejection of state sovereign immunity in IPRs will inevitably follow from rejection of tribal sovereign immunity, the PTAB has taken a different view. *See* Pet. App. 36a & n.4. Moreover, as discussed on pages 17-18 above, and as Petitioners' own authorities recognize, "tribal sovereignty and state sovereignty are built on different foundations and are accorded different protections in our constitutional order." *Little River Band,* 788 F.3d at 555-56 (cited at Pet. 25); *see also Upper Skagit Indian Tribe v. Lundgren,* 138 S. Ct. 1649, 1654 (2018) ("immunity doctrines lifted from other contexts do not always neatly apply to Indian tribes"); *Kiowa Tribe,* 523 U.S. at 756. The applicability of *state* sovereign ***30** immunity in IPRs is thus a substantially different question from the one presented here.[5]

Petitioners' argument that the Federal Circuit's decision threatens *federally* owned patents is even further off base. Petitioners claim the decision will prevent "even federal agencies, such as NASA, the Jet Propulsion Laboratory, HHS, the U.S. Army, and the U.S. Navy ... from asserting sovereign immunity in IPRs brought against them as patent owners." Pet. 34-35. But an IPR could be instituted against a federal agency only if the PTO determined that a patent issued to that agency was probably flawed and should be reconsidered through IPR. If another federal agency objected to such a determination, that would be an internal Executive Branch matter to be resolved by the President and his subordinates, not by the federal courts as referees of interagency disputes. In any event, Petitioners' suggestion that the decision will adversely affect federal patent interests is belied by the United States' filing of an *amicus* brief supporting Respondents' position below. Dkt. 64, Fed. Cir. Nos. 2018-1638 et al. (filed May 11, 2018).

D. This case is an extremely poor vehicle for deciding the question presented.

The PTAB's decision and the opinion of the district court highlight several reasons why this case does not "cleanly" raise the issue of tribal sovereign immunity in IPRs and would be a poor vehicle for ***31** addressing that question. Even if tribal sovereign immunity were applicable in IPRs in general, the PTAB properly allowed *these* IPRs to proceed because (i) Allergan is the effective patent owner; (ii) the Tribe is not an indispensable party; and (iii) Allergan's attempt to purchase sovereign immunity for cash is improper and abusive and thus cannot defeat federal jurisdiction. Accordingly, this Court's consideration of tribal sovereign immunity would, in the end, make no difference to the outcome.

1. The Tribe's sovereign immunity is irrelevant because Allergan remains the patent owner.

The PTAB found that "[e]ven assuming *arguendo* that the Tribe is entitled to assert immunity, termination of [the IPRs was] not warranted" because Allergan retains all substantial rights in the patents and thus remains their true owner for purposes of the IPRs. Pet. App. 47a. The PTAB engaged in the required multi-factor analysis to determine the effects of Allergan's license agreement and correctly found that every factor indicated that Allergan retains "all substantial rights" in the patents. *Id.* at 49a; *see id.* at 47a-65a.

Petitioners ignore those extensive findings. Instead, they claim to have rights to practice the patents "in all *other* fields of use outside the Allergan license," and within Allergan's field of use in certain contingent circumstances. Pet. 8-9 (emphasis added). But the PTAB addressed those arguments and rejected them all. There are no commercially viable fields of use outside the Allergan license, ***32** and the Tribe's supposed rights are "contingent," "superficial," and "illusory." Pet. App. 50a-57a.

As a result, even *if other* Indian tribes were entitled to assert sovereign immunity in IPRs, the tribal Petitioner here would not. That makes this case a poor vehicle to address the issue.

2. The IPRs can be completed fairly and equitably without the Tribe's participation.

Tribal sovereign immunity also is irrelevant to whether these IPRs may proceed because, as the PTAB determined, "Allergan will be able to adequately represent any interests the Tribe may have in the challenged patents" if the Tribe chooses not to participate, making the Tribe's presence not "indispensable" to completing these proceedings. Pet. App. 68a; *see id.* at 65a-70a.[6] The PTAB observed that "Allergan has *at least* an identical interest to the Tribe," if not a much greater interest as the true patent owner receiving 99% of patent revenues, "in defending the challenged patents." *Id.* (emphasis added).

Several factors combine to make the Tribe's absence especially inconsequential, and thus to make this case a poor candidate for plenary review. ***33** *First,* Petitioners' own agreement specifies that Allergan, not the Tribe, remains in charge of paying for, "defend[ing,] and controll[ing] the defense" of the challenged patents in the IPR proceedings and on appeal. C.A.J.A. 2583-2584 §5.3. The plain terms of the Tribe's own business arrangement with Allergan makes the Tribe's presence in these proceedings entirely unnecessary.

Second, as the PTAB emphasized, Allergan was indisputably the sole patent owner until very late in the IPRs. "[T]he briefing and evidence on the substantive patentability issues were completed even before the Tribe's involvement in these proceedings," and "[o]ther than oral argument, the record in these proceedings [wa]s closed." Pet. App. 68a-69a. Had there been an oral hearing, the Tribe would have been limited to arguing points and authorities that Allergan had raised in its written submissions. The Tribe's participation in any oral hearing would have been of no consequence.[7]

Third, as the PTAB further observed, "[c]ourts have ... recognized a 'public rights' exception to the requirement of joinder of otherwise indispensable [sovereign] parties." *Id.* at 70a n.14. In light of the holding in *Oil States* that IPRs implicate only public rights, 138 S. Ct. at 1373-74, the Tribe cannot claim to be indispensable and unilaterally prevent the IPRs from proceeding to a final written ***34** decision. Indeed, because the PTAB does not exercise personal jurisdiction over *any* patent owner and may proceed with or without an owner's presence, it is difficult to see how the Tribe could ever be viewed as indispensable to the PTO's reconsideration of these patents.

3. Petitioners' transaction is an abuse of tribal sovereign immunity crafted for the improper purpose of defeating federal agency jurisdiction.

Finally, because the Petitioners' "business arrangement" is a blatant exchange of money for sovereign immunity, it could not defeat jurisdiction even if tribal sovereign immunity were otherwise applicable. The Tribe's only contribution was its promise not to waive sovereign immunity in IPR proceedings. *See* p.3 *supra.* But such an arrangement flouts bedrock principles of federal Indian law and jurisdiction.

This Court has emphasized that tribes may not abuse sovereign immunity through arrangements in which the "value" they offer, "what is not available elsewhere, is solely an exemption" from otherwise-applicable law. *Washington v. Confed. Tribes of the Colville Indian Reserv.,* 447 U.S. 134, 155 (1980). As Judge Bryson explained in the district-court litigation, tribal sovereign immunity is not "a monetizable commodity that can be purchased by private entities as part of a scheme to evade their legal responsibilities," nor is it "an inexhaustible asset that can be sold to any party that might find it convenient to purchase immunity from suit." Supp. App. 6a.

***35** Simply put, "a tribe has no legitimate interest in selling an opportunity to evade [the] law" to non-Indians. *Otoe-Missouria Tribe v. N.Y. Dep't Fin. Servs.,* 769 F.3d 105, 114 (2d Cir. 2014). Nor does a non-Indian private company like Allergan have any legitimate interest in using tribal sovereign immunity to "circumvent" the law and "reap a windfall at the public's expense." *Barona Band of Mission Indians v. Yee,* 528 F.3d 1184, 1187, 1190 (9th Cir. 2008). Non-Indians may not simply purchase a "legal loophole in the cloak of tribal sovereignty." *Otoe-Missouria Tribe,* 769 F.3d at 114. And they "may not alter the economic reality of a transaction" to exploit an immunity "rooted in due respect for Indian autonomy" and make more money by evading otherwise applicable law. *Barona Band,* 528 F.3d at 1190.

It is also well settled that a party may not use an assignment that is "a mere contrivance, a pretense, the result of a collusive arrangement" to manipulate federal jurisdiction. *Kramer v. Caribbean Mills, Inc.,* 394 U.S. 823, 827 (1969) (citation omitted). In particular, a party may not unilaterally oust a federal court or agency of its jurisdiction "by making a transfer which is an assignment in name only." *Attorneys Trust v. Videotape Comput. Prods., Inc.,* 93 F.3d 593, 595 (9th Cir. 1996); *see also Grassi v. Ciba-Geigy, Ltd.,* 894 F.2d 181, 184-85 (5th Cir. 1990) (purported assignment did not alter jurisdiction where assignor retained 98% interest and control of the litigation). Litigants may not "manipulat[e]" jurisdiction through assignments that "lack reality and amount to no change in the identity of the party with the real interest in ***36** the outcome of the case." *Attorneys Trust,* 93 F.3d at 597.

Petitioners' "business arrangement" includes each of the "classic elements" of an improper assignment to destroy federal jurisdiction: a purported assignee with "no prior interest" in the matter; an assignee that paid little if any consideration; an assignment "timed to coincide" with a litigation event; a purported assignor that has retained significant control and most of the profits; and evidence that the "real motive" was to destroy federal jurisdiction. *See id.* at 598-99.

Because the arrangement is an abuse of tribal sovereign immunity, and because it constitutes an improper attempt to destroy federal subject-matter jurisdiction conferred by Congress, tribal sovereign immunity cannot operate as a bar to the completion of these IPRs even if it were otherwise applicable. At a minimum, Petitioners' contrivance renders this case a poor vehicle for addressing the issue they seek to raise.

***37 Conclusion**

The petition for a writ of certiorari should be denied.

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March 6, 2019

Footnotes

1 Petitioners claim the Tribe retains the right to practice the patents "in all other fields of use outside the Allergan license," to enforce them "with respect to any infringement outside of Allergan's field-of-use," and to sue third parties in Allergan's field-of-use "if Allergan declines to do so." Pet. 8-9. The PTAB found, however, that Allergan's exclusive license "effectively limits the Tribe's ability to license *any* product that treats dry eye disease," and that there are not "any commercially relevant ways to practice the challenged patents ... outside the scope of the exclusive rights granted to Allergan." Pet. App. 54a, 57a.

2 Petitioners contend this Court held in *FMC* that "sovereign immunity applies in administrative adjudications between private parties, even when the proceedings concern 'public rights.' " Pet. 2. This Court held no such thing. The Court did not refer to "public rights" in *FMC,* and, as noted above, *FMC* involved an entirely different type of adjudicatory proceeding in which a private claimant was seeking monetary "reparations" and a cease-and-desist order against a state agency. 535 U.S. at 748-49.

3 Petitioners claim that patent owners "as a practical matter" are "compelled to file a preliminary response to an IPR petition" because "the PTAB institutes IPR on 100% of the petitions where no preliminary response is filed." Pet. 22. That is simply not true. The article cited by Petitioners considered only a small subset of IPR proceedings; it did not purport to be a comprehensive survey of PTAB institution decisions. For examples of instances where IPRs were *not* instituted even though the patent owners chose to forgo filing preliminary responses, see, e.g., *Unified Patents Inc. v. Preferential Networks IP, LLC,* IPR2018-00184, 2018 WL 2716934 (PTAB June 4, 2018); *Spectrum Brands, Inc. v. Assa Abloy AB,* IPR2015-01563, Paper 7 (PTAB Jan. 15, 2016); *Intelligent Bio-Systems, Inc. v. Illumina Cambridge Ltd.,* IPR2013-00324, 2013 WL 12126099 (PTAB Nov. 21, 2013).

4 *E.g., United States ex rel. Foulds v. Tex. Tech Univ.,* 171 F.3d 279, 282 & n.2 (5th Cir. 1999) (private *qui tam* action against state institution seeking "massive rewards," of which 15 to 30% would go to the private litigants); *Chao v. Va. Dep't of Transp.,* 291 F.3d 276, 279 (4th Cir. 2002) (suit for permanent injunction and back wages on behalf of specific claimants); *United States v. Ala. Dep't of Mental Health & Mental Retardation,* 673 F.3d 1320, 1328 (11th Cir. 2012) (award of "victim-specific" back wages and benefits in response to the victim's filing of a complaint with the Department of Labor); *Seminole Tribe of Fla. v. Fla. Dep't of Revenue,* 750 F.3d 1238, 1244 (11th Cir. 2014) (tribal suit against State seeking tax refunds and other "monetary relief to be financed by the [state] fisc"); *San Manuel Indian Bingo & Casino v. NLRB,* 475 F.3d 1306, 1310 (D.C. Cir. 2007) (cease-and-desist order issued in response to union complaint "requiring the Tribe to give [union organizers] access to the [on-reservation] Casino and also to post notices in the Casino describing the rights of employees under the NLRA").

5 The Federal Circuit is currently considering state sovereign immunity in IPRs in another case that is set for argument on March 11, 2019, *Regents of the Univ. of Minn. v. LSI Corp.,* No. 18-1559 (Fed. Cir.).

6 The PTAB noted that although its rules do not address "joinder of indispensable parties," it has previously looked to Federal Rule of Civil Procedure 19(b)(1) in evaluating " 'the identity of interests between present and absent patent owners.' " Pet. App. 67a (citation omitted). The PTAB thus looked to indispensable-party analysis in evaluating whether the IPRs could proceed if the Tribe refused to participate. Pet. App. 65a-70a & n.14.

7 After issuance of the Federal Circuit's mandate, Allergan and the Tribe withdrew their request for an oral hearing and asked to "rest on the existing record." Supp. App. 15a. The PTAB granted that request. *Id.* at 16a. The Tribe thus waived its remaining opportunity to have substantive input into the PTAB's reconsideration of the challenged patents.

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LEPORE

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

Nanette LEPORE, Robert Savage, Robespierre, Inc., and NLHE LLC, Plaintiffs,
v.
HARTFORD FIRE INSURANCE COMPANY, Defendant.
18 Civ. 689 (KPF)

Signed 03/12/2019

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OPINION AND ORDER

KATHERINE POLK FAILLA, United States District Judge
***1** This case stems from a lawsuit filed in the courthouse next door. Plaintiffs Nanette Lepore, Robert Savage, Robespierre, Inc., and NLHE (LLC) (collectively, the "Lepore Parties," or "Plaintiffs") currently face a lawsuit, entitled *NL Brand Holdings, LLC, et al. v. Nanette Lepore, et al.*, Index No. 656682/2016, that was filed in the Supreme Court of the State of New York, New York County, on December 21, 2016 (the "NL Suit"). The Lepore Parties have brought this action to compel the Hartford Fire Insurance Company ("Hartford" or "Defendant") to defend them in the NL suit, under several insurance policies that Hartford issued (the "Hartford Policies" or the "Policies").

The Hartford Policies contain two noteworthy exclusions to Hartford's duty to defend Plaintiffs in litigation. The first exclusion provides that Hartford is not obligated to defend Plaintiffs for alleged infringement or violation of intellectual property rights and, notably, it contains a paragraph that purports to exclude coverage of *any* injury or damage alleged in *any* claim or suit that also alleges infringement or violation of any intellectual property right (the "IP Exclusion"). The second excludes coverage for all claims arising out of a breach of contract (the "Breach Exclusion"). Citing these exclusions, Hartford disclaims any obligation to defend Plaintiffs in the NL Suit. Plaintiffs respond that Hartford has both overread these exclusions and misclassified the allegations in the NL Suit. They have brought this suit for both declaratory relief and money damages.[1]

The parties have cross-moved for summary judgment on the question of the duty to defend. Hartford also asks for summary judgment in its favor on Plaintiffs' claim of breach of the covenant of good faith and fair dealing. While the cited exclusions are undoubtedly broad, the Court finds that Hartford has interpreted them correctly. The NL Suit alleges a number of intellectual property violations by Plaintiffs, any one of which suffices bring the case within the IP Exclusion. The allegations in the NL Suit are also wholly bound up in Plaintiffs' contractual obligations. In consequence, the allegations in the NL Suit are subject to the Hartford Policies' IP Exclusion *and* Breach Exclusion, and Hartford is not required to defend Plaintiffs. The Court therefore grants Defendant's motion for summary judgment.

BACKGROUND[2]

A. Factual Background

1. The Parties

***2** The Lepore Parties are a collection of parties tied to Nanette Lepore ("Lepore"), a fashion designer residing in New York, New York. (Lepore 56.1 ¶ 1). Robert Savage ("Savage") is her spouse and business partner, who also resides in New York. (*Id.* at ¶ 2). Robespierre, Inc. ("Robespierre") and NLHE LLC ("NLHE") are a New York corporation and a New York limited liability company, respectively, which share a principal place of business in New York City. (*Id.* at ¶¶ 3-4). Defendant Hartford is a Connecticut corporation with its principal place of business in Hartford, Connecticut. (*Id.* at ¶ 5).

2. The Hartford Policies

Any analysis must begin with an examination of the Hartford Policies. Robespierre purchased insurance policies from Hartford through the Donald P. Pipino Company for insurance coverage for Robespierre and NLHE from March 31, 2013, to March 31, 2014. (Lepore 56.1 ¶ 6). The policies in dispute are a series of Commercial General Liability Policies, numbered UUN AL2562, and Umbrella Liability Insurance Policies, numbered 45 XHU JE8586, for the policy periods March 31, 2014, to March 31, 2015; March 31, 2015, to March 31, 2016; and March 31, 2016, to March 31, 2017. (Hartford 56.1 ¶ 31). For purposes of this dispute, these policies contain the same language regarding coverage and exclusions and, therefore, the Court refers to them collectively. (*Id.* at ¶ 32; *see also* Transcript of Conference of March 5, 2018 at 4:21-5:3).

The Hartford Polices provide that Hartford:

> will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. [Hartford] will have the right and duty to defend the insured against any "suit" seeking those damages even if the allegations of the "suit" are groundless, false or fraudulent. However, [Hartford] will have no duty to defend the insured against any "suit" seeking damages for "personal and advertising injury" to which this insurance does not apply. [Hartford] may, at [its] discretion, investigate any offense and settle any claim or "suit" that may result[.]

(Hartford 56.1 ¶ 33). "Personal or advertising injury," in turn, is defined as follows:

> 17. "Personal and advertising injury" means injury, including consequential "bodily injury", arising out of one or more of the following offenses:
>
> * * *
>
> d. Oral, written or electronic publication of material that slanders or libels a person or organization or disparages a person's or organizations goods, products or services[.]

(*Id.* at ¶ 34).

Coverage under the Policies is limited by a number of exclusions, two of which are relied on by Hartford in this case. (Lepore 56.1 ¶¶ 10-17). First is the "IP Exclusion," by which Hartford does not provide coverage for the following claims involving intellectual property:

> (1) "Personal and advertising injury" arising out of any actual or alleged infringement or violation of any intellectual property right, such as copyright, patent, trademark, trade name, trade secret, service mark or other designation of origin or authenticity.
>
> (2) Any injury or damage alleged in any claim or "suit" that also alleges an infringement or violation of any intellectual property right, whether such allegation of infringement or violation is made against you or any other party involved in the claim or "suit", regardless of whether this insurance would otherwise apply.

(Hartford 56.1 ¶ 35). The second exclusion is the Breach Exclusion, which limits coverage for any " 'Personal and advertising injury' arising out of a breach of contract, except an implied contract to use another's 'advertising idea' in your 'advertisement.' " (*Id.* at ¶ 36).

3. The NL Suit

***3** On December 21, 2016, the Lepore Parties were named as defendants in the NL Suit in the New York Supreme Court. (Lepore 56.1 ¶ 21). The NL Suit alleges 17 causes of action, among them breach of contract, tortious interference with advantageous business relationship, common law unfair competition, breach of fiduciary duty, breach of the covenant of good faith and fair dealing, and unjust enrichment. (*Id.* at ¶ 22).

According to the underlying complaint (the "NL Complaint" (Dkt. #8-2)), the suit arose from Lepore's 2014 sale of the core assets of her businesses, including her "trademarks, copyrights, Internet domain names, license agreements, social media accounts, apparel designs, branding, and other Intellectual Property and related goodwill, consisting of among other things, her primary namesake trademark NANETTE LEPORE (collectively, the "Purchased IP")." (*Id.* at ¶ 23; Hartford 56.1 ¶ 2). The NL Plaintiffs alleged that they paid Lepore millions of dollars for the Purchased IP and provided her a minority ownership share in a new entity, NL Brand Holdings LLC, that they established to hold the Purchased IP. (*Id.*). The NL Plaintiffs further allege that they signed Lepore to a consulting agreement, which required her ongoing support for the NANETTE LEPORE brand. (Hartford 56.1 ¶ 3).

The NL Suit alleges that the purchase allowed NLHE, which Lepore controls, a license to use the trademark for certain limited bespoke clothing, which would be sold through limited retail channels (the "License Agreement"). (Hartford 56.1 ¶ 4). Significantly, however, the purchase agreement or agreements placed limitations on Lepore and NLHE's use of the license:

> Such restrictions included, inter alia, limits on the type of women's bespoke and ready-to-wear clothing that NLHE could sell (only the types of women's clothing that NLHE has sold during the prior 2 years, defined as 'Products' or 'Articles'); very limited rights to use only three forms of the NANETTE LEPORE trademark and related logos (the 'Licensed Marks'), subject to style-guidelines; limitations on how such products sold under the NANETTE LEPORE brand could initially be priced; prohibitions against selling NANETTE LEPORE-branded products to certain categories of retailers; extensive non-compete obligations; covenants to protect and not defame or harm the Purchased IP and attendant goodwill; and other typical protections designed to uphold the quality of the goods sold and preserve Plaintiffs' right to control how the Purchased IP is used, and in what form.

(*Id.*).

In broad summary, the NL Suit alleges that the Lepore Parties have systematically violated the terms of the License Agreement. (Lepore 56.1 ¶ 22). The NL Plaintiffs allege violations "ranging from ignoring license restrictions on pricing and sales channels, to flouting all contractual requirements governing use of the Purchased IP, failing to adhere to non-compete and non[-] disparagement obligations and public-statement prohibitions, and wrongfully co-mingling the Licensed Marks with the products and marks of third-party collaboration partners[.]" (Hartford 56.1 ¶ 6). Further, the NL Plaintiffs allege that certain collaborations by the NL Parties have damaged the image and goodwill of the Purchased IP by associating the brand with allegedly inappropriate, offensive, and sexist messages. (*Id.* at ¶ 13; Lepore 56.1 ¶ 23). They also allege that certain comments by Lepore suggesting that she retained operational control of the Purchased IP violated the License Agreement. (Hartford 56.1 ¶ 15). And the suit alleges that Lepore's use of social media accounts, which were a subject of the purchase agreement, to promote the candidacy of Hillary Clinton and oppose the candidacy of Donald Trump damaged the value of the Purchased IP and violated the terms of the License Agreement. (Lepore 56.1 ¶ 23).

***4** The Lepore Parties, as they must, concede that not every claim in the NL Suit is covered by the Hartford Policies, but rely heavily on two causes of action that, they argue, implicate coverage (or at least a duty to defend). (Lepore 56.1 ¶ 24). In particular, the Sixth Cause of Action for Tortious Interference with an Advantageous Business Relationship alleges that Lepore and Savage intentionally interfered with the relationship between the NL Plaintiffs and NLHE by causing NLHE, which they control, to breach the License Agreement. (*Id.*). The Seventh Cause of Action for Unfair Competition alleges that all the Lepore Parties had misappropriated the Purchased IP by: (i) using the NANETTE LEPORE trademarks outside the scope of use permitted by the License Agreement; (ii) using the Purchased IP in connection with unauthorized collaborations with third parties; (iii) allowing collaborators to use the Purchased IP in association with inappropriate messaging, which damaged the value of the Purchased IP; and (iv) wrongfully competing with the NL Plaintiffs' NANETTE LEPORE apparel products. (*Id.*).

4. The Denial of Coverage

On February 15, 2017, NLHE and Robespierre notified Hartford of the NL Suit. (Lepore 56.1 ¶ 25). On May 10, 2017, Hartford informed NLHE that it would not defend or indemnify the Lepore Parties in the NL Suit. (*Id.* at ¶ 26). On June 12, 2017, the Lepore Parties requested reconsideration, and on October 19, 2017, Hartford reaffirmed their prior decision. (*Id.* at ¶ 30).

B. Procedural Background

On January 25, 2018, Plaintiffs brought this action to require Hartford to defend the Lepore Parties in the NL Suit and to recover the costs incurred to defend the Lepore Parties, plus interest. (Dkt. #1). On February 5, 2018, the Lepore Parties filed their amended complaint. (Dkt. #8). Hartford filed its answer and affirmative defense on February 27, 2018. (Dkt. #14).

On March 26, 2018, the parties cross-moved for summary judgment. (Dkt. #32-25, 39-43). Both parties' opposition briefs were filed on April 16, 2018. (Dkt. #44, 49). Both parties' reply briefs were filed on April 30, 2018. (Dkt. #54, 57).

DISCUSSION

A. Applicable Law

1. Summary Judgment Motions

Under Federal Rule of Civil Procedure 56(a), a "court shall grant summary judgment 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); *Celotex Corp.* v. *Catrett*, 477 U.S. 317, 322 (1986).[3] A fact is "material" if it "might affect the outcome of the suit under the governing law," and is genuinely in dispute "if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Anderson* v. *Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986); *see also Jeffreys* v. *City of New York*, 426 F.3d 549, 553 (2d Cir. 2005) (citing *Anderson*).

"It is the movant's burden to show that no genuine factual dispute exists" and a court "must resolve all ambiguities and draw all reasonable inferences in the non-movant's favor." *Vt. Teddy Bear Co., Inc*. v. *1-800 Beargram Co.*, 373 F.3d 241, 244 (2d Cir. 2004). If the movant has met its burden, "its opponent must do more than simply show that there is some metaphysical doubt as to the material facts" and, toward that end, "must come forward with specific facts showing that there is a *genuine issue for trial.*" *Matsushita Elec. Indus. Co.* v. *Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986) (internal citations and quotation marks omitted). The nonmoving party may not rely on "mere speculation or conjecture as to the true nature of the facts to overcome a motion for summary judgment." *Knight* v. *U.S. Fire Ins. Co.*, 804 F.2d 9, 12 (2d Cir. 1986).

***5** Local Civil Rule 56.1 requires that the movant file a "short and concise statement … of the material facts as to which the moving party contends there is no genuine issue to be tried" and each proffered fact will be deemed admitted "unless specifically controverted by a correspondingly numbered paragraph[.]" Local Civ. R. 56.1(a)-(c). Each statement must be supported by a citation to admissible evidence. *Id.* at 56.1(d). But a reviewing court "may not rely solely on the statement of undisputed facts[,] … [i]t must be satisfied that the citation to evidence in the record supports the assertion." *Vt. Teddy Bear Co.*, 373 F.3d at 244 (citing *Giannullo* v. *City of New York*, 322 F.3d 139, 143 n.5 (2d Cir. 2003)). A district court "must ask not whether the evidence unmistakably favors one side or the other but whether a fair-minded jury could return a verdict for the [non-moving party] on the evidence presented." *Simpson* v. *City of New York*, 793 F.3d 259, 265 (2d Cir. 2015).

2. Interpretation of Insurance Contracts Under New York Law

"Insurance policies are, in essence, creatures of contract, and, accordingly, subject to principles of contract interpretation." *Porco* v. *Lexington Ins. Co.*, 679 F. Supp. 2d 432, 435 (S.D.N.Y. 2009) (quoting *In re Estates of Covert*, 97 N.Y.2d 68, 76 (2001) (internal quotation marks omitted)). Under New York law, the interpretation of a contract "is a matter of law for the court to decide." *Int'l Multifoods Corp.* v. *Commercial Union Ins. Co.*, 309 F.3d 76, 83 (2d Cir. 2002) (internal citation omitted); *see also Parks Real Estate Purchasing Grp.* v. *St. Paul Fire and Marine Ins. Co.*, 472 F.3d 33, 42 (2d Cir. 2006) ("[T]he initial interpretation of a contract is a matter of law for the court to decide." (internal quotation marks and citation omitted)). In this case, "[t]he parties do not dispute the material facts underlying the claim[,]" therefore, the case rests on interpretation of the insurance contract, which "is a question of law[.]" VAM *Check Cashing Corp.* v. *Fed. Ins. Co.*, 699 F.3d 727, 729 (2d Cir. 2012)

The Court must interpret unambiguous contractual provisions in light of " 'their plain and ordinary meaning.' " *10 Ellicott Square Court Corp.* v. *Mountain Valley Indem. Co.*, 634 F.3d 112, 119 (2d Cir. 2011) (quoting *Essex Ins. Co.* v. *Laruccia Constr., Inc.*, 898 N.Y.S.2d 558, 559 (2d Dep't 2010)). The Court must interpret such terms "in light of 'common speech' and the reasonable expectations of a businessperson." *Belt Painting Corp.* v. *TIG Ins. Co.*, 100 N.Y.2d 377, 383 (2003) (internal citation omitted). "Where contractual language is ambiguous and subject to varying reasonable interpretations, intent becomes an issue of fact and summary judgment is inappropriate.… Only where the language is unambiguous may the district court construe it as a matter of law and grant summary judgment accordingly." *Palmieri* v. *Allstate Ins. Co.*, 445 F.3d 179, 187 (2d Cir. 2006) (internal quotation marks and citations omitted).

If a contract term is "susceptible to at least two reasonable interpretations," summary judgment is inappropriate because the meaning of an ambiguous contract term is "generally an issue of fact, requiring the trier of fact to determine the parties' intent." *U.S. Naval Inst.* v. *Charter Commc'ns, Inc.*, 875 F.2d 1044, 1048 (2d Cir. 1989) (internal citations omitted). In contrast, if the contractual terms are unambiguous, the dispute is properly resolved on summary judgment, and the court must "give effect to the intent of the parties as expressed in the clear language of the contract." *Mount Vernon Fire Ins. Co.* v. *Belize NY, Inc.*, 277 F.3d 232, 236 (2d Cir. 2002) (internal quotation marks and citation omitted).

3. The Duty to Defend

The New York Court of Appeals has described the duty to defend as follows:

> ***6** [A]n insurance company's duty to defend is broader than its duty to indemnify. Indeed, the duty to defend is exceedingly broad and an insurer will be called upon to provide a defense whenever the allegations of the complaint suggest a reasonable possibility of coverage. If, liberally construed, the claim is within the embrace of the policy, the insurer must come forward to defend its insured no matter how groundless, false or baseless the suit may be.

Automobile Ins. Co. of Hartford v. *Cook*, 7 N.Y.3d 131, 137 (2006) (internal quotation marks and citations omitted). "The duty [to defend] remains even though facts outside the four corners of [the] pleadings indicate that the claim may be meritless or not covered." *Id.* (internal quotation marks and citation omitted). "[T]he insurer will be required to provide a defense unless it can demonstrate that the allegations of the complaint cast that pleading solely and entirely within the policy exclusions, and, further, that the allegations, in toto, are subject to no other interpretation." *Id.* (internal quotation marks and citations omitted).

B. Analysis

The Court considers whether coverage for the NL Suit is barred by the Policies' exclusions, rather than whether the allegations in that suit qualify for coverage in the first instance. While the Lepore Parties spend much of their briefing explaining why the NL Suit allegations are covered by the Hartford Policies (*see* Lepore Br. 2-7; Lepore Opp.1-7), Hartford focuses almost entirely on exclusions from coverage (*see* Hartford Br. 10-19; Hartford Opp. 6-22).[4]

The Lepore Parties correctly note that the typical order of analysis is to determine whether an allegation falls within a policy's coverage and only then turn to exclusions. (Lepore Opp. 1 (citing *Town of Massena* v. *Healthcare Underwriters Mut. Ins. Co.*, 98 N.Y.2d 435, 443 (2002), and *SR Int'l Bus. Ins. Co.* v. *World Trade Ctr. Props. LLC*, No. 01 Civ. 9291 (HB), 2006 WL 3073220, at *10 n.37 (S.D.N.Y. Oct. 31, 2006))). However, given Hartford's reliance on exclusions, the Court assumes that coverage would otherwise apply and focuses its analysis on the core areas of disagreement between the parties, namely, the breadth of the Policies' exclusions and their applicability to the NL Suit.

1. The IP Exclusion Applies to the Entire NL Suit

Hartford's argument for application of the IP Exclusion is straightforward: The IP Exclusion bars coverage for any suit that contains as one of its allegations a violation or infringement of intellectual property, and the NL Suit alleges infringement of the Purchased IP. (Hartford Br. 10). Hartford points to numerous allegations in the NL Suit in which the Lepore Parties are alleged to have used the NL Plaintiffs' intellectual property without authorization, particularly the allegation of unfair competition, which alleges a likelihood of confusion between the Lepore Parties' allegedly infringing products and the NL Plaintiffs'. (*See* Hartford Br. 12 ("Those allegations include claims that the Lepore Claimants used the Purchased IP and NANETTE LEPORE mark in commerce, and in connection with the sale or advertising of goods and services without the NL Plaintiffs' consent, and that such use is likely to cause confusion.")). Hartford argues that this claim is essentially a claim for trademark infringement, as the tests for unfair competition under New York Law and trademark infringement under the Lanham Act overlap. *See A.V.E.L.A., Inc.* v. *Estate of Marilyn Monroe, LLC*, 131 F. Supp. 3d 196, 209 (S.D.N.Y. 2015) ("The elements of an unfair competition claim in New York largely mirror those under the Lanham Act.").

***7** According to Hartford, the NL Suit allegations clearly invoke the IP Exclusion, as they allege injuries "arising out of an[ ] actual or alleged infringement or violation of any intellectual property right." (Hartford 56.1 ¶ 35). New York courts have construed the language "arising out of" broadly: "In insurance contracts, the phrase arising out of is ordinarily understood to mean originating from, incident to, or having connection. It requires only that there be some causal relationship between the injury and the risk for which coverage is provided or excluded." *Nat. Organics, Inc.* v. *OneBeacon Am. Ins. Co.*, 959 N.Y.S.2d 204 (2d Dep't 2013) (internal citations and quotation marks omitted). Therefore, the allegations against the Lepore Parties clearly include claims arising out of an "alleged infringement of an intellectual property right."

Since at least some claims implicate the IP Exclusion, Hartford argues that the entire suit is excluded from coverage by the second paragraph of the Exclusion, which provides:

> Any injury or damage alleged in any claim or "suit" that also alleges an infringement or violation of any intellectual property right, whether such allegation of infringement or violation is made against you or any other party, involved in the claim or "suit", regardless of whether this insurance would otherwise apply.

(Hartford 56.1 ¶ 35). On a plain reading of this text, so long as one claim alleges an infringement of an intellectual property right, the exclusion bars coverage for the entire suit. Hartford acknowledges that the breadth of this exclusion would eliminate the duty to defend for a host of otherwise-covered suits, but points to a number of courts around the country that have upheld analogous exclusions. (*See* Hartford Br. 13-16).

The Court concludes that the text of the IP Exclusion clearly applies a complete bar to coverage for any claims brought in a suit that also alleges intellectual property infringement. To argue against this reading, the Lepore Parties offer the Court reasons why the second paragraph of the IP Exclusion does not mean what it most plainly states. In their opposition papers, the Lepore Parties offer five objections. (*See* Lepore Opp. 11-16). In their own briefing, they offer three. (*See* Lepore Reply 2). Since many appear to overlap, the Court has endeavored to break them out. The Court addresses and rejects each of them in turn.

a. The NL Suit Alleges an Infringement or Violation of Intellectual Property Rights

The Lepore Parties argue first that the NL Suit does not explicitly label any claim to be for trademark infringement. (*See* Lepore Opp. 8 ("[T]he statute governing trademark infringement — the Lanham Act (as well as state statutes) are neither cited nor referenced to in the [NL] Suit[.]")). They add that the distinctions between claims for unfair competition and trademark infringement are clear, and that absent "an express claim for intellectual property infringement," the exclusion should not apply. (*Id.* at 11). While the Lepore Parties are correct that the cases cited by Hartford bring express claims for trademark infringement under the Lanham Act or state statutes, the Court does not consider them dispositive of the coverage issue.

The Lepore Parties fundamentally misperceive the IP Exclusion, which is far broader than a bar on coverage for trademark infringement or a violation of state statutes. It applies to " '[p]ersonal and advertising injury' arising out of any actual or alleged infringement or violation of any intellectual property right." (Hartford 56.1 ¶ 35). The Court has examined the NL Complaint, which is rife with allegations that the Lepore Parties have used the Purchased IP in violation of the parties' agreements. (*See, e.g.*, NL Complaint ¶¶ 66, 73, 74, 75, 76, 83).

***8** The New York Court of Appeals has held that what matters in analyzing exclusions is not the labels provided in the underlying complaint, but rather the facts upon which the allegations rest. *See Allstate Ins. Co.* v. *Mugavero*, 79 N.Y.2d 153, 162-63 (1992) ("[T]he analysis depends on the facts which are pleaded, not the conclusory assertions[.]"). The Unfair Competition claim in the NL Complaint clearly alleges violations of the NL Plaintiffs' intellectual property rights.

> Among other things, Defendants' acts either have caused the public to be confused, or are likely to cause the public to mistakenly believe, that Defendants are authorized to sell products bearing the Licensed Marks in a manner that undercuts Plaintiffs' and/or Plaintiffs' licensee(s) with respect to their NANETTE NANETTE LEPORE diffusion line of products, or that Plaintiffs endorse the EDDIE EDDIE collaboration and its use of inappropriate messages stamped onto its line of women's apparel marketed and sold in association with the NANETTE LEPORE brand.

(NL Complaint ¶ 196). This Court need not decide whether *any* claim of unfair competition would bring a suit within the IP Exclusion, because these allegations state a claim for violation of intellectual property rights.

In another attempt to argue that the NL Suit does not involve a claim of infringement, the Lepore Parties point to paragraph 9.8 of the License Agreement. This paragraph provides that "[e]ach party shall promptly notify the other in writing if it has reason to believe, or knowledge of, any Infringements of the Licensed Marks ... which notice shall include the details of such Infringements. awards and other compromises of claims." (*See* Hartford Request for Judicial Notice, Exhibit 1-B (Dkt. #35-3), License Agreement ("License Agreement") ¶ 9.8). The Lepore Parties argue from this provision that the NL Suit cannot properly be understood to involve allegations of infringement, because the NL Plaintiffs never provided the requisite notice. (*See* Lepore Opp. 10).

This Court agrees with Hartford that the cited paragraph explains how the parties will handle *third-party* infringement. (*See* Hartford Reply 4). It begins:

> Licensor shall have the first right to bring any action on account of any infringement, imitation, parallel import, gray market goods or unauthorized use of the Licensed Marks within the Territory (hereinafter collectively "Infringements"). For clarification and not limitation, any right of Licensee to commence an action for Infringements shall be limited to Infringement of the Licensed Marks in the Territory and as used in connection with the Products only. All other rights to commence actions or otherwise are reserved expressly for Licensor

(License Agreement ¶ 9.8). The words "first right" would have no meaning in a dispute between the contracting parties themselves, and the Court determines that this language is intended to structure the rights of the parties to bring infringement claims against third parties.

Furthermore, as Hartford notes (*see* Hartford Reply 4), the paragraph later states that "based upon Licensor's independent knowledge … Licensor may, in its sole discretion commence, and in such case shall diligently prosecute any claims or suits in its own name or in the name of Licensee or join Licensee as a party thereto." (License Agreement ¶ 9.8). The Court does not consider this paragraph to be evidence that the NL Suit does not involve a claim of infringement, and instead concludes that the NL Plaintiffs have alleged numerous injuries based on the violation of their rights in the Purchased IP. Therefore, at least some of their claims are covered by the IP Exclusion.

b. The Court Does Not Adopt Plaintiffs' Narrowing Construction of Paragraph 2 of the IP Exclusion

***9** The Lepore Parties contend that the second paragraph of the IP Exclusion must be given a narrow meaning, or the coverage would be virtually useless. (Lepore Opp. 13-14). In support, they cite *City of New York* v. *Evanston Insurance Co.*, which held that an ambiguous use of the world "solely" should be interpreted "according to the reasonable expectations and purposes of ordinary businesspeople when making ordinary business contracts." 830 N.Y.S.2d 299, 302 (2d Dep't 2007). The Lepore Parties argue that the reading Hartford offers of the IP Exclusion would not accord with such expectations, as it would provide "extremely narrow coverage[, which] would be, at best, of minimal value to the reasonable businessperson." (*Id.*). In further support, the Lepore Parties cite to a number of cases for the proposition that ambiguities in an insurance contract should be read in favor of the claimant. (*See* Lepore Opp. 14 (citing *Oppenheimer AMT-Free Mun.* v. *ACA Fin. Guar. Corp.*, 971 N.Y.S.2d 95, 98 (1st Dep't 2013), and *Pioneer Tower Owners Ass'n* v. *State Farm Fire & Cas. Co.*, 12 N.Y.3d 302, 307 (2009))).

While it is true that ambiguities in contract provisions are read in favor of the claimant, the Lepore Parties fail to identify a relevant ambiguity in the IP Exclusion. Hartford points to cases from around the country where courts have found similar provisions to be unambiguous. (*See* Hartford Br. 13-17). For instance, in *Vitamin Health, Inc.* v. *Hartford Casualty Insurance Co.*, the court found that a similar IP exclusion "clearly and unambiguously bar[red] coverage" where an infringement claim was coupled with a non-infringement claim. 186 F. Supp. 3d 712, 720 (E.D. Mich. 2016), *aff'd*, 685 F. App'x 477 (6th Cir. 2017) (unpublished disposition). In *Tela Bio, Inc.* v. *Federal Insurance Co.*, a court examined a similar policy and concluded similarly:

> Paragraph B excludes from coverage "the entirety of all allegations in any … suit" in which there is an allegation of a violation of intellectual property rights, "even if the insurance would otherwise apply to any part of the allegations in the … suit." While perhaps harsh in its application, it cannot be seriously disputed that Paragraph B of the IP Rights Exclusion clearly and unambiguously excludes from coverage all allegations within a suit, if that suit contains any allegations of intellectual property rights violations.

313 F. Supp. 3d 646, 659 (E.D. Pa. 2018). The Third Circuit affirmed this conclusion. *See TELA Bio, Inc.* v. *Fed. Ins. Co.*, No. 18-1717, 2019 WL 211507, at *3 (3d Cir. Jan. 16, 2019) ("The expansive language … clearly and unambiguously excludes from coverage all allegations within a suit, if that suit contains any allegations of intellectual property rights."). Plaintiffs do not point to a single decision that has held similar policy language to be ambiguous.

Rather than contesting the particular language of the Policies, the Lepore Parties reiterate the point that the IP Exclusion would be too broad absent a narrowing construction. They cite *to Emmis Communications Corp.* v. *Illinois National Insurance Co.*, which held that it "would be nonsensical to read [an exclusion] in such a way that whether [the Claimant] had insurance coverage for a lawsuit filed against it would depend on the whim of the plaintiff's attorney who drafted the complaint in the lawsuit." 323 F. Supp. 3d 1012, 1027 (S.D. Ind. 2018). But while the language of *Emmis* provides facial support for the Lepore Parties' position, the contractual provisions in that case bear little resemblance to those here. The court's analysis suggested that finding in favor of the insurer might precipitate exclusions from coverage, where the underlying suit did something as simple as allege "that [the Claimant was] a publicly-traded corporation, or even simply that [it did] business in Indiana." *Emmis Commc'ns Corp.*, 323 F. Supp. 3d at 1026. By contrast, Hartford has provided a litany of cases where substantially similar IP exclusions were assessed by courts and found unambiguous.

***10** Despite the concededly broad sweep of the IP Exclusion, the Court does not consider the language ambiguous. More to the point, the Court finds that the unambiguous language of the IP Exclusion excludes coverage of any claim brought in a case, where the underlying suit brings allegations of infringement or violation of Intellectual Property rights.

c. The IP Exclusion Extends to Unfair Competition Claims

The Lepore Parties' third argument largely mirrors their first, as they again allege that the IP exclusion does not include claims for unfair competition. In this section, Plaintiffs offer a series of case citations (*see* Lepore Opp. 14-15), but none, ultimately, supports the argument that the unfair competition claim in the NL Suit is beyond the scope of the IP Exclusion.

For instance, Plaintiffs cite *JAR Laboratories, LLC* v. *Great American Eastern & Southern Insurance Co.*, 945 F. Supp. 2d 937 (N.D. Ill. 2013) ("*JAR Labs*"). There, the court determined that a claim of unfair competition was not covered by an IP exclusion clause. However, the court explicitly contrasted the unfair competition claim brought in that case, which rested on allegations of false advertising, from claims resting on allegations of infringement of intellectual property rights. *See JAR Labs*, 945 F. Supp. 2d at 945 (distinguishing case from those where "the unfair competition alleged was the infringement or misappropriation of a specific intellectual property right"). In this case, the NL Suit quite clearly rests its unfair competition claim on the misappropriation of the "NANETTE LEPORE trademark and other components of the Purchased IP[.]" (Hartford Reply 3). *JAR Labs* provides no support for the argument that an unfair competition claim that explicitly invokes the infringement of an intellectual property right is beyond the scope of an IP Exclusion.

The remainder of Plaintiffs' briefing in this section largely consists of disjointed citations to precedents that emphasize that ambiguities in contract interpretation must be read in favor of the claimant, and that exclusions must be explicit to be enforced. As the Court has discussed in the prior two sections, the IP Exclusion is sufficiently clear as to bar coverage of certain claims in the NL Suit, and the second paragraph of the Exclusion is unambiguous in excluding coverage for any suit which includes a claim barred by the IP Exclusion.

d. The IP Exclusion Is Not Limited to Express Allegations of Intellectual Property Infringement

Plaintiffs' fourth objection is difficult to follow.[5] The Lepore Parties appear to argue that because the second paragraph of the IP Exclusion does not contain the words "arising out of" or "actual or alleged," as in the first paragraph, the second paragraph is implicitly limited to cases where an express intellectual property infringement claim is brought. The Court does not agree.

***11** There is no suggestion in the language of the second paragraph that any new limitation is introduced to the IP Exclusion. Indeed, the entire thrust of the second paragraph is to expand the IP Exclusion. The second paragraph not only encompasses "[a]ny injury or damage alleged in any claim or 'suit' that also alleges an infringement or violation of any intellectual property right," but it also expands the coverage bar to "any allegation of infringement or violation ... against you or any other party involved in the claim or 'suit.' " (Lepore 56.1 ¶ 35). There is no suggestion of limitation in the exclusion.

The Court again declines to find ambiguity where none exists. "Contract language is not ambiguous if it has a definite and precise meaning, unattended by danger of misconception in the purport of the [contract] itself, and concerning which there is no reasonable basis for a difference of opinion." *Hunt Ltd.* v. *Lifschultz Fast Freight, Inc.*, 889 F.2d 1274, 1277 (2d Cir. 1989) (quoting *Breed* v. *Ins. Co. of N. Am.*, 46 N.Y.2d 351, 352 (1978)). The Court does not find ambiguity in language that explicitly uses the terms "any injury or damage" in "any claim or suit" for "an infringement or violation of any intellectual property right." This language does not lend itself to misconception; it was drafted to be as broad as possible and to cover any and all intellectual property claims.[6]

e. The IP Exclusion Applies to Defense and Indemnity

Plaintiffs argue that because "Paragraph 2 has no 'actual or alleged' or 'arising out of' predicate language[,] ... one reasonable construction of Paragraph 2 is that it only applies to indemnity." (Lepore Reply 2). This argument largely mirrors the prior one, in its attempt to create ambiguity where none exists. This argument was rejected in *Dollar Phone Corp.* v. *St. Paul Fire & Marine Insurance Co.*, where the court held: "There is no reasonable basis for concluding that the absence of the 'actual or alleged' language in certain exclusions must be interpreted to mean that [the insurer] has the duty to defend against allegations which, if proven to be meritorious, would be outside the coverage of the policy." No. 09 Civ. 1640 (DLI) (VVP), 2012 WL 1077448, at *11 (E.D.N.Y. Mar. 9, 2012), *report and recommendation adopted*, No. 09 Civ.1640 (DLI) (VVP), 2012 WL 1078994 (E.D.N.Y. Mar. 30, 2012), *aff'd*, 514 F. App'x

21 (2d Cir. 2013) (summary order). Unsurprisingly, the Lepore Parties spend much of their briefing attacking *Dollar Phone* as contrary to New York law. (Lepore Br. 15-16).

The Court discusses the *Dollar Phone* decision at greater length *infra*, as it arises more prominently in the context of the Breach Exclusion. At this stage, it is not necessary to engage in discursive analysis of that opinion, as nothing in the Policies suggests that the IP Exclusion is properly limited to indemnity. Plaintiffs at another point provide a standard for the duty to defend from *Curtis* v. *Nutmeg Ins. Co.*, 612 N.Y.S.2d 256 (3d Dep't 1994). (*See* Lepore Opp. 7). This standard provides that an insurer will not have a duty to defend or indemnify, where "the allegations of the complaint cast that pleading solely and entirely within the policy exclusions, and, further, that the allegations, in toto, are subject to no other interpretation." *Curtis*, 612 N.Y.S.2d at 258. The Court finds that the allegations in the NL Complaint clearly invoke the IP Exclusion, by repeatedly alleging infringements of the Purchased IP. By doing so, the complaint implicates the second paragraph, which necessarily excludes from coverage the entirety of the NL Complaint.

f. The IP Exclusion's Second Paragraph Does Not Contain a Predicate of "Personal and Advertising Injury"

***12** Alternatively, the Lepore Parties also suggest that the second paragraph must be limited by the personal and advertising injury of the first paragraph. (*See* Lepore Br. 17 ("One reasonable construction of Paragraph 2 read in the context of Hartford's IP exclusion as a whole is that it applies only to those allegations that fall within the predicate coverage in [paragraph] 1 for 'personal and advertising injury.' ")). The Court again finds that the language of the IP Exclusion contains no such limitation. The second paragraph does not use the same language as the first paragraph, and instead eliminates coverage for "[a]ny injury or damage alleged in any claim or 'suit.' " (Hartford 56.1 ¶ 35).

The Court agrees with the analysis in *WAWGD, Inc.* v. *Sentinel Insurance Co.*, which is paraphrased here:

> The [NL Suit] ... includes allegations of [intellectual property] infringement implicating subpart (b) of this exclusion, which, contrary to [the Lepore Parties'] argument, applies to any injury or damage alleged in a lawsuit including a [intellectual property] infringement claim, and is therefore not limited to personal and advertising injury claims. The intellectual property exclusion "establishes as a matter of law that [Lepore] is not entitled to a defense in [connection with the [NL Suit]]. The policy language is clear and explicit and is, therefore, dispositive.

No. 16 Civ. 2917 (CAB) (BGS), 2017 WL 4340437, at *6 (S.D. Cal. Sept. 29, 2017) (cited in Hartford Opp. 11). The Court declines to graft new exceptions onto the explicit language of the IP Exclusion.

g. The IP Exclusion Is Clear and Specific as to the Claims Excluded from Coverage

Finally, the Lepore Parties object to the placement of the IP Exclusion within the Policies and argue that the Hartford improperly buried a major change in their coverage. They argue that absent explicit warnings, this provision is invalid. (*See* Lepore Br. 17-22). The Court concludes that the contractual language is sufficiently clear as to the extent of the exclusions.

In support of their arguments, Plaintiffs rely on California cases that make clear that exclusions "must be placed and printed so that [they] will attract the reader's attention." *Haynes* v. *Farmers Ins. Exch.*, 32 Cal. 4th 1198, 1204 (Cal. 2004). However, as Defendant notes, a court in California reviewing a similar IP exclusion has already found it to be clear and conspicuous under that standard. (Hartford Opp. 11-12).

In *Pinnacle Brokers Insurance Solutions LLC* v. *Sentinel Insurance Company, Ltd.*, the district court determined that an IP Exclusion using identical warnings was conspicuous and clear:

> It is located on a page titled, in bold capitalized letters, "Amendment of Exclusions and Definition — Personal and Advertising Injury," which contains the following warning, also in bold capitalized letters: "This endorsement changes the policy. Please read it carefully." Policy at 48. The endorsement is the first on the page, and is not hidden in fine print nor placed in an unusual part of the policy. Its language clearly and unambiguously communicates that (1) personal and advertising injury arising out of any actual or alleged infringement or violation of any intellectual property right is excluded from the policy; (2) a trade secret is considered intellectual property; and (3) any injury or damage alleged in a suit that also alleges an infringement or violation of an intellectual property right is also excluded. Policy at 48. The exclusion is valid and enforceable.

No. 15 Civ. 02976 (JST), 2015 WL 5159532, at *4 (N.D. Cal. Sept. 2, 2015). In this case, the IP Exclusion is located in two separate sections of the policy. Both recite, in bold letters, "This endorsement changes the policy. Please read it carefully." (Amended Complaint, Exhibit 1 (Dkt. #8-1) (Hartford Policies) at 172, 174). The exclusions are not buried in footnotes or written in fine print, and as the Court has already discussed, the language is unambiguous. (*Id.*).[7]

***13** The Court agrees with Hartford that the prominent endorsement constitutes sufficient warning to the insured. (*See* Hartford Opp. 12-13). The Second Circuit has held that similar language effectively amends the language of an insurance contract. *See Cincinnati Ins. Co.* v. *Harleysville Ins. Co.*, 709 F. App'x 71, 75 (2d Cir. 2017) (summary order) (citing *CGS Industries* v. *Charter Oak Fire Ins. Co.*, 720 F.3d 71, 84 (2d Cir. 2013); *DRK, LLC* v. *Burlington Ins. Co.*, 905 N.Y.S.2d 58 (1st Dep't 2010)).

In sum, the Court holds that the IP Exclusion is unambiguous, clear, conspicuous — and enforceable. The NL Suit alleges that the Lepore Parties repeatedly infringed on the NL Plaintiffs' rights in the Purchased IP. The IP Exclusion excludes coverage of "[a]ny injury or damage alleged in any claim or 'suit' that also alleges an infringement or violation of any intellectual property right[.]" No objection overcomes these core points. While this determination entitles Hartford to summary judgment, the Court considers the Breach Exclusion, and concludes that it is an equally valid basis on which to deny coverage.

2. The Breach Exclusion Bars Coverage

Unlike the IP Exclusion, the Breach Exclusion only applies to " 'Personal and advertising injury' arising out of a breach of contract." (Hartford 56.1 ¶ 36). There is no second paragraph expanding the exclusion beyond claims that allege contractual breaches. No matter, argues Hartford, because every claim in the NL Suit alleges wrongful acts in breach of either the contract by which the NL Plaintiffs gained the Purchased IP or the License Agreement. (*See* Hartford Br. 17-19).

"Under New York law, this type of exclusion is governed by a 'but for' test.... Thus only if the ... injury suffered by [the underlying plaintiff] would not exist but for the breach of contract, would the injury 'arise out of' a breach of contract." *Fantasia Accessories, Ltd.* v. *N. Assurance Co. of Am.*, No. 01 Civ. 663 (AGS), 2001 WL 1478807, at *9 (S.D.N.Y. Nov. 20, 2001) (internal citations omitted). Hartford argues that each claim in the NL Suit invokes the alleged breach by the Lepore Parties. (Hartford 56.1 ¶ 25 (citing NL Complaint ¶¶ 38-59)). Specifically, the Purchased IP that Lepore allegedly infringed only came to the NL Plaintiffs by way of the purchase agreement, and the defamatory statements that Lepore allegedly made were in breach of the License Agreement. (*Id.* at ¶ 15). In Hartford's estimation, there are no claims that exist independently of the contracts between the NL Plaintiffs and the Lepore Parties. In response, the Lepore Parties offer several reasons why the Breach Exclusion does not apply. The Court examines them all and finds them wanting.

a. The NL Suit Claims Depend on the Contracts With the Lepore Parties

The Lepore Parties first argue that the Breach Exclusion does not apply, because the NL Suit rests some of its claims on defamatory language by Lepore. (Lepore Br. 9-10). In this regard, they argue, "As *Career Sys. Dev. Corp.* v. *Am. Home Assur. Co.*, No. C 10-2679 BZ, [2011 WL 4344578, at *5] (N.D. Cal. Sept. 14, 2011) concluded on analogous facts '[b]ecause liability for [publishing defamatory] statements would constitute the separate tort of defamation and have no relation to any contract between the parties, the breach of contract exclusion does not apply.' "). (*Id.* at 10). The cited case does not assist the Lepore Parties, as the very quote they introduce reveals a major difference: The allegedly defamatory statements in the NL Suit do not have "*no* relation to any contract between the parties"; they are explicitly alleged to be in breach of the parties' contractual agreements. (*See* Hartford 56.1 ¶ 15 ("Defendants' unauthorized, false and misleading public statements regarding the Transaction, as reflected in the Fashionista Article and the Design & Trend Article, were made in violation of Section 9.9 of the License Agreement.")).

***14** This is not Plaintiffs' only citation to a case that does not support their arguments. On the same page, they continue: "[A]s explained in *Pac. Telesis Grp.* v. *Nat'l Union Fire Ins. Co.*, No. C 98-2555 CRB, [1999 WL 155697, at *4] (N.D. Cal. Mar. 16, 1999), under circumstances that are directly analogous here: '[T]he allegedly defamatory and libelous conduct here is separate and independent from the breach of contract.' " (Lepore Br. 10). Again, the Court disagrees that the case is analogous to the one at issue here, where the allegedly defamatory conduct is described specifically as in breach of contractual agreements.

The Court agrees with Hartford that this case is fundamentally different from cases where courts have limited breach exclusions, because "[w]ithout the [contracts], there would be no relationship at all between the NL Suit Plaintiffs and the Lepore Claimants." (Hartford Opp. 15-16). Hartford points out, and the Lepore Parties do not dispute, that every claim in the NL Suit invokes the agreements and argues that the Lepore Parties have violated them. (*Id.* at 16).

In response, the Lepore Parties rely on cases such as *Hugo Boss Fashions, Inc.* v. *Federal Insurance Co.*, 252 F.3d 608, 620 (2d Cir. 2001), and *Natural Organics, Inc.* v. *OneBeacon America Ins. Co.*, 959 N.Y.S.2d 204 (2d Dep't 2013). (Lepore Br. 9-10). In these cases, courts found that breach exclusions could not eliminate coverage, because certain claims existed independently of the breach claims. The Lepore Parties argue that the NL Suit has similar claims that do not require proof of breach. Not so. The cited cases indeed involved claims that did not "arise out of" a breach of contract. In *Hugo Boss*, the Second Circuit observed the "claims against [the insured] ... exist independent of the contract.... [the underlying plaintiff's] trademark rights arose long before it entered into the 1990 agreement with [the insured] and would exist even if [the underlying plaintiff] had never entered into that agreement and/or if that agreement had not been breached." 252 F.3d at 623. In the NL Suit, by contrast, the NL Plaintiffs only have claim to the underlying intellectual property by way of contract; indeed, the suit refers to the *Purchased* IP throughout. All infringement claims arise out of the contract, and no claims would exist but for the contract.

In *Natural Organics*, the Appellate Division held that a breach exclusion could not bar coverage for disparagement claims, because the disparagement claims existed independently of the contract. 959 N.Y.S.2d at 208. In the NL Suit, the claims repeatedly reference the non-disparagement clauses of the agreements between the NL Plaintiffs and the Lepore Parties. The Court concludes that the claims in the NL Suit are subject to the Breach Exclusion.

b. The Absence of the Words "Actual or Alleged" Does Not Limit the Breach Exclusion to Actual Breaches of Contract

The Lepore Parties argue that the Breach Exclusion lacks the words "actual or alleged," and therefore, the Breach Exclusion must only apply to actual breaches. (Lepore Br. 11-12). For this proposition, the Lepore Parties rely on a number of decisions from California that have held that where the contract does not contain such information, the exclusion should be limited to actual breaches. (*Id.*). The Court does not agree.

As Hartford points out, these decisions are interpreting California law, which permits insurers to provide extrinsic evidence in support of policy exclusions. (*See* Hartford Opp. 21-22). For instance, *in KM Strategic Management, LLC* v. *American Casualty Co. of Reading, PA*, the court held that to bring a policy within the breach exclusion, an insurer "must point to 'conclusive evidence' establishing that any potential liability that the insured faced ... necessarily arose out of an actual breach — not an alleged breach[.]" 156 F. Supp. 3d 1154, 1171 (C.D. Cal. 2015). This discussion of "conclusive evidence" invokes the insurer's ability to present evidence as to the insured's liability in the underlying suit. New York provides no such avenue for insurers. *See Fitzpatrick* v. *Am. Honda Motor Co.*, 78 N.Y.2d 61, 66 (1991) ("[T]he courts of this State have refused to permit insurers to look beyond the complaint's allegations to avoid their obligation to defend.").

***15** In examining a similar question under New York law, the court in *Dollar Phone* rejected the precise argument that the Lepore Parties offer here. In that case, the claimant argued, as here, that the absence of "actual or alleged" language in a non-conformity exclusion required the insurer to demonstrate "that the ... injury *actually* resulted from the non-conformity of an insured's products or work. *Dollar Phone*, 2012 WL 1077448, at *11 (emphasis in original). The court rejected this argument, holding:

> There is no reasonable basis for concluding that the absence of the "actual or alleged" language in certain exclusions must be interpreted to mean that [the insurer] has the duty to defend against allegations which, if proven to be meritorious, would be outside the coverage of the policy. Such an interpretation would completely alter the duty to defend as established in the case law and as defined in the contract.

Id. Furthermore, the court remarked that such a requirement would create an incentive for an insurer to prove that their insured was responsible for injuries and called such a reading "nonsensical." *Id.* at *12.

This Court considers the reasoning in *Dollar Phone* to be persuasive. Adopting the Lepore Parties' reasoning would rewrite the Policies with nonsensical results. The Court notes that the Second Circuit expressed no criticism of the lower court's reasoning in its summary affirmance of the decision, which found "no ambiguity in the policy language, which plainly allow[ed] the insurer to disclaim coverage[.]" *See Dollar Phone Corp.* v. *St. Paul Fire & Marine Ins. Co.*, 514 F. App'x 21, 22 (2d Cir. 2013) (summary order). The Court holds, therefore, that the Breach Exclusion is not limited to cases of actual breach and applies to the allegations of breach that pervade the NL Suit.

3. There Is No Breach of the Covenant of Good Faith and Fair Dealing

Under the Breach Exclusion or the IP Exclusion, Hartford was well within its rights to deny coverage to the Lepore Parties. This not only eliminated Hartford's duty to defend, but it also requires dismissal of the Lepore Parties' allegations of a breach of the covenant of good faith and fair dealing. (*See* Hartford Br. 22-24; Hartford Reply 5-8). The Court agrees with Hartford, however, that even in the event that Hartford had incorrectly denied coverage to the Lepore Parties, there would be no breach of the covenant of good faith and fair dealing.

New York courts have strictly circumscribed tort claims that allege the breach of an underlying contract. "Under New York law, parties to an express contract are bound by an implied duty of good faith, but breach of that duty is merely a breach of the underlying contract." *Harris* v. *Provident Life & Accident Co.*, 310 F.3d 73, 80 (2d Cir. 2002) (citing *Fasolino Foods Co.* v. *Banca Nazionale del Lavoro*, 961 F.2d 1052, 1056 (2d Cir. 1992)). Lepore argues that *Harris* is inapplicable, because "Lepore did allege tort 'independent' of its respective contract with Hartford and alleged bad faith denial of coverage in that Hartford's conduct is grossly negligent, egregious in nature, directed at plaintiff Lepore and clearly part of a pattern directed at the public generally." (Lepore Opp. 23-24). The Court cannot discern any claim here that exists "independent" of the allegation of breach in failing to defend the Lepore Parties. As for the argument that the breach was done in bad faith, Hartford points to the number of decisions that have upheld similar exclusions in courts around the country. (*See* Hartford Reply 7-8). The Court sees nothing in the record to suggest that the denial of coverage was anything other than Hartford's assessment of the requirements of the Policies' language.

CONCLUSION

***16** The Court concludes that Breach and IP Exclusions foreclose Hartford from a duty to defend the NL Suit. The Court also dismisses the claim for breach of the covenant of good faith and fair dealing. For the reasons stated in this Opinion, Defendant's motion for summary judgment is GRANTED and Plaintiffs' cross-motion for partial summary judgment is DENIED.

The Clerk of Court is directed to terminate all pending motions, adjourn all remaining dates, and close this case.

SO ORDERED.

All Citations
Slip Copy, 2019 WL 1129614

Footnotes

1 The Lepore Parties also allege a breach by Hartford of the implied covenant of good faith and fair dealing.

2 The facts alleged herein are largely drawn from Hartford's Local Rule 56.1 Statement of Undisputed Facts ("Hartford 56.1" (Dkt. #33)), and the Plaintiffs' 56.1 Statement of Undisputed Facts ("Lepore 56.1" (Dkt. #41)). Citations to a party's Rule 56.1 Statement incorporate by reference the documents and testimony cited therein. Where a fact stated in a movant's Rule 56.1 Statement is supported by evidence and denied with merely a conclusory statement by the non-movant, the Court finds such fact to be true. *See* Local Civil Rule 56.1(c) ("Each numbered paragraph in the statement of material facts set forth in the statement required to be served by the moving party will be deemed to be admitted for purposes of the motion unless specifically controverted by a correspondingly numbered paragraph in the statement required to be submitted by the opposing party."); *id.* at 56.1(d) ("Each statement by the movant or opponent pursuant to Rule 56.1(a) and (b), including each statement controverting any statement of material fact, must be followed by citation to evidence which would be admissible, set forth as required by Fed. R. Civ. P. 56(c).").

For convenience, the parties' briefs in connection with Defendant's Motion for Summary Judgment are referred to as "Hartford Br. (Dkt. #34); "Lepore Opp." (Dkt. #49); and "Hartford Reply" (Dkt. #54). The parties' briefs in connection with Plaintiffs' motion for partial summary judgment are referred to as "Lepore Br." (Dkt. #44); "Hartford Opp." (Dkt. #49); and "Lepore Reply" (Dkt. #57).

3 The 2010 Amendments to the Federal Rules of Civil Procedure revised the summary judgment standard from a genuine "issue" of material fact to a genuine "dispute" of material fact. *See* Fed. R. Civ. P. 56, advisory comm. notes (2010 Amendments) (noting that the amendment to "[s]ubdivision (a) … chang[es] only one word — genuine 'issue' becomes genuine 'dispute.' 'Dispute' better reflects the focus of a summary-judgment determination."). This Court uses the post-amendment standard, but continues to be guided by pre-amendment Supreme Court and Second Circuit precedent that refer to "genuine issues of material fact."

4 Hartford contests whether the allegations suffice for coverage in one section of its opening brief and a single paragraph of its opposition. (*See* Hartford Br. 19-22; Hartford Opp. 24). Hartford does not discuss coverage in its reply brief.

5 *See* Lepore Opp. 16:

> To know whether an intellectual property claim was asserted, Lepore must await an adjudication of liability limiting its scope to proof of trademark infringement. Absent such proof, Hartford's IP exclusions would deprive it of the notice that is presumed by the contextually consistent third paragraph of Hartford's IP exclusion which expressly requires an allegation in the claim or "suit ... limited to: (1) infringement...." Paragraph (2) of Hartford's IP Exclusion thereby reinforces the "alleged" versus "adjudicated" construction of Paragraph 2 so as to bring it in harmony with Paragraph 3. Both paragraphs are not preceded by predicate "arising out of" or "actual or alleged" language

6 The IP Exclusion does contain exceptions in paragraph three. (Hartford 56.1 ¶ 35). Plaintiffs do not argue that any of those exceptions applies to this case.

7 As Hartford points out (*see* Hartford Opp. 13 n.2), Plaintiffs offer a quotation from *Lifson* v. *INA Life Ins. Co.*, 333 F.3d 349, 353 (2d Cir. 2003), to suggest that Hartford has improperly buried the IP Exclusion (*see* Lepore Br. 18). This case does not contain the cited quotation, nor does it speak to the issue at all.

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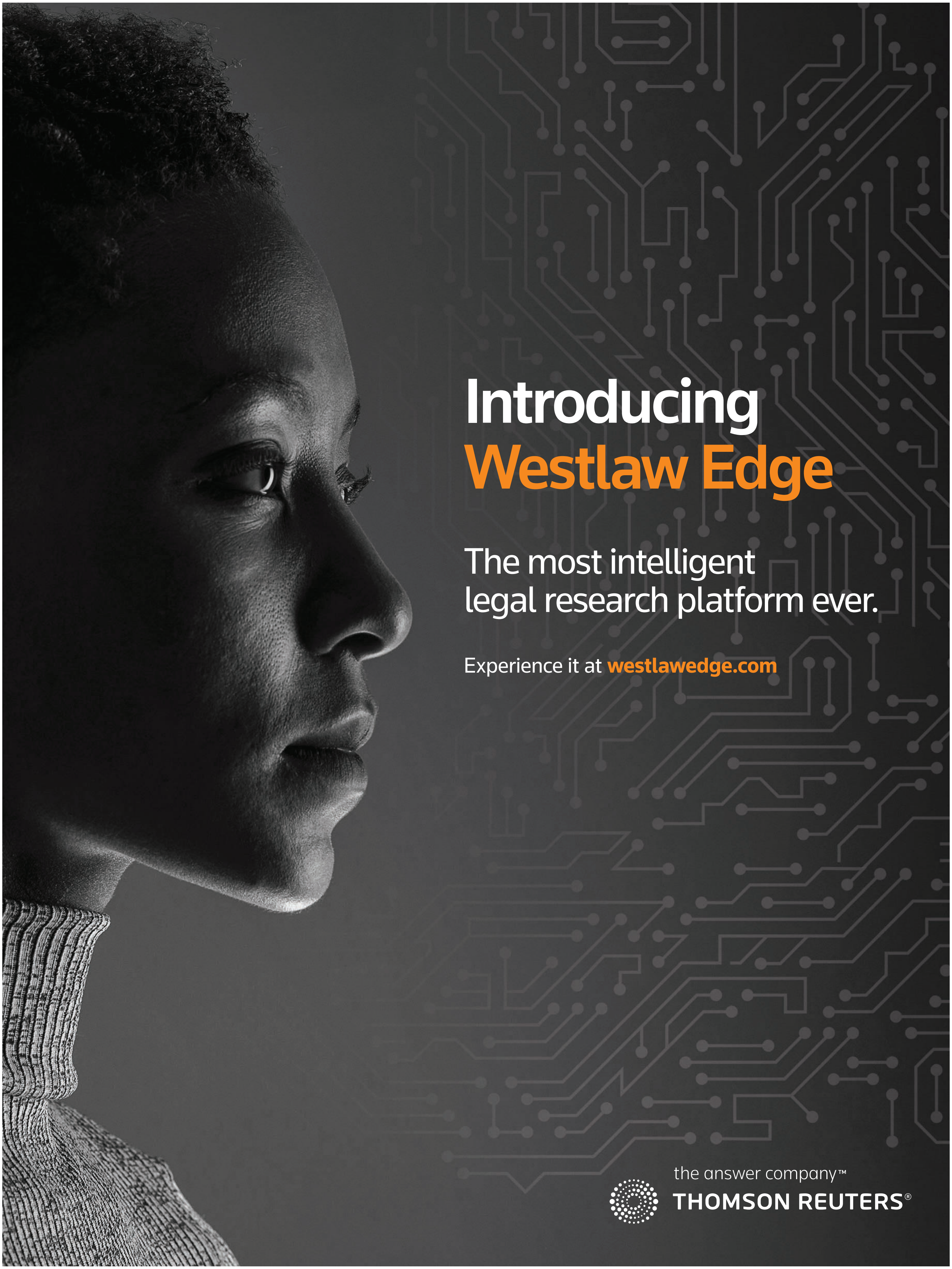
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