EXTRATERRITORIALITY

Supreme Court ruling focuses on patent statute for award of lost overseas profits

By Patrick H.J. Hughes

The U.S. Supreme Court has ruled that patent owner WesternGeco LLC can recoup lost overseas profits from ION Geophysical Corp., which sold infringing components assembled abroad.


In a 7-2 vote, the high court focused solely on Section 271(f)(2) of the Patent Act, 35 U.S.C.A. § 271(f)(2), holding that the statute allows extraterritorial recovery if infringing components are supplied from within U.S. borders.

The U.S. Justice Department asked the high court to overturn the U.S. Court of Appeals for the Federal Circuit's decision not to award lost profits to the Houston-based oil field service provider, a Schlumberger NV subsidiary.

To resolve the dispute, the justices evaluated whether the focus of Section 271(f)(2), which covers supplying an infringing component to be “combined outside the United States,” regulated domestic activity.

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ON-SALE BAR

Supreme Court agrees to clarify ‘on sale’ bar in Helsinn patent case

(Reuters) – The U.S. Supreme Court on June 25 agreed to hear a dispute between drug companies Helsinn Healthcare SA and Teva Pharmaceutical Industries Ltd. over the scope of a legal doctrine limiting the patentability of inventions that have been offered for sale for over a year.


The high court said it would hear Helsinn’s appeal of a U.S. Court of Appeals for the Federal Circuit decision invalidating patents relating to anti-nausea drug Aloxi following a challenge by Teva.

The appeals court had cited the “on-sale bar” to patentability included in the 2011 America Invents Act in ruling against Helsinn.

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PTO releases new patent cover to celebrate 10 millionth patent

By Patrick H.J. Hughes

U.S. patents now have an extra digit since the Patent and Trademark Office granted its 10 millionth utility patent to Massachusetts tech firm Raytheon Co.

U.S. Patent No. 10,000,000, which covers a laser detection and ranging system, was granted June 19.

To mark the occasion, the PTO has released a webpage with a timeline highlighting the history of U.S. patents since the passage of the 1790 Patent Act.

The 10 millionth patent was the first to sport a new design on its cover, a change the PTO unveiled in March in anticipation of the milestone.

The PTO last redesigned the standard patent cover in 1985. This latest change marks only the second time in over 100 years that U.S. patent documents have been redesigned.

President Donald Trump signed the document, marking the first time a president has signed a U.S. patent since 1976.

PTO Director Andrei Iancu commented in March about the significance of the 2018 cover change in anticipation of the 10 millionth patent.

“Our new cover, through design, typography and printing, is a forward-looking, contemporary take on the significance of what the document represents, with a particular emphasis on the value of a patent and its role in the future of our economic and cultural growth,” Iancu said.

In addition to the new cover, the PTO is coordinating a media campaign called “10 Million Patents” — an effort to communicate the role that patents play in the community.

The campaign includes “10 Million Patents Partnerships,” an initiative the PTO has undertaken with museums, including the National Inventors Hall of Fame, to feature exhibits about the history of patents.

The PTO debuted this new patent cover for the 10 millionth patent issued.

No attorney fees for device maker that beat medical patent suit, court says

By Patrick H.J. Hughes

Cook Medical LLC has lost a bid for attorney fees despite deflecting a lawsuit accusing it of infringing a medical device patent, the top patent appeals court has ruled.


The U.S. Court of Appeals for the Federal Circuit found Cook Medical could not show Texas patent-holding company Stone Basket Innovations LLC’s failed suit was “exceptional” enough to warrant an attorney fee award.

The three-judge panel said Cook Medical’s plea for fees failed in part because the company did not give “clear notice” in the early stages of the litigation that Stone was asserting a meritless claim with an invalid patent.

The panel also rejected Cook Medical’s argument that it deserved attorney fees because Stone’s founders had “a lengthy history of filing nuisance lawsuits.”

Section 285 of the Patent Act, 35 U.S.C.A. § 285, a party’s similar conduct in other litigation is irrelevant to the issue of awarding attorney fees, the panel said.

UNDERLYING SUIT

Daniel Mitry and Timothy Salmon are managing members of Stone, a nonpracticing entity they formed in Austin, Texas, shortly before suing Cook Medical in April 2015, according to court documents.

The suit, filed in the U.S. District Court for the Eastern District of Texas, accused Cook Medical of infringing U.S. Patent No. 6,551,327.

The patent covers a device for extracting deposits such as kidney stones from the urinary tract or gallstones from the gallbladder or bile duct.

Bloomington, Indiana-based Cook Medical said the ’327 patent was invalid, and it served its invalidity claims to Stone in October 2015.

In March 2016 Cook Medical filed a petition with the Patent and Trademark Office for an inter partes review proceeding of the ’327 patent pursuant to the 2011 Leahy-Smith America Invents Act.

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Meanwhile, the case was transferred to the Southern District of Indiana, where U.S. District Judge Larry J. McKinney stayed the litigation pending results from the inter partes review.

The Patent Trial and Appeal Board, finding a reasonable likelihood that the invention was obvious to skilled artisans, agreed to institute the review proceeding. *Cook Med. LLC v. Stone Basket Innovations LLC*, No. IPR2016-713, 2016 WL 5403572 (P.T.A.B. Sept. 8, 2016).

In October 2016 Stone offered to license the ‘327 patent to Cook Medical, but those negotiations fell through, according to Judge McKinney’s opinion.

Stone later agreed to cancel the ‘327 patent and moved to dismiss the District Court litigation with prejudice, which Judge McKinney granted.

**EXCEPTIONALLY WEAK?**

Cook Medical then moved for attorney fees, arguing that Stone’s litigation position was “exceptionally weak.”

Testimony from the ‘327 patent’s inventor, who admitted there was “nothing novel” about one aspect of the invention, demonstrated the weakness of Stone’s case, Cook Medical said.

The company also argued it was persuasive that Mitry and Salmon had created different entities for filing more than 400 suits that Cook Medical claimed never went to trial.

For an attorney fee award, the case must be exceptional, meaning it “stands out” as particularly weak, the Federal Circuit said.

Judge McKinney refused to award the fees, saying Cook Medical failed to show the suit was frivolous or filed for the sole purpose of forcing a settlement. *Stone Basket Innovations LLC v. Cook Med. LLC*, No. 16-cv-858, 2017 WL 2655612 (S.D. Ind. June 20, 2017).

Cook Medical appealed.

**DOES THE CASE ‘STAND OUT’?**

To justify an attorney fee award, a case must be exceptional, meaning it “stands out” as particularly weak, U.S. Circuit Judge Evan Wallach wrote, citing *Octane Fitness LLC v. ICON Health & Fitness*, 134 S. Ct. 1749 (2014).

One statement about one aspect of the patent after it has been granted does not invalidate the patent, the opinion said.

In addition, this case does not reflect the pattern of frivolous litigation that Cook Medical alleged because Stone did not make a settlement demand until after almost two years of litigation, the opinion said. This case was not part of a “larger plan to force nuisance settlements,” the panel said.

Finally, the panel said, Stone was not given “clear notice” that Cook Medical was going to allege Stone’s position was exceptionally weak until late into the litigation.

The invalidity contentions Cook Medical submitted consisted of many accusations that did not show Stone anticipated that asserting the ‘327 patent in an infringement suit would be meritless, the panel said.

**Attorneys:**

**Plaintiff-appellee:** Robert E. Freitas, Daniel J. Weinberg and Joshua Young, Freitas Angell & Weinberg, Redwood City, CA

**Defendant-appellant:** James R. Ferguson, Mayer Brown LLP, Chicago, IL

**Related Filings:**

Federal Circuit opinion: 2018 WL 2769104
District Court opinion: 2017 WL 2655612
PTAB decision to institute IPR: 2016 WL 5403572
Motion to transfer venue: 2015 WL 9257405
NRA ad infringes Chicago’s ‘Bean’ sculpture, copyright suit says

By Patrick H.J. Hughes

The sculptor who created Chicago’s 33-foot-tall Cloud Gate landmark, commonly known as “The Bean,” is suing the National Rifle Association for using an image of the sculpture in a minute-long recruitment video.


The British artist, Sir Anish Kapoor, filed a copyright infringement suit in the U.S. District Court for the Northern District of Illinois, demanding that the NRA stop using a black and white image of the silver sculpture “to support its despicable platform of promoting violence.”

Kapoor began overseeing the building of the giant sculpture in 1999. Nicknamed The Bean because of its shape, the monument was finished in 2006 and remains in Chicago’s Millennium Park.

The NRA, a nonprofit that boasts of having more than 5 million members, incorporates the Cloud Gate image in a video that was broadcast on TV June 29, 2017, and has been continuously available on the internet, according to the complaint.

The ad, called “The Violence of Lies,” is available on the NRA’s website and YouTube. The video shows a montage of U.S. landmarks as NRA spokesperson Dana Loesch criticizes those who oppose the organization.

“The only way we save our country and our freedom is to fight this violence of lies with a clenched fist of truth,” Loesch says in the video.

The complaint describes the defendant’s video as “a clear call to armed violence against liberals and the media.”

Kapoor says he is the sole owner of the Cloud Gate sculpture’s copyright, a design he registered with the U.S. Copyright Office in 2016.

He says he did not grant — “and never would have granted” — the NRA permission to use an image of his work.

The NRA is profiting from the image through increased membership dues and other ways, entitling Kapoor to a disgorgement of profits in addition to an injunction barring the image’s use, the suit says.

By filming the landmark, making a copy and reproducing that image, the NRA is liable for infringement, the complaint says.

Loesch is the anchorwoman of “Relentless,” the NRA’s online show that broadcasts weekdays on NRATV.com.

The complaint describes the NRA’s video as “a clear call to armed violence against liberals and the media.”

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Insurance startup accuses European firm of copying app, website

By Dave Embree

Lemonade Inc., a New York-based insurance startup, has filed copyright infringement and computer hacking claims in federal court against a Swiss firm whose CEO allegedly created fake user accounts to copy features from Lemonade’s website and mobile app.


The suit, filed in the U.S. District Court for the Southern District of New York, says Zurich-based FinanceApp AG, its CEO Julian Teicke and a related Liechtenstein-based app developer, ONE Versicherung AG, copied the online content in an attempt to “break into the ‘insurtech’ area quickly and with minimal effort.”

Lemonade sells renters, condominium and homeowners insurance through its mobile app and website in 28 states, the suit says.

Users of Lemonade’s mobile app interact with a “personal insurance assistant” chatbot named “Maya” and submit claims by recording a short video message explaining what was stolen or damaged, according to the suit.

The terms of use governing Lemonade’s app require users to agree not to “create a false identity” or “copy information … to provide any service that is competitive,” the complaint says.

Nonetheless, Teicke accessed Lemonade’s mobile app and website by creating fake user accounts and submitting numerous fictitious claims from October 2016 through August 2017, according to the complaint.

FinanceApp then created its own mobile insurance app using content and design features taken from Lemonade’s app and website, such as a “personal insurance assistant” chatbot named “Miri,” the suit says.

According to the suit, FinanceApp’s conduct has injured Lemonade because it “threatens to mislead investors and divert investment capital to defendants’ infringing services.”

Lemonade says the defendants are liable for breach of contract and violations of U.S. copyright law and the Computer Fraud and Abuse Act, 18 U.S.C.A. § 1030.

The suit asks the court to bar the defendants from using any Lemonade content and seeks damages from the profits earned from infringing actions. It also seeks special and punitive damages, attorney fees and costs.

Attorneys:
Plaintiff: Stefan Mentzer and Scott T. Weingaertner, White & Case, New York, NY

Related Filings:
Complaint: 2018 WL 3029129

See Document Section B (P. 27) for the complaint.
U.S. court revives Dr Pepper challenge to Coca-Cola ‘zero’ drinks

(Reuters) – A U.S. appeals court on June 20 revived Dr Pepper Snapple Group Inc.’s challenge to Coca-Cola Co.’s effort to register trademarks for soft drinks and sports drinks whose names contain the word “zero.”


By a 3-0 vote, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., threw out a May 2016 dismissal of much of Dr Pepper’s decade-old case, saying a trademark review board failed to properly analyze whether “zero” was too generic to be trademarked.

Multiple companies sell beverages with the “zero” name, which often denotes an absence of calories or carbohydrates.

The ability to market products effectively is important to beverage makers trying to counteract declines in U.S. sales of carbonated soft drinks since their mid-2000s peak.

Coca-Cola and its lawyer did not immediately respond to requests for comment.

Dr Pepper welcomed the decision. “We do not believe that any company should have the ability to claim exclusive trademark rights to a term like ‘zero’ in connection with zero-calorie beverages,” spokesman Chris Barnes said in a statement.

Coca-Cola has used the “zero” name on such products as Cherry Coke Zero, Sprite Zero, Powerade Zero and more recently Coca-Cola Zero Sugar.

The Atlanta-based company’s effort to register U.S. rights to 17 drinks with the word “zero” prompted a 2007 challenge by Dr Pepper, whose products include Diet Rite Pure Zero. Coca-Cola argued that such names could confuse consumers.

In 2016, the U.S. Patent and Trademark Office’s Trademark Trial and Appeal Board said “zero” had “acquired distinctiveness” when used to sell Coca-Cola soft drinks.


The board cited a 2008 survey offered by Coca-Cola in which 61 percent of consumers associated the word “zero” with one company, as opposed to 6 percent for the word “diet.”

But the board also said Plano, Texas-based Dr Pepper could trademark Diet Rite Pure Zero because only full brand names, not the word “zero” by itself, were “inherently distinctive.”

Dr Pepper’s appeal sought to force Coca-Cola to “disclaim” the word “zero,” broadly freeing rivals to use it.

In the June 20 decision, Circuit Judge Kathleen O’Malley said the trademark board used the wrong legal approach to assess whether consumers thought “zero” generically described low-calorie or low-carbohydrate drinks.

She also said Coca-Cola failed to counteract Dr Pepper’s evidence about how companies used the word and that the passage of time made the 2008 survey’s usefulness “questionable.”

The case was returned to the trademark board for further proceedings. [W]

(Reporting by Jonathan Stempel)

Related Filings:
Federal Circuit opinion: 2018 WL 3040163
Trademark Trial and Appeal Board opinion: 2018 WL 9227936
Drone retailer files counterclaim in trademark infringement dispute

By Rae Theodore

An online drone retailer has filed a counterclaim to a trademark infringement suit by the manufacturer of an adapter that allows tablets to operate drones, asking a California federal court to invalidate the adapter maker’s trademark.


Drone World LLC and its owner, Stephen McKenna, say Aerial West LLC filed its arch 20 trademark infringement and unfair-competition lawsuit in response to Drone World’s complaints that the adapters were defective.

The counterclaim, filed in the U.S. District Court for the Central District of California, also alleges that Aerial West lacks the right to use the trademark “MavMount” and that the mark is generic and not entitled to registration.

Tablet Adapter

Aerial West says it produces the MavMount tablet adapter, which allows a user to pilot an airborne drone with an iPhone, iPad or similar device.

Aerial West says Drone World started purchasing the MavMount adapter for resale in December 2016, soon after the product launched. From January to August 2017, Drone World bought about 900 MavMount products from Aerial West, the suit says.

In September, Drone World ordered 150 MavMount adapters but later canceled the order and stopped ordering from Aerial West, the suit says.

Aerial West says it learned Drone World had started selling counterfeit adapters that resembled MavMounts and bore the MavMount trademark but lacked its quality.

The company accuses Drone World of sending an authentic MavMount adapter to a manufacturer to obtain a counterfeit product to sell at a lower price. It says Drone World sells knockoff MavMount products on Amazon.com at a lower price than authentic MavMount products.

“Drone World continues to receive complaints related to product issues, returns for replacement or full refunds and a defect rate that is five times higher than Drone World’s worst-performing drone accessory,” according to the counterclaim.

When Aerial West failed to remedy the situation, the retailer was forced to buy replacement parts and products to satisfy its customers, the counterclaim says.

After the business relationship between the parties soured, the manufacturer accused the drone retailer of trademark infringement involving the MavMount mark, the suit says.

Defective Products?

In its counterclaim, Drone World says Da-Jiang Innovations, a Chinese company, manufactures a popular line of drones known as the “Mavic” series. DJI has control over the Mavic trademark for drones and drone accessories, the court document says.

Drone World claims to be the Internet’s largest authorized dealer of DJI kits. It says the kits it sells have been used by National Geographic and military contractors and are known for their selection of accessories.

The company says it purchased mounts from Aerial West over a seven-month period for its most popular drone kit but “a significant number” of the mounts were “defective.”


Aerial West seeks an injunction to stop the defendants’ allegedly infringing conduct and the impound of any illegal products. It also seeks compensatory and punitive damages, plus attorney fees and costs.

Attorneys:
Counterclaimants: Joseph A. Mandour and Ben T. Lila, Mandour & Associates, Los Angeles, CA
Counterdefendant: Robert W. Dickerson and Thomas F. Zuber, Zuber Lawler & Del Duca, Los Angeles, CA

Related Filings:
Complaint: 2018 WL 1954450
Answer: 2018 WL 3030660
Counterclaim: 2018 WL 3030664
Teradata sues Germany’s SAP, alleging it stole trade secrets

(Reuters) – SAP SE, Europe’s most valuable technology company, was sued June 19 by U.S. company Teradata, which accused it of stealing trade secrets, copyright infringement and antitrust violations.


The case, filed at the U.S. District Court for the Northern District of California, alleges that Germany-based SAP entered a joint venture with Teradata in 2008 with the aim of gaining access to its intellectual property and creating a competing database product that it then tried to “coerce” its customers to use.

SAP said it was surprised by the Teradata complaint. It may issue a statement once it has reviewed the lawsuit, which seeks an injunction, unspecified damages and other legal relief available under the law.

The case comes weeks after SAP, long a provider of business software that runs back-office functions such as finance or supply-chain management, announced a push into the $66 billion market for customer relationship management — jargon for sales and marketing.

SAP, which has a market value of more than $140 billion, is shifting customers increasingly to integrated cloud-based services. The Teradata suit relates to its earlier generation of HANA database products, hosted on company premises, that are still widely in use.

The 35-page filing draws on allegations by a whistleblower — identified as former internal SAP auditor Thomas Waldbaum — that were first reported by Germany’s Spiegel magazine in September 2015. At the time, SAP co-founder Hasso Plattner slammed the claims as “monstrous and laughable.”

SAP shut down an internal probe into the concerns raised by Waldbaum in May 2013, the suit alleges.

In an email to the supervisory board in January 2014, Waldbaum alleged that SAP had improperly used the intellectual property of a number of competitors, including Teradata, to create HANA, the suit says.

Waldbaum was fired the following month.

Teradata alleges that SAP’s theft of intellectual property enabled it to speed the release of HANA. The lawsuit also notes that HANA sales reached $2 billion in 2016 and generated hundreds of millions of dollars in further licensing sales.

It was not immediately clear what prospects of success the Teradata suit had.

In an earlier legal battle with U.S. competitor Oracle, SAP agreed in 2014 to pay a $357 million settlement over the improper download of Oracle files.  

(Reporting by Douglas Busvine)

Related Filings:
Complaint: 2018 WL 3062915
TRADE SECRETS

Judge: Venture capitalist’s investment in security firm’s rivals no cause for alarm

A Delaware judge has tossed a trade secret misappropriation lawsuit home security provider Alarm.com Holdings Inc. brought against a venture capital firm that was once its majority shareholder but subsequently invested in its competitors.


In a June 15 order, Vice Chancellor J. Travis Laster of the Delaware Chancery Court dismissed AHI’s suit with prejudice, finding that its investment agreements with venture capital firm ABS Capital Partners Inc. allowed ABS to access AHI’s trade secrets and invest in its competitors.

The vice chancellor rejected AHI’s state law claims for misappropriation of trade secrets and misuse of confidential information. He also denied the company’s motion to amend the complaint, noting it failed to provide more specifics after he previously warned that its allegations were too sketchy.

AMENDED CLAIMS


The amended suit comes on the heels of an unsuccessful initial attempt to block private equity funds that partnered with ABS from acquiring AHI competitors Resolution Products Inc. and ipDatatel LLC.

AHI originally argued that unless the court blocked these acquisitions, ABS would give AHI’s competitors an unfair advantage by misusing confidential information the venture capital firm acquired from former Alarm.com Chairman Ralph Terkowitz, the head of ABS, before he left AHI in 2016.


After failing to obtain the TRO, AHI amended its complaint to allege that Terkowitz had indeed misused its confidential information to aid Resolution Products. The suit alleged misappropriation of confidential information and violations of the Delaware Uniform Trade Secrets Act.

INSUFFICIENT OPPORTUNITY AND MOTIVE

In his June 15 opinion, Vice Chancellor Laster rejected those claims, finding that a 2009 investment agreement and several successor pacts clearly allowed ABS to invest in Resolution, gain a significant interest in it and appoint members to its board of directors, as it had with AHI.

Without specific allegations of trade secret misuse, it is not enough to show that Terkowitz had the chance to learn AHI’s business secrets and a reason to give them to Resolution, since the contracts explicitly permit his alleged actions, the vice chancellor said.

He added that AHI failed to make the required three-part showing under Delaware law that a trade secret existed, the trade secret was confidentially communicated to Terkowitz and that Terkowitz intentionally misappropriated it — meaning he knowingly gained the information improperly or disclosed it without authorization.

Although AHI could rely on circumstantial evidence to persuade jurors based on the totality of the circumstances, the vice chancellor said the company did not even clear the relatively low bar of alleging facts from which a jury could reasonably infer trade secret misuse.

AHI merely alleged that ABS and Terkowitz did something they clearly were allowed to do, he said.

Attorneys:
Plaintiff: Philip A. Rovner, Jonathon A. Choa and Alan R. Silverstein, Potter, Anderson & Corroon, Wilmington, DE
Defendants: Raymond J. DiCamillo, Chad M. Shandler and Matthew W. Murphy, Richards, Layton & Finger, Wilmington, DE; Steven F. Barley and Andrea W. Trento, Hogan Lovells US LLP, Baltimore, MD

Related Filings:
Opinion: 2018 WL 3006118
FALSE ADVERTISING

What’s in a name? Law firm says its name on Google AdWords not so sweet

By Susan Swann

A New Jersey law firm has filed a lawsuit accusing a rival firm of using Google AdWords to misdirect online visitors to its own site in violation of federal laws prohibiting false advertising and the creation of false associations.

*Helmer, Conley & Kasselman PA et al. v. Hark & Hark et al., No. 18-cv-10927, complaint filed, 2018 WL 3084968 (D.N.J. June 22, 2018).*

Helmer, Conley & Kasselman filed suit in the U.S. District Court for the District of New Jersey, alleging its direct competitor purchased from Google keyword combinations such as “helmer conley” that were “clearly designed to divert web traffic.”

The suit names the law firm Hark & Hark, principals Jeffrey Hark and Richard Q. Hark, and several John Doe corporations and individuals as defendants.

The suit alleges the defendants violated the false-association and false-advertising provisions of the Lanham Act, 15 U.S.C.A. § 1125(a)(1)(A) and (a)(1)(B), as well as New Jersey laws prohibiting unfair competition and identity theft.

**GOOGLE ADWORDS**

Google AdWords is a keyword-triggered advertising program that generates sponsored links in response to a Google search, which appear above the natural, or “organic,” search results.

Advertisers participating in Google AdWords purchase or bid on certain keywords and pay Google to have links to their websites displayed in the “sponsored links” section whenever an internet user searches for those words.

According to the complaint, the defendants bought the names of the named partners at Helmer, Conley & Kasselman and various combinations of these names with phrases such as “law firm” and “defense.”

As a result, when internet users search for Helmer, Conley & Kasselman, the first link that comes up in response to their search is labeled “Helmer, Conley & Kasselman,” but clicking on the link takes the user to Hark & Hark’s website, the complaint says.

This misdirection is likely to lead potential clients to retain Hark & Hark’s services instead of Helmer, Conley & Kasselman’s, the suit says.

New Jersey’s rules of professional conduct for lawyers prohibit such dishonesty, the suit says, adding that the lawyer defendants “are held to a higher standard and duty than the general public.”

Helmer, Conley & Kasselman seeks injunctive relief prohibiting the defendants from purchasing misleading keywords. It also seeks the immediate termination of contracts for the words the defendants have already purchased.

The suit further seeks statutory and treble damages under the Lanham Act and punitive and compensatory damages under state law.

**Attorneys:**

*Plaintiff:* Benjamin Folkman and Paul C. Jensen Jr., Folkman Law Offices PC, Cherry Hill, New Jersey

*Related Filings:*

Complaint: 2018 WL 3084968
High court urged to fix ‘wrong’ decision that stripped licensee of IP rights

By Donna Higgins

A company that licensed trademark and patent rights from a now-bankrupt firm is asking the U.S. Supreme Court to resolve a decades-old division among lower courts over whether licensees lose their intellectual property rights when licensors reject the contracts in bankruptcy.


Mission Product Holdings Inc. is seeking review of a 1st U.S. Circuit Court of Appeals ruling that said Mission lost its right to use debtor Tempnology LLC’s trademarks and other intellectual property when Tempnology rejected the parties’ license agreement as an executory contract.

The decision “casts a cloud of uncertainty over significant commercial transactions that are central to our nation’s system for encouraging and rewarding innovation,” the petition says.

The 1st Circuit sided with an outdated ruling from the 4th Circuit that conflicts with a more recent decision from the 7th Circuit, deepening a division that can now be resolved only with the justices’ intervention, the petition says.

“The split of authority is plain and squarely presented. And the 1st Circuit is wrong,” Mission says.

CONTRACT REJECTED IN BANKRUPTCY

New Hampshire-based Tempnology LLC made cooling fabrics for exercise clothing sold under the “Coolcore” and “Dr. Cool” brands, according to the petition.

In 2012 Tempnology entered into an agreement that gave Mission the nonexclusive right to sell certain patented and trademarked Tempnology products worldwide, and the exclusive right to sell a subset of those products within the United States, the petition says.

In September 2015 Tempnology entered Chapter 11 in the U.S. Bankruptcy Court for the District of New Hampshire and sought to reject its agreement with Mission as an executory contract under Section 365(a) of the Bankruptcy Code, 11 U.S.C.A. § 365(a).

Mission objected, asserting its option to retain its contractual rights as an intellectual property licensee as provided under Section 365(n).

The Bankruptcy Court ruled that the protections to intellectual property rights afforded licensees under Section 365(n) did not extend to Mission’s exclusive distribution rights or its right to use the debtor’s trademarks. Those rights were thus terminated by the debtor’s rejection of the contract, the court said.

Following an appeal to the 1st Circuit’s Bankruptcy Appellate Panel, which partially reversed the Bankruptcy Court’s decision, the Court of Appeals by a 2-1 margin affirmed the entirety of the Bankruptcy Court’s decision.

The full court panel held that Tempnology’s rejection terminated Mission’s exclusive distribution rights because the exclusive right to sell a product that incorporates patented technology is not an intellectual property right protected under Section 365(n).

The panel majority then said the rejection also terminated Mission’s trademark rights because Section 101(35A) of the code, 11 U.S.C.A. § 101(35A), which defines intellectual property for Bankruptcy Code purposes, does not include trademarks and trade names.

Mission then filed its petition for writ of certiorari.

CHOOSING SIDES

“The 1st Circuit’s decision openly chooses sides … in a long-standing circuit split on a fundamental bankruptcy question: the effect of a debtor’s rejection of an executory contract, and in particular, an agreement to license intellectual property,” Mission says in the petition.

“This conflict — resulting in dramatically different outcomes for licensees based on the happenstance of where the licensor declares bankruptcy — is entrenched and will not resolve itself without this court’s intervention.”

The 1st Circuit followed Lubrizol Enterprises Inc. v. Richmond Metal Finishers Inc., 756 F.2d 1043 (4th Cir. 1985), in which the 4th Circuit said a debtor’s rejection of an agreement to license intellectual property stripped the licensee of the right to continue using the IP and allowed the debtor to sell or license it to someone else.

In response to Lubrizol, Congress enacted Sections 365(n) and 101(35A) but omitted trademark rights from the definition of “intellectual property” because it believed the treatment of trademark rights needed more study, the petition says.

Nearly 30 years later, the 7th Circuit in Sunbeam Products Inc. v. Chicago American Manufacturing LLC, 686 F.3d 372 (7th Cir. 2012), said a licensee’s trademark rights survived a debtor’s rejection of the license agreement in bankruptcy.

Section 365(g) of the Bankruptcy Code, 11 U.S.C.A. § 365(g), classifies rejection under Section 365(a) as a breach of contract, meaning only that the debtor does not have to perform its future obligations and that its unfulfilled obligations are converted to damages, the Sunbeam court explained.

“Nothing about this process implies that any rights of the other contracting party have been vaporized,” the Sunbeam court said.

By aligning itself with Lubrizol and rejecting Sunbeam, the 1st Circuit in Mission’s case has restored much of the confusion that Congress sought to resolve when it enacted Sections 365(n) and 101(35A), the petition says.
The omission of trademarks from the definition of “intellectual property” in Section 101(35A) is not a basis for concluding that trademark rights do not survive rejection, Mission argues.

‘THE PATENT ACT SAYS SO’

In addition to the trademark issue, Mission wants the Supreme Court to review a second, related question — whether an exclusive right to sell patented products is a right protected by Section 365(n).

“A patent is, among other things, the right to sell the patented invention and to exclude others from selling it. The Patent Act says so,” Mission argued. “The 1st Circuit’s crabbed reading of Section 365(n) is both clearly wrong and potentially far-reaching in its implications.”

The high court should grant review of both questions to dispel the “unnecessary and harmful confusion” caused by the 1st Circuit’s ruling. WJ

Attorneys:
Petitioner: Danielle Spinelli, Craig Goldblatt, Joel Millar and James Barton, Wilmer Cutler Pickering Hale & Dorr, Washington, DC; Robert J. Keach and Lindsey Z. Milne, Bernstein, Shur, Sawyer & Nelson, Portland, ME

Related Filings:
Certiorari petition: 2018 WL 2967405
1st Circuit opinion: 879 F.3d 389

See Document Section C (P. 34) for the certiorari petition.

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IGN Geophysical's infringing conduct “clearly occurred in the United States,” Supreme Court Justice Clarence Thomas wrote for the majority.

**RULING ‘SIDESTEPS THORNY ISSUES’**

Several attorneys not involved in the case said that while the decision probably will have a big impact, the justices were careful to limit the holding by circumventing some controversial extraterritorial issues.

Attorney Christopher Loh of Fitzpatrick, Cella, Harper & Scinto’s New York office, described the holding as a “short and to the point” decision that “sidesteps thorny issues of extraterritoriality.”

Fitzpatrick, Cella, Harper & Scinto attorney Christopher Loh described the holding as a “short and to the point” decision that “sidesteps thorny issues of extraterritoriality.”

“The Supreme Court typically likes to address questions about extraterritoriality directly, but here, I think the majority might have felt that the extraterritoriality arguments militated against the relief it thought was adequate to compensate patent owners under Section 271(f)(2),” Loh said.

Brinks Gilson & Lione attorney Laura A. Lydigsen, who is based in Chicago, viewed the decision as “narrowly limited” to Section 271(f)(2) violations, which she says make up “only a very small subset of patent suits.”

Lydigsen said it is noteworthy that the court declined to rule on the broader issue of whether the presumption against extraterritorial should always apply to statutes such as Section 284 of the Patent Act, 35 U.S.C.A. § 284, which provides a general damages remedy.

Irena Royzman, an attorney at Patterson Belknap Webb & Tyler in New York, said the decision to overturn the Federal Circuit’s “bright-line rule” on recovering patent profits lost abroad was a “significant win” for patent holders.

“The Federal Circuit’s per se bar to the recovery of such damages was at odds with the statute on patent damages and risked systematically undercompensating patent owners for damages resulting from U.S. infringement,” she said.

Brinks Gilson & Lione attorney Laura A. Lydigsen viewed the decision as “narrowly limited” to Section 271(f)(2) violations.

“Problems could arise if other countries apply the reasoning of WesternGeco to infringement of foreign patents based on activities in the U.S.,” Perkins Coie attorney Gene Lee said.

The Federal Circuit had ruled in July 2015 that WesternGeco had standing under Section 271(f) to sue ION Geophysical on the ground that the infringing device was manufactured domestically. WesternGeco LLC v. ION Geophysical Corp., 791 F.3d 1340 (Fed. Cir. 2015).

With standing established, WesternGeco said it should have been awarded damages based on ION Geophysical’s actions, even if the damages derived from lost sales abroad.
ION Geophysical would not have been able to win certain survey contracts from foreign companies if those companies had not been given access to infringing devices, WesternGeco argued.


‘MERELY INCIDENTAL TO THE INFRINGEMENT’

“Courts presume that federal statutes ‘apply only within the territorial jurisdiction of the United States,’” Justice Thomas said, quoting Foley Brothers Inc. v. Filardo, 336 U.S. 281 (1949).

He said the court’s holding was in keeping with this presumption against extraterritoriality, because the infringement happened domestically.

The Federal Circuit was wrong to presume ION Geophysical’s profits came from an extraterritorial application of the Patent Act, Justice Thomas said.

Section 284 of the Patent Act provides damages for domestic infringement. Because Section 271(f)(2) focuses on the domestic conduct of supplying components, the infringement of WesternGeco’s patents was a domestic application of Section 284, Justice Thomas said.

“Those overseas events were merely incidental to the infringement,” he said.

DISSENT


The Federal Circuit had the right idea when it limited damages to exclude foreign sales, according to the dissent.

“The reason is straightforward,” the dissent said, describing patents as territorial monopolies that essentially charge rents to those using protected technologies within U.S. borders.

Extending these rents to foreign markets would invite other countries to reciprocate and extend their own patent laws into the U.S. system, Justice Gorsuch said.

Under the majority’s reasoning, a U.S. court might award damages to a foreign company even if “the foreign patent lacks any legal force here,” the dissent said.

Perkins Coie attorney Gene Lee, who was not involved in the case, said he shares Justice Gorsuch’s concern about potential interpretations of the court’s holding.

“Problems could arise if other countries apply the reasoning of WesternGeco to infringement of foreign patents based on activities in the U.S.,” Lee said.

Dr. Dariush Adli, an attorney and founder of Adli Law Group in Los Angeles, who also was not involved in the case, agreed the decision likely will prompt complaints and countermeasures from other countries.

“To that end, the decision will likely prompt another look by Congress as to whether the patent statute at issue, Section 271(f)(2), should be modified,” he said.

Dr. Dariush Adli, founder of Adli Law Group PC, said “the decision will likely prompt another look by Congress as to whether the patent statute at issue, Section 271(f)(2), should be modified.”

“It is not often that a Supreme Court patent law decision has the potential to exacerbate international trade dispute tensions,” Venable attorney Michele Van Patten Frank said.

Michele Van Patten Frank, an attorney at Venable’s Washington office, said other countries could see the decision as an opportunity for U.S. patent holders to expand into foreign markets, and they could retaliate.

“It is not often that a Supreme Court patent law decision has the potential to exacerbate international trade dispute tensions,” she said.

Attorneys:

Petitioner: Timothy K. Gilman, Leslie M. Schmidt, Kirkland & Ellis, New York, NY; Paul D. Clement, Gregg F. LoCascio, John C. O’Quinn and William H. Burgess, Kirkland & Ellis, Washington, DC

Respondent: Justin M. Barnes, Troutman Sanders LLP, San Diego, CA; David J. Healey, Brian G. Strand and Bailey K. Benedict, Fish & Richardson, Houston, TX

Related Filings:

Supreme Court holding: 2018 WL 3073503
Oral argument: 2018 WL 1795471
Petition for cert.: 2017 WL 678358
Federal Circuit opinion: 791 F.3d 1340

See Document Section A (P. 19) for the Supreme Court holding.
Helsinn argued that the Federal Circuit’s ruling misapplied the bar to a semi-confidential transaction that should not be likened to a sale of its drug.

Teva spokesperson Elizabeth DeLuca said in a statement that the company remains confident in its position on the merits despite the high court taking the case.

“We are pleased that the Supreme Court will consider the validity of the patent covering our client’s Aloxi drug franchise, and clarify the America Invents Act’s on-sale bar provision,” said Helsinn counsel Joseph O’Malley of Paul Hastings in a statement.

Lugano, Switzerland-based Helsinn generates most of its annual revenue from Aloxi, a treatment for chemotherapy-induced nausea and vomiting. The company holds U.S. patents covering the drug’s active ingredient, palonosetron.

In 2001, when Aloxi was under development and Helsinn needed to raise money, the company agreed to license rights to the drug to business partner MGI Pharma Inc. in exchange for upfront payments and future royalties.

The deal also called for MGI to purchase the drug from Helsinn if it gained approval from the Food and Drug Administration.

The transaction between MGI and Aloxi was disclosed in a regulatory filing but the parties did not make public the specific dosage formulations covered by the agreements.

Helsinn said in its cert petition that the text of the America Invents Act makes clear that Congress did not intend for private sales offers to trigger the on-sale bar.

Teva sought FDA approval in 2011 to market generic Aloxi. Helsinn sued Teva in U.S. District Court in Trenton, New Jersey, seeking a declaration that its patents on Aloxi were valid and would be infringed by the proposed generic.


But a three-judge panel of the Federal Circuit unanimously reversed and invalidated the patents in May 2017, saying the transaction between Helsinn and MGI constituted a sale of the drug and “the details of the invention need not be publicly disclosed in the terms of sale” for the on-sale bar to be triggered. Helsinn Healthcare SA v. Teva Pharms. USA Inc., 855 F.3d 1356 (Fed. Cir. 2017).

“We are pleased that the Supreme Court will consider the validity of the patent covering our client’s Aloxi drug franchise and clarify the America Invents Act’s on-sale bar provision,” Helsinn Healthcare counsel Joseph O’Malley of Paul Hastings said.
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Petitioner WesternGeco LLC owns patents for a system used to survey the ocean floor. Respondent ION Geophysical Corp. began selling a competing system that was built from components manufactured in the United States, shipped to companies abroad, and assembled there into a system indistinguishable from WesternGeco’s. WesternGeco sued for patent infringement under 35 U. S. C. §§271(f)(1) and (f)(2). The jury found ION liable and awarded WesternGeco damages in royalties and lost profits under §284. ION moved to set aside the verdict, arguing that WesternGeco could not recover damages for lost profits because §271(f) does not apply extraterritorially. The District Court denied the motion, but the Federal Circuit reversed. ION was liable for infringement under §271(f)(2), the court reasoned, but §271(f) does not allow patent owners to recover for lost foreign profits. On remand from this Court in light of Halo Electronics, Inc. v. Pulse Electronics, Inc., 579 U. S. ___, the Federal Circuit reinstated the portion of its decision regarding §271(f)’s extraterritoriality.


(a) The presumption against extraterritoriality assumes that federal statutes “apply only within the territorial jurisdiction of the United States.” Foley Bros., Inc. v. Filardo, 336 U. S. 281, 285. The two-step framework for deciding extraterritoriality questions asks, first, “whether the presumption . . . has been rebutted.” RJR Nabisco, Inc. v. European Community, 579 U. S. ___, ___. If not, the second step asks “whether the case involves a domestic application of the statute.” Id., at ___. Courts make the second determination by identifying “the statute’s ‘focus’ ” and then asking whether the conduct relevant to that focus occurred in United States territory. Ibid. If so, the case involves a permissible domestic application of the statute. It is “usually . . . preferable” to begin with step one, but courts have the discretion to begin with step two “in appropriate cases.” Id., at ___, n. 5. The Court exercises that discretion here. Pp. 4–5.

(b) When determining “the statute’s ‘focus’ ”—i.e., “the objec[t] of [its] solicitude,” Morrison v. National Australia Bank Ltd., 561 U. S. 247, 267—the provision at issue is not analyzed in a vacuum. If it works in tandem with other provisions, it must be assessed in concert with those provisions. Section 284, the Patent Act’s general damages provision, states that “the court shall award the claimant damages adequate to compensate for the infringement.” The focus of that provision is “the infringement.” The “overriding purpose” of §284 is to “affor[d] patent owners complete compensation” for infringements. General Motors Corp. v. Devex Corp., 461 U. S. 648, 655. Section 271 identifies several ways that a patent can be infringed. Thus, to determine §284’s focus in a given case, the
type of infringement that occurred must be identified. Here, §271(f)(2) was the basis for WesternGeco’s infringement claim and the lost-profits damages that it received. That provision regulates the domestic act of “supply[ing] in or from the United States,” and this Court has acknowledged that it vindicates domestic interests, see, e.g., Microsoft Corp. v. AT&T Corp., 550 U. S. 437, 457. In sum, the focus of §284 in a case involving infringement under §271(f)(2) is on the act of exporting components from the United States. So the conduct in this case that is relevant to the statutory focus clearly occurred in the United States. Pp. 5–8.

(c) ION’s contrary arguments are unpersuasive. The award of damages is not the statutory focus here. The damages themselves are merely the means by which the statute achieves its end of remedying infringements, and the overseas events giving rise to the lost-profit damages here were merely incidental to the infringement. In asserting that damages awards for foreign injuries are always an extraterritorial application of a damages provision, ION misreads a portion of RJR Nabisco that interpreted a substantive element of a cause of action, not a remedial damages provision. See 579 U. S., at ___. Pp. 8–9.

837 F. 3d 1358, reversed and remanded.

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

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

Opinion

JUSTICE THOMAS delivered the opinion of the Court.

Under the Patent Act, a company can be liable for patent infringement if it ships components of a patented invention overseas to be assembled there. See 35 U. S. C. §271(f)(2). A patent owner who proves infringement under this provision is entitled to recover damages. §284. The question in this case is whether these statutes allow the patent owner to recover for lost foreign profits. We hold that they do.


“Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.”

Section 271(f)(2), the provision at issue here, addresses the act of exporting components that are specially adapted for an invention:

“Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.”
Patent owners who prove infringement under §271 are entitled to relief under §284, which authorizes “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.”

II

Petitioner WesternGeco LLC owns four patents relating to a system that it developed for surveying the ocean floor. The system uses lateral-steering technology to produce higher quality data than previous survey systems. WesternGeco does not sell its technology or license it to competitors. Instead, it uses the technology itself, performing surveys for oil and gas companies. For several years, WesternGeco was the only surveyor that used such lateral-steering technology.

In late 2007, respondent ION Geophysical Corporation began selling a competing system. It manufactured the components for its competing system in the United States and then shipped them to companies abroad. Those companies combined the components to create a surveying system indistinguishable from WesternGeco’s and used the system to compete with WesternGeco.

WesternGeco sued for patent infringement under §§271(f)(1) and (f)(2). At trial, WesternGeco proved that it had lost 10 specific survey contracts due to ION’s infringement. The jury found ION liable and awarded WesternGeco damages of $12.5 million in royalties and $93.4 million in lost profits. ION filed a post-trial motion to set aside the verdict, arguing that WesternGeco could not recover damages for lost profits because §271(f) does not apply extraterritorially. The District Court denied the motion. 953 F. Supp. 2d 731, 755–756 (SD Tex. 2013).

On appeal, the Court of Appeals for the Federal Circuit reversed the award of lost-profits damages. WesternGeco LLC v. ION Geophysical Corp., 791 F. 3d 1340, 1343 (2015). The Federal Circuit had previously held that §271(a), the general infringement provision, does not allow patent owners to recover for lost foreign sales. See id., at 1350–1351 (citing Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc., 711 F. 3d 1348 (CA Fed. 2013)). Section 271(f) should be interpreted the same way, the Federal Circuit reasoned, because it was “designed” to put patent infringers “in a similar position.” WesternGeco, 791 F. 3d, at 1351. Judge Wallach dissented. See id., at 1354–1364. WesternGeco petitioned for review in this Court. We granted the petition, vacated the Federal Circuit’s judgment, and remanded for further consideration in light of our decision in Halo Electronics, Inc. v. Pulse Electronics, Inc., 579 U. S. __ (2016). WesternGeco LLC v. ION Geophysical Corp., 579 U. S. __ (2016).

On remand, the panel majority reinstated the portion of its decision regarding the extraterritoriality of §271(f). 837 F. 3d 1358, 1361, 1364 (CA Fed. 2016). Judge Wallach dissented again, id., at 1364–1369, and we granted certiorari again, 583 U. S. __ (2018). We now reverse.

III


This Court has established a two-step framework for deciding questions of extraterritoriality. The first step asks “whether the presumption against extraterritoriality has been rebutted.” RJR Nabisco, Inc. v. European Community, 579 U. S. __, ___ (2016) (slip op., at 9). It can be rebutted only if the text provides a “clear indication of an extraterritorial application.” Morrison v. National Australia Bank Ltd., 561 U. S. 247, 255 (2010). If the presumption against extraterritoriality has not been rebutted, the second step of our framework asks “whether the case involves a domestic application of the statute.” RJR Nabisco, 579 U. S., at __ (slip op., at 9). Courts make this determination by identifying “the statute’s ‘focus’ ” and asking whether the conduct relevant to that focus occurred in United States territory. Ibid. If it did, then the case involves a permissible domestic application of the statute. See ibid.

We resolve this case at step two. While “it will usually be preferable” to begin with step one, courts have the discretion to begin at step two “in appropriate cases.” See id., at __, n. 5 (slip op., at 10, n. 5) (citing Pearson v. Callahan, 555 U. S. 223, 236–243 (2009)). One reason to exercise that discretion is if addressing step one would require resolving “difficult questions” that do not change “the
outcome of the case,” but could have far-reaching effects in future cases. See id., at 236–237. That is true here. WesternGeco argues that the presumption against extraterritoriality should never apply to statutes, such as §284, that merely provide a general damages remedy for conduct that Congress has declared unlawful. Resolving that question could implicate many other statutes besides the Patent Act. We therefore exercise our discretion to forgo the first step of our extraterritoriality framework.

A

Under the second step of our framework, we must identify “the statute’s ‘focus.’ ” RJR Nabisco, supra, at ___ (slip op., at 9). The focus of a statute is “the object[s] of its solicitude,” which can include the conduct it “seeks to ‘regulate,’ ” as well as the parties and interests it “seeks to ‘protect’ ” or vindicate. Morrison, supra, at 267 (quoting Superintendent of Ins. of N. Y. v. Bankers Life & Casualty Co., 404 U. S. 6, 12, 10 (1971)). “If the conduct relevant to the statute’s focus occurred in the United States, then the case involves a permissible domestic application” of the statute, “even if other conduct occurred abroad.” RJR Nabisco, 579 U. S., at ___ (slip op., at 9). But if the relevant conduct occurred in another country, “then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U. S. territory.” Ibid.

When determining the focus of a statute, we do not analyze the provision at issue in a vacuum. See Morrison, supra, at 267–269. If the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions. Otherwise, it would be impossible to accurately determine whether the application of the statute in the case is a “domestic application.” RJR Nabisco, 579 U. S., at ___ (slip op., at 9). And determining how the statute has actually been applied is the whole point of the focus test. See ibid.

Applying these principles here, we conclude that the conduct relevant to the statutory focus in this case is domestic. We begin with §284. It provides a general damages remedy for the various types of patent infringement identified in the Patent Act. The portion of §284 at issue here states that “the court shall award the claimant damages adequate to compensate for the infringement.” We conclude that “the infringement” is the focus of this statute. As this Court has explained, the “overriding purpose” of §284 is to “afford patent owners complete compensation” for infringements. General Motors Corp. v. Devex Corp., 461 U. S. 648, 655 (1983). “The question” posed by the statute is “how much has the Patent Holder . . . suffered by the infringement.” Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U. S. 476, 507 (1964). Accordingly, the infringement is plainly the focus of §284.

But that observation does not fully resolve this case, as the Patent Act identifies several ways that a patent can be infringed. See §271. To determine the focus of §284 in a given case, we must look to the type of infringement that occurred. We thus turn to §271(f )(2), which was the basis for WesternGeco’s infringement claim and the lost-profits damages that it received.

Section 271(f )(2) focuses on domestic conduct. It provides that a company “shall be liable as an infringer” if it “supplies” certain components of a patented invention “in or from the United States” with the intent that they “will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States.” The conduct that §271(f )(2) regulates—i.e., its focus—is the domestic act of “supply[ing] in or from the United States.” As this Court has acknowledged, §271(f )(2) vindicates domestic interests: It “was a direct response to a gap in our patent law,” Microsoft Corp., 550 U. S., at 457, and “reach[es] components that are manufactured in the United States but assembled overseas,” Life Technologies, 580 U. S., at ___. As the Federal Circuit explained, §271(f )(2) protects against “domestic entities who export components . . . from the United States.” 791 F. 3d, at 1351.

In sum, the focus of §284, in a case involving infringement under §271(f )(2), is on the act of exporting components from the United States. In other words, the domestic infringement is “the object[s] of the statute’s solicitude” in this context. Morrison, 561 U. S., at 267. The conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION’s domestic act of supplying the components that infringed WesternGeco’s patent. Thus, the lost-profits damages that were awarded to WesternGeco were a domestic application of §284.

B

ION’s arguments to the contrary are not persuasive. ION contends that the statutory focus here is “self-evidently on the award of damages.” Brief for Respondent 22. While §284 does authorize damages, what a statute authorizes is not necessarily its focus. Rather, the focus is “the object[s] of the statute’s solicitude”—which can turn on the “conduct,” “parties,” or interests that it regulates or protects. Morrison, supra, at 267. Here, the damages themselves are merely the means by which the statute achieves its end of remedying infringements. Similarly, ION is mistaken to assert that this case involves an extraterritorial application of §284 simply
because “lost-profits damages occurred extraterritorially, and foreign conduct subsequent to [ION’s] infringement was necessary to give rise to the injury.” Brief for Respondent 22. Those overseas events were merely incidental to the infringement. In other words, they do not have “primacy” for purposes of the extraterritoriality analysis. *Morrison, supra*, at 267.

ION also draws on the conclusion in *RJR Nabisco* that “RICO damages claims” based “entirely on injury suffered abroad” involve an extraterritorial application of 18 U. S. C. §1964(c). 579 U. S., at ___ (slip op., at 27). From this principle, ION extrapolates a general rule that damages awards for foreign injuries are always an extraterritorial application of a damages provision. This argument misreads *RJR Nabisco*. That portion of *RJR Nabisco* interpreted a substantive element of a cause of action, not a remedial damages provision. See id., at ___ (slip op., at 18). It explained that a plaintiff could not bring a damages claim under §1964(c) unless he could prove that he was “‘injured in his business or property,’” which required proof of “a domestic injury.” *Ibid.* Thus, *RJR Nabisco* was applying the presumption against extraterritoriality to interpret the scope of §1964(c)’s injury requirement; it did not make any statements about damages—a separate legal concept.

Two of our colleagues contend that the Patent Act does not permit damages awards for lost foreign profits. *Post*, at 1 (GORSUCH, J., joined by BREYER, J., dissenting). Their position wrongly conflates legal injury with the damages arising from that injury. See *post*, at 2–3. And it is not the better reading of “the plain text of the Patent Act.” *Post*, at 9. Taken together, §271(f)(2) and §284 allow the patent owner to recover for lost foreign profits. Under §284, damages are “adequate” to compensate for infringement when they “place[e] [the patent owner] in as good a position as he would have been in” if the patent had not been infringed. *General Motors Corp.*, *supra*, at 655. Specifically, a patent owner is entitled to recover “[the] pecuniary condition after the infringement, and what [its] condition would have been if the infringement had not occurred.” *Aro Mfg. Co.*, *supra*, at 507. This recovery can include lost profits. See *Yale Lock Mfg. Co. v. Sargent*, 117 U. S. 536, 552–553 (1886). And, as we hold today, it can include lost foreign profits when the patent owner proves infringement under §271(f)(2).

* * *

We hold that WesternGeco’s damages award for lost profits was a permissible domestic application of §284. The judgment of the Federal Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

JUSTICE GORSUCH, with whom JUSTICE BREYER joins, dissenting.

The Court holds that WesternGeco’s lost profits claim does not offend the judicially created presumption against the extraterritorial application of statutes. With that much, I agree. But I cannot subscribe to the Court’s further holding that the terms of the Patent Act permit awards of this kind. In my view the Act’s terms prohibit the lost profits sought in this case, whatever the general presumption against extraterritoriality applicable to all statutes might allow. So while the Federal Circuit may have relied in part on a mistaken extraterritoriality analysis, I respectfully submit it reached the right result in concluding that the Patent Act forecloses WesternGeco’s claim for lost profits.

The reason is straightforward. A U. S. patent provides a lawful monopoly over the manufacture, use, and sale of an invention within this country only. Meanwhile, WesternGeco seeks lost profits for uses of its invention beyond our borders. Specifically, the company complains that it lost lucrative foreign surveying contracts because ION’s customers used its invention overseas to steal that business.

Start with the key statutory language. Under the Patent Act, a patent owner enjoys “the right to exclude others from making, using, offering for sale, or selling the invention *throughout the United States*.” 35 U. S. C. §271(a)(1) (emphasis added). Emphasizing the point, the Act proceeds to explain that to “infring[e] the patent” someone must “without authority mak[e], us[e], offe[r] to sell, or sel[l] [the] patented invention, *within the United States*.” §271(a) (emphasis added). So making, using, or selling a patented invention *inside* the United States invites a claim for infringement. But those same acts *outside* the United States do not infringe a U. S. patent right.
These principles work their way into the statutory measure of damages too. A patent owner who proves infringement is entitled to receive “damages adequate to compensate for the infringement.” §284 (emphasis added). Because an infringement must occur within the United States, that means a plaintiff can recover damages for the making, using, or selling of its invention within the United States, but not for the making, using, or selling of its invention elsewhere.

What's the upshot for our case? The jury was free to award WesternGeco royalties for the infringing products ION produced in this country; indeed, ION has not challenged that award either here or before the Federal Circuit. If ION's infringement had cost WesternGeco sales in this country, it could have recovered for that harm too. At the same time, WesternGeco is not entitled to lost profits caused by the use of its invention outside the United States. That foreign conduct isn't “infringement” and so under §284's plain terms isn't a proper basis for awarding “compensat[ion].” No doubt WesternGeco thinks it unfair that its invention was used to compete against it overseas. But that's simply not the kind of harm for which our patent laws provide compensation because a U. S. patent does not protect its owner from competition beyond our borders.

This Court's precedents confirm what the statutory text indicates. In Brown v. Duchesne, 19 How. 183 (1857), the Court considered whether the use of an American invention on the high seas could support a damages claim under the U. S. patent laws. It said no. The Court explained that “the use of [an invention] outside of the jurisdiction of the United States is not an infringement of [the patent owner’s] rights,” and so the patent owner “has no claim to any compensation for” that foreign use. Id., at 195–196. A defendant must “compensate the patentee,” the Court continued, only to the extent that it has “com[e] in competition with the [patent owner] where the [patent owner] was entitled to the exclusive use” of his invention—namely, within the United States. Id., at 196. What held true there must hold true here. ION must compensate WesternGeco for its intrusion on WesternGeco's exclusive right to make, use, and sell its invention in the United States. But WesternGeco “has no claim to any compensation for” noninfringing uses of its invention “outside of the jurisdiction of the United States.” Id., at 195–196.3

Other precedents offer similar teachings. In Birdsall v. Coolidge, 93 U. S. 64 (1876), the Court explained that damages are supposed to compensate a patent owner for “the unlawful acts of the defendant.” Ibid. To that end, the Court held, damages “shall be precisely commensurate with the injury suffered, neither more nor less.” Ibid. (emphasis added). It’s undisputed that the only injury WesternGeco suffered here came from ION's infringing activity within the United States. A damages award that sweeps much more broadly to cover third parties’ noninfringing foreign uses can hardly be called “precisely commensurate” with that injury.

This Court’s leading case on lost profit damages points the same way. In Yale Lock Mfg. Co. v. Sargent, 117 U. S. 536 (1886), the patent owner “availed himself of his exclusive right by keeping his patent a monopoly” and selling the invention himself. Id., at 552. As damages for a competitor’s infringement of the patent, the patent owner could recover “the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.” Ibid. And that difference, the Court held, “is to be measured” by the additional profits the patent owner “would have realized from such sales if the infringement had not interfered with such monopoly.” Id., at 552–553. So, again, the Court tied the measure of damages to the degree of interference with the patent owner’s exclusive right to make, use, and sell its invention. And, again, that much is missing here because foreign uses of WesternGeco’s invention could not have interfered with its U. S. patent monopoly.2

You might wonder whether §271(f)(2) calls for a special exception to these general principles. WesternGeco certainly thinks it does. It’s true, too, that §271(f)(2) expressly refers to foreign conduct. The statute says that some—one who exports a specialized component, “intending that [it] will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.” From this language, you might wonder whether §271(f)(2) seeks to protect patent owners from the foreign conduct that occurred in this case.

It does not. Section 271(f)(2) modifies the circumstances when the law will treat an invention as having been made within the United States. It permits an infringement claim—and the damages that come with it—not only when someone produces the complete invention in this country for export, but also when someone exports key components of the invention for assembly aboard. A person who ships components from the United States intending they be assembled across the border is “liable” to the patent owner for royalties and lost profits the same as if he made the entire invention here. §271(f)(2). But none of this changes the bedrock rule that foreign uses of an invention (even an invention made in this country) do not infringe a U. S. patent. Nor could it. For after §271(f)(2)'s adoption, as before, patent rights exclude others from making, using, and selling an invention only “throughout the United States.” §154(a)(1).

The history of the statute underscores the point. In Deepsouth Packing Co. v. Laitram Corp., 406 U. S. 518 (1972), the Court held that a defendant did not “make” an invention within the United States when it produced the invention’s components here but sold them to foreign buyers for final assembly abroad. Id., at 527–528. The Court recognized that, if the defendant had assembled the parts in this
country and then sold them to the foreign buyers, it would have unlawfully made and sold the invention within the United States. Id., at 527. But because what it made and sold in this country “fell short” of the complete invention, the Court held, the patent laws did not prohibit its conduct. Ibid. The dissent, by contrast, argued that for all practical purposes the invention “was made in the United States” since “everything was accomplished in this country except putting the pieces together.” Id., at 533 (opinion of Blackmun, J.). Apparently Congress agreed, for it then added §271(f)(2) and made clear that someone who almost makes an invention in this country may be held liable as if he made the complete invention in this country. As the Solicitor General has explained, the new statute “effectively treat[ed] the domestic supply of the components of a patented invention for assembly abroad as tantamount to the domestic manufacture of the completed invention for export.” Brief for United States as Amicus Curiae 22 (emphasis added). Section 271(f)(2) thus expands what qualifies as making an invention in this country but does nothing to suggest that U. S. patents protect against—much less guarantee compensation for—uses abroad.

Any suggestion that §271(f)(2) provides protection against foreign uses would also invite anomalous results. It would allow greater recovery when a defendant exports a component of an invention in violation of §271(f)(2) than when a defendant exports the entire invention in violation of §271(a). And it would threaten to “‘conver[t] a single act of supply from the United States into a springboard for liability.’” Microsoft Corp. v. AT&T Corp., 550 U. S. 437, 456 (2007). Here, for example, supplying a single infringing product from the United States would make INION responsible for any foreseeable harm its customers cause by using the product to compete against WesternGeco worldwide, even though WesternGeco’s U. S. patent doesn’t protect it from such competition. It’s some springboard, too. The harm flowing from foreign uses in this case appears to outstrip wildly the harm inflicted by ION’s domestic production: the jury awarded $93.4 million in lost profits from uses in 10 foreign surveys but only $12.5 million in royalties for 2,500 U. S.-made products.

Even more dramatic examples are not hard to imagine. Suppose a company develops a prototype microchip in a U. S. lab with the intention of manufacturing and selling the chip in a foreign country as part of a new smartphone. Suppose too that the chip infringes a U. S. patent and that the patent owner sells its own phone with its own chip overseas. Under the terms of the Patent Act, the developer commits an act of infringement by creating the prototype here, but the additional chips it makes and sells outside the United States do not qualify as infringement. Under WesternGeco’s approach, however, the patent owner could recover any profits it lost to that foreign competition—or even three times as much, see §284—effectively giving the patent owner a monopoly over foreign markets through its U. S. patent. That’s a very odd role for U. S. patent law to play in foreign markets, as “foreign law alone, not United States law,” is supposed to govern the manufacture, use, and sale of patented inventions in foreign countries.” Microsoft, supra, at 456.

Worse yet, the tables easily could be turned. If our courts award compensation to U. S. patent owners for foreign uses where our patents don’t run, what happens when foreign courts return the favor? Suppose our hypothetical microchip developer infringed a foreign patent in the course of developing its new chip abroad, but then mass produced and sold the chip in the United States. A foreign court might reasonably hold the U. S. company liable for infringing the foreign patent in the foreign country. But if it followed WesternGeco’s theory, the court might then award monopoly rent damages reflecting a right to control the market for the chip in this country—even though the foreign patent lacks any legal force here. It is doubtful Congress would accept that kind of foreign “control over our markets.” Deepsouth, supra, at 531. And principles of comity counsel against an interpretation of our patent laws that would interfere so dramatically with the rights of other nations to regulate their own economies. While Congress may seek to extend U. S. patent rights beyond our borders if it chooses, cf. §105 (addressing inventions made, used, and sold in outer space), nothing in the Patent Act fairly suggests that it has taken that step here.

Today’s decision unfortunately forecloses further consideration of these points. Although its opinion focuses almost entirely on why the presumption against extraterritoriality applicable to all statutes does not forbid the damages sought here, the Court asserts in a few cursory sentences that the Patent Act by its terms allows recovery for foreign uses in cases like this. See ante, at 9. In doing so, the Court does not address the textual or doctrinal analysis offered here. It does not explain why “damages adequate to compensate for the infringement” should include damages for harm from noninfringing uses. §284 (emphasis added). It does not try to reconcile its holding with the teachings of Duchesne, Birdsaal, and Yale Lock. And it ignores Microsoft’s admonition that §271(f)(2) should not be read to create springboards for liability based on foreign conduct. Instead, the Court relies on two cases that do not come close to

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Superscript and subscript notes are not extracted.
at 507 (quoting Yale Lock, 117 U. S., at 552). As we’ve seen, that test seeks to measure the interference with the patent owner’s lawful monopoly over U. S. markets alone.

By failing to heed the plain text of the Patent Act and the lessons of our precedents, the Court ends up assuming that patent damages run (literally) to the ends of the earth. It allows U. S. patent owners to extend their patent monopolies far beyond anything Congress has authorized and shields them from foreign competition. U. S. patents were never meant to reach. Because I cannot agree that the Patent Act requires that result, I respectfully dissent.

All Citations

--- S.Ct. ----, 2018 WL 3073503

Footnotes

1 The Federal Circuit held that ION was liable for infringement under §271(f)(2). WesternGeco, 791 F. 3d, at 1347–1349. It did not address whether ION was liable under §271(f)(1). Id., at 1348.

2 Because the Federal Circuit did not address §271(f)(1), see n. 1, supra, we limit our analysis to §271(f)(2).

3 In reaching this holding, we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.

1 The Solicitor General disputes this reading of Duchesne. In his view, the Court indicated that, if a defendant “committed domestic infringement” by making the invention in the United States, the patent owner would have been entitled to recover for any subsequent use of the invention, including “‘the use of this improvement . . . on the high seas.’” Brief for United States as Amicus Curiae 17 (quoting Duchesne, 19 How., at 196). I am unpersuaded. The Court proceeded to explain that the “only use” of the invention that might require compensation was “in navigating the vessel into and out of [Boston] harbor, . . . while she was within the jurisdiction of the United States.” Id., at 196 (emphasis added). With respect to uses outside the United States, the Court made clear that “compensation” was unavailable. Id., at 195–196. Tellingly, WesternGeco does not adopt the Solicitor General’s reading of Duchesne—or even cite the case.

2 WesternGeco claims this Court permitted recovery based on foreign sales of an invention in Manufacturing Co. v. Cowing, 105 U. S. 253 (1882), but the Court never mentioned, much less decided, the issue. It merely observed, in passing, that the only markets for the invention at issue were “the oil-producing regions of Pennsylvania and Canada.” Id., at 256. The Court did not even say whether the Canada-bound products were actually sold in Canada (as opposed, say, to Canadian buyers in the United States). Meanwhile, in Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U. S. 641 (1915), the Court rejected “recovery of either profits or damages” for products sold in Canada. Id., at 650. And while it distinguished Cowing on the ground that the defendants there had made the infringing articles in the United States, that hardly elevated Cowing’s failure to address the foreign sales issue into a reasoned decision on the question.
Complaint

Plaintiff Lemonade, Inc. brings this complaint for copyright infringement, breach of contract, and violations of the Computer Fraud and Abuse Act against Defendants ONE Versicherung AG, FinanceApp AG d/b/a Wefox, and Julian Teicke (collectively, “Defendants”).

THE PARTIES

1. Lemonade, Inc. is a Delaware public benefit corporation with its headquarters and principal place of business at 5 Crosby Street, New York, New York, 10013.

2. ONE Versicherung AG (“ONE”) is a Liechtenstein Aktiengesellschaft with offices at Aeulestrasse 56, FL-9490 Vaduz, Liechtenstein. ONE is a wholly-owned subsidiary of FinanceApp AG.

3. FinanceApp AG (“Wefox”) is a Swiss Aktiengesellschaft with offices at Stampfenbachstrasse 138, 8006 Zurich, Switzerland. FinanceApp AG does business as “wefox” and “wefox Group.”

4. Julian Teicke is an individual who resides in Germany. Mr. Teicke is Chief Executive Officer of Wefox. Mr. Teicke is responsible for the day-to-day management of ONE and Wefox.

JURISDICTION AND VENUE

5. This Court has subject matter jurisdiction under 28 U.S.C. §§ 1331 and 1338; diversity jurisdiction under 28 U.S.C. § 1332, as the matter in controversy exceeds the minimum required by the statute; and supplemental jurisdiction under 28 U.S.C. § 1367.

6. This Court has personal jurisdiction under N.Y. C.P.L.R. § 302 because, inter alia, Defendants have (a) transacted business within the state; (b) committed tortious acts within the state; (c) and committed tortious acts without the state causing injury to Lemonade within the state, where Defendants expected and should reasonably expect the acts to have consequences in New York State and Defendants derive substantial revenue from interstate or international commerce. The exercise of personal jurisdiction comports
with the Due Process Clause of the U.S. Constitution because Defendants have minimum contacts with New York State such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice.

7. Venue is appropriate in this District in accordance with 28 U.S.C. § 1391 because, inter alia, a substantial part of the events giving rise to Lemonade’s claims occurred, and a substantial part of property that is the subject of the action is situated, in this District. Venue is also appropriate under 28 U.S.C. § 1400(a) because Defendants may be found in this District.

8. Personal jurisdiction and venue also are appropriate because Defendants are subject to the Lemonade Terms of Service, which provide that “[a]ny dispute concerning the App or these Terms of Use shall be subject to the exclusive venue of a court of competent jurisdiction in New York, the State of New York.”

LEMONADE

9. Lemonade Insurance Company, a wholly-owned subsidiary of Lemonade, Inc. (collectively, “Lemonade”), is a property and casualty insurance company that is transforming the business model of insurance. By offering technology and transparency, Lemonade provides consumers with an insurance experience that is fast, affordable, and hassle-free.

10. Lemonade’s insurance products are available through an iOS and Android app, and also through its website, https://www.lemonade.com.

11. Through its app (“the Lemonade App”) and website (the “Lemonade Website”), Lemonade offers renters, condominium, and homeowners insurance in New York and other states around the country. Today, Lemonade is licensed to provide insurance in twenty-eight states, home to over two-thirds of the U.S. population.

12. Traditional insurance companies earn money by charging premiums to their customers and then keeping the amounts not paid out in claims. Lemonade’s business model is different. Lemonade takes a fixed fee from its customers’ monthly payments, pays reinsurance and other expenses, and pays out the rest in claims. Any unclaimed remainders (up to 40% of the premiums) are distributed in Lemonade’s annual “Giveback.”

13. Lemonade’s Giveback feature is an innovation in the insurance industry. Using the Giveback, Lemonade donates leftover money to causes that its policyholders elect. Policyholders who care about the same causes are grouped as “peers.” Lemonade uses the premiums collected from each peer group to pay for the group’s claims, giving back any leftover money to their common cause, and using reinsurance to cover cases where a group’s claims exceed the amounts left in the pool. In its first year of operation, Lemonade paid over 10% of its revenue as a Giveback.

14. Lemonade offers a number of other innovations. Lemonade uses the fixed percentage of premiums it collects to fund development of the company’s technology, pay salaries and rent, and earn a profit. Because Lemonade keeps only a fixed percentage, there is no conflict between paying claims and earning a profit for the company. Accordingly, Lemonade has designed its service to process and pay claims quickly and efficiently, through the Lemonade App, often in only a matter of seconds.

15. With its innovative model for an insurance business, Lemonade delivers quality insurance coverage to its policyholders, pays claims quickly and with minimal hassle, and helps bring positive social impact to local communities and global causes. Accordingly, Lemonade has been certified as a B Corp., and indeed this week was named one of the “Best for the World” honoree companies by B Lab for 2018.

DEFENDANTS’ ACCESS TO THE LEMONADE APP AND WEBSITE

16. Well aware of the innovative insurance experience that Lemonade offers, and seeking to break into the “insurtech” area quickly and with minimal effort, Defendants set out to copy the Lemonade App and Lemonade Website.

17. The Lemonade App and Lemonade Website Terms of Service set forth which uses of the Lemonade services are allowed, and which are not. Users of the Lemonade App and Lemonade Website agree to “provide accurate information” to Lemonade and to “act honestly and in good faith.” Moreover, users agree not to “create a false identity,” not to “utilize or copy information, content or any data” that they view on or obtain from the services in order “to provide any service that is competitive” with the Lemonade App or Lemonade Website, and not to “adapt, modify or create derivative works based on” the Lemonade App or Lemonade Website.
18. Defendants were aware of the Terms of Service and agreed to them. Defendants nevertheless disregarded those terms.

19. On October 9, 2016, Mr. Teicke downloaded the Lemonade App to his mobile device. Mr. Teicke had full access to the Lemonade Terms of Service from the App Store when downloading the Lemonade App.

20. After downloading the Lemonade App, Mr. Teicke proceeded to enter information to obtain quotes for an insurance policy.

21. On October 12, 2016, Mr. Teicke bought a Lemonade policy for “21 Broadway, NY, NY,” a fictitious address in violation of the Terms of Service. He chose a Giveback cause, explored the claims flow, and then logged out. A “claims flow” is the steps taken by a Lemonade policyholder to submit a claim for processing and payment.

22. Over the next several months, Mr. Teicke repeatedly registered with Lemonade by giving false information, including fictitious addresses and dates of birth.

23. For example, at various times Mr. Teicke gave his birthday as XXX-XXX-XXXXX/XX/1986; XXX-XXX-XXXXX/XX/1987; and XXX-XXX-XXXXX/XX/1988 - none of which are his actual birthday.

24. Mr. Teicke also repeatedly obtained quotes for Lemonade policies while purporting to be a New York resident, even though he is not a resident of New York.

25. When accessing the Lemonade App, Mr. Teicke repeatedly started various claims flows, for the purpose of copying and extracting content and the arrangement of those flows.

26. For example, on November 10, 2016, Mr. Teicke started three different claims, signing an honesty pledge. As part of the claims submission process, Lemonade requires a user to record and submit a short video explaining the basis for the claim. For his first claim, Mr. Teicke submitted a video recording of another person - Stephan Ommerborn, the CEO of ONE - who stated, falsely, that the claim was for damage caused by spilling coffee on his computer. For the third claim, Mr. Teicke posted a video of himself saying, falsely, that “somebody stole my purse.”

27. Lemonade cancelled Mr. Teicke’s policy on August 28, 2017, after he started seven claim requests in twenty days. By that time, Mr. Teicke had accessed the Lemonade App forty-four times, copying and extracting the content and arrangement of the Lemonade App.

28. Mr. Teicke created multiple quotes using several email aliases.

29. Mr. Teicke was not the only representative of the Defendants to access the Lemonade App under false pretenses. As referenced in paragraph 26 above, Mr. Ommerborn (CEO of ONE) filmed himself while engaging in a false claim. Likewise, Mr. Teicke’s father, Hartmut Teicke (Co-founder, CEO of Wefox Germany), Dario Fazlic (Founder and Group CRO, Member of the Board, Wefox), and other senior leaders at Wefox generated fictitious quotes in breach of the Terms of Service. Another example is Davyd Trunyov (Operations & Claims at ONE), who downloaded the Lemonade App for Android, purchased a policy for a fictitious California address, and started several claims flows to copy Lemonade’s product. Mr. Trunyov, on behalf of Defendants, engaged in this conduct despite having affirmatively opted into the Lemonade Terms of Service. Presumably to make it harder to trace back to the Defendants, Mr. Trunyov canceled his policy in July 2017, claiming to have “moved,” but did so only after having used the very same device to purchase a second fictitious policy, this time in the name of an acquaintance (who also resides in Germany). The policy remains active to this day.

30. Defendants repeatedly accessed the Lemonade App and Lemonade Website without authorization and in violation of the Terms of Service, copying and extracting the content and arrangement of the App, and incorporating that material into what ultimately would become an application for home and liability insurance offered by ONE (the “ONE App”).

**DEFENDANTS’ COPYING OF THE LEMONADE APP, WEBSITE, AND VIDEO**

31. In February 2018, ONE announced the launch of the ONE App across the European Union.

32. The ONE App is available for download, and has been downloaded, in the United States, in New York State, and in this District.

33. The ONE App copies a variety of features of the Lemonade App and Website, including the text, design, arrangement, and user interface.
34. For example, users of the Lemonade App and Website interact with “Maya,” a “Personal Insurance Assistant” with whom users exchange information by text message. Similarly, the ONE App offers “Miri,” which ONE also has termed a “Personal Insurance Assistant.”

35. The ONE App also has copied the original selection, coordination, and arrangement of the Lemonade App and Website, including Lemonade’s claims processing interface and flow.

36. Defendants copied Lemonade’s marketing materials as well. On September 21, 2016, Lemonade posted a YouTube video titled “Introducing The Lemonade App” (the “Lemonade Video”) which gives an overview of the features of the app. A year later, on October 5, 2017, ONE posted a video (the “ONE Video”) that highlights the ONE App. The ONE Video uses strikingly similar language.

<table>
<thead>
<tr>
<th>Lemonade Video</th>
<th>ONE Video</th>
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<tbody>
<tr>
<td>“Just tell us where you live.”</td>
<td>“Simply tell us your name, and where you live.”</td>
</tr>
<tr>
<td>“Swipe through a couple of questions, and our AI will craft a personalized policy for you. See what’s covered and customize your policy easily. Pay in seconds. <strong>If you have an old policy, we’ll cancel it</strong> and get a refund. Zero hassle, zero paperwork. That’s it! You’re covered.”</td>
<td>“Swipe through a few questions, and our AI will instantly find you the right coverage. <strong>If you have an existing policy, we’ll cancel it</strong> right away. It’s really that simple.”</td>
</tr>
<tr>
<td>“Filing a claim is just as easy. We’ll ask you some questions. No forms to fill out, just speak to the camera. And <strong>tell us what was damaged or stolen</strong>. Review and submit your claim. <strong>Get paid in no time</strong> and go party.”</td>
<td>“Gaining access to your digital documents cuts out paperwork completely, <strong>making a claim just as easy</strong>. Answer some questions, and <strong>tell us what was damaged or stolen. Get paid instantly</strong>.”</td>
</tr>
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37. In other marketing materials, Defendants do not hesitate to compare the ONE App to the Lemonade App. Defendants acknowledge that “Lemonade has truly created an eye-opening and beautiful consumer experience.” Building on that consumer experience, ONE boasts that it will “outgrow” Lemonade “right from the start.”

38. On August 24, 2017 and June 4, 2018, Lemonade wrote to Defendants, alerting them of Lemonade’s concerns with the ONE App and requesting that Defendants cease and desist from their unlawful activities. Defendants have not complied and continue to offer and operate the ONE App.

39. Defendants’ conduct has caused injury to Lemonade. Moreover, Defendants’ conduct threatens to mislead investors and divert investment capital to Defendants’ infringing services.

**FIRST CAUSE OF ACTION**

(Copyright Infringement)

40. Lemonade repeats and realleges paragraphs 1 through 39 as if fully set forth herein.
41. The Lemonade App, Website, and Video are original works of authorship, and the copyrights in those works are valid and subsisting.

42. Lemonade is the exclusive owner of the copyrights in the Lemonade App, Website, and Video.

43. Lemonade has filed applications with the U.S. Copyright Office to register the copyrights in the Lemonade App, Website, and Video. Given the urgency of this matter, Lemonade has asked the Copyright Office to expedite the application process, by requesting special handling. Upon issuance of the registration certificates, Lemonade will seek to amend this Complaint to identify the registrations for each of the works at issue in this case.

44. Defendants accessed the Lemonade App, Website, and Video using false information and under false pretenses, in violation of the Lemonade Terms of Service.

45. Without authorization, Defendants copied the Lemonade App, Website, and the Video, including their copyright-protected text, designs, arrangement, and other content.

46. The ONE App and website, and the ONE Video, are substantially similar, if not strikingly similar, to the Lemonade App, Website, and Video.


48. Defendants’ copying and use was deliberate, intentional, and willful.

49. Defendants’ copying and use has caused damage to Lemonade.

SECOND CAUSE OF ACTION

50. Lemonade repeats and realleges paragraphs 1 through 49 as if fully set forth herein.

51. The Lemonade Terms of Service for the Lemonade App and Website are valid contracts, binding on users of the App and Website.

52. Defendants agreed to be bound by the Lemonade Terms of Service by, inter alia, accessing and using the Lemonade App and Website. The Lemonade Terms of Service are binding on Defendants.

53. In accordance with the Terms of Service, Defendants agreed to “provide accurate information” to Lemonade and to “act honestly and in good faith.”

54. Defendants also agreed not to “create a false identity,” not to “utilize or copy information, content or any data” that they viewed on or obtain from the services in order “to provide any service that is competitive” with the App and Website, and not to “adapt, modify or create derivative works based on” the Lemonade App and Website.

55. Defendants breached these and other terms of the Lemonade Terms of Service. Defendants provided inaccurate information to Lemonade in the course of using the Lemonade App and Website, and they failed to act honestly and in good faith. Defendants created false identities, and they used and copied information and content from the Lemonade App and Website to develop a competitive product – the ONE App. Defendants adapted, modified, and created derivative works based on the Lemonade App and Website.

56. Defendants’ breaches are material and caused damage to Lemonade.

57. Moreover, Defendants agreed that the Terms of Service, “are governed in all respects by the laws of the State of New York, without giving effect to any principles of conflicts of laws” and that any dispute concerning the Lemonade App and Website or the Terms of Service “shall be subject to the exclusive venue of a court of competent jurisdiction in New York, the State of New York.”
58. Accordingly, Defendants are liable for breach of contract under the laws of the state of New York.

**THIRD CAUSE OF ACTION**

(Violation of the Computer Fraud and Abuse Act)

59. Lemonade repeats and realleges paragraphs 1 through 58 as if fully set forth herein.

60. Defendants knowingly created false identities, and submitted false information, to gain access to, and to use in a manner not authorized by Lemonade, the Lemonade App and Website and their features and content.

61. Defendants intentionally accessed Lemonade's proprietary and valuable features, content, designs, and information for the unauthorized purpose of obtaining, copying, extracting, and using such material to develop the ONE App.

62. Defendants' access and use of the Lemonade App and Website was contrary to the Lemonade Terms of Service and unauthorized.

63. The Lemonade App and Website, and the Lemonade systems required to operate and use the App and Website, are "protected computers" within the meaning of 18 U.S.C. § 1030 because they are used in and affect interstate commerce and communication, including communicating and maintaining information regarding numerous Lemonade customers with whom Lemonade has engaged in interstate commerce.

64. Knowingly and with the intent to defraud, Defendants accessed the protected Lemonade App and Website without authorization.

65. Knowingly and with the intent to defraud, Defendants exceeded authorized access of the Lemonade App and Website.

66. By means of such conduct, Defendants furthered their intended fraud and obtained items of value in excess of the statutorily required amount – namely, protected and proprietary text, designs, features, and content of the Lemonade App and Website, which Defendants used to develop the ONE App.


**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff Lemonade, Inc. requests judgment in its favor and against Defendants ONE Versicherung AG, FinanceApp AG d/b/a wefox, and Julian Teieke, jointly and severally, including the following relief:

A. Permanent injunctive relief prohibiting, inter alia, Defendants from accessing, copying and using the Lemonade App, Website, and Video and the text, designs, arrangement, information, and content embodied in them;

B. An award of Lemonade's actual damages, and the profits that Defendants earned attributable to the infringement;

C. An award of compensatory, consequential, special, and punitive damages;

D. An award of Lemonade's attorneys' fees and costs; and

E. Such other and further relief as this Court deems appropriate.

**JURY TRIAL DEMAND**

Pursuant to Federal Rule of Civil Procedure 38, Lemonade demands a trial by jury as to all claims to which it is entitled.

Dated: New York, New York

June 14, 2018

WHITE & CASE LLP
By: /s/ Stefan Mentzer

Stefan Mentzer (SM 2542)
Scott T. Weingaertner (SW 3222)

1221 Avenue of the Americas
New York, New York 10020

Phone: + 1 212 819 8200
Fax: + 1 212 354 8113

Email: smentzer@whitecase.com
Email: sweingaertner@whitecase.com

Counsel for Plaintiff Lemonade, Inc.
2018 WL 2967405 (U.S.) (Appellate Petition, Motion and Filing)

Supreme Court of the United States.

MISSION PRODUCT HOLDINGS, INC., Petitioner,

v.

TEMPNOLOGY, LLC, n/k/a Old Cold LLC, Respondent.

No. 17-1657.

June 11, 2018.

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

Petition for a Writ of Certiorari

Robert J. Keach, Lindsey Zahradka Milne, Bernstein, Shur, Sawyer & Nelson, 100 Middle Street, P.O. Box 9729, Portland, ME 04104, (207) 774-1200.


*QUESTIONS PRESENTED

1. Whether, under §365 of the Bankruptcy Code, a debtor-licensor’s “rejection” of a license agreement - which “constitutes a breach of such contract,” 11 U.S.C. §365(g) - terminates rights of the licensee that would survive the licensor’s breach under applicable non-bankruptcy law.

2. Whether an exclusive right to sell certain products practicing a patent in a particular geographic territory is a “right to intellectual property” within the meaning of §365(n) of the Bankruptcy Code.

*PARTIES TO THE PROCEEDING

Petitioner is Mission Product Holdings, Inc. Mission has no parent company and no publicly held company owns 10% or more of its stock.

Respondent is Tempnology, LLC, n/k/a Old Cold LLC.

Mission Product Holdings, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the First Circuit.

INTRODUCTION

This case presents two important and closely related questions regarding the rights retained by a licensee of intellectual property after...
a debtor-licensor rejects the license agreement in bankruptcy. Below, the First Circuit decided both questions wrongly, worsening an existing circuit split regarding the effect of rejection on a licensee’s rights, and dramatically undermining the effectiveness of the provision Congress enacted to protect those rights. Its decision thus casts a cloud of uncertainty over significant commercial transactions that are central to our nation’s system for encouraging and rewarding innovation. It is critical that this Court step in to resolve the circuit split and dispel the confusion the First Circuit’s decision creates.

1. The first question presented is whether a debtor-licensor’s rejection of an intellectual property license agreement under §365 of the Bankruptcy Code1 - which permits a debtor to “assume or reject any executory contract” and provides that rejection “constitutes a breach of such contract” - terminates the licensee’s rights under the agreement. That question has given rise to a square, openly acknowledged, and long-standing division of authority among the courts of appeals, made deeper by the First Circuit’s decision.

In 1985, the Fourth Circuit held that a debtor-licensor’s rejection of an agreement to license technology terminated the licensee’s right to use that technology. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985). Lubrizol was widely criticized for misunderstanding the effect of rejection, and Congress promptly enacted §365(n) to “correct[]” it, explaining that “[§]365 was [n]ever intended to be a mechanism for stripping innocent licensee[s] of rights.” S. Rep. No. 100-505 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3203. Section 365(n) permits a licensee to retain its rights to “intellectual property,” including any exclusivity rights, under a rejected license agreement. §365(n)(1)(B). “[I]ntellectual property” was defined to include, among other things, patents and copyrights, but not trademarks, see §101(35A), which were “of concern” but viewed as warranting further study, S. Rep. No. 100-505, at 3204.

After §365(n)’s enactment, courts divided as to whether Lubrizol’s reasoning was applicable to trademarks or other rights not expressly protected by §365(n). In 2012, in Sunbeam Products, Inc. v. Chicago Manufacturing, LLC, 686 F.3d 372 (7th Cir. 2012), the Seventh Circuit answered that question no, holding that rejection of a trademark license does not strip the licensee of its right to use the trademark. Stating that “Lubrizol does not persuade us,” the Seventh Circuit reasoned that under §365(g), rejection is simply “a breach” of the rejected contract, and “in bankruptcy, as outside of it,” following a breach, “the other party’s rights remain in place.” Id. at 376-378.

Below, the First Circuit was faced with the same question and reached the opposite conclusion. Recognizing that “other circuits [were] split,” the First Circuit refused to follow Sunbeam. App. 2a. Aligning itself with Lubrizol, the court held that when the debtor-licensor, Tempnology LLC, rejected its license agreement with Mission, Mission lost all rights under the agreement that the court determined were not expressly protected by §365(n), including its trademark rights.

The split of authority is plain and squarely presented. And the First Circuit is wrong. Its holding contravenes the text and purpose of the Bankruptcy Code, as well as the weight of authority among courts and scholars regarding the meaning of rejection. Rejection of an executory contract is merely a breach. It enables the debtor to decline to perform its future obligations under a contract if the cost of doing so outweighs the contract’s benefit to the estate. And it allows the estate to pay the resulting damages pro rata (typically in cents on the dollar) along with other claims that arose before the bankruptcy filing. But it does not enable the debtor to take back rights already granted to a licensee so that the debtor can cut a better deal for those rights.

2. The First Circuit compounded its error by holding that Mission’s exclusive right to sell certain products practicing Tempnology’s patents in the United States was not a “right to intellectual property” protected by §365(n). If this Court grants review of the first question presented - and it should - it should also grant review of this second, related question.

The First Circuit’s crabbed reading of §365(n) is both clearly wrong and potentially far-reaching in its implications. A patent is, among other things, the right to sell the patented invention and to exclude others from selling it. The Patent Act says so. See 35 U.S.C. §154(a)(1). An agreement granting a licensee the exclusive right to sell products practicing a patented invention thus conveys one of the central rights the patent-holder possesses. Nor does it matter, as the First Circuit seemingly believed, whether such an exclusive right encompasses all products that can be made with the patent or only some such products. A license need not transfer every stick in the bundle of patent rights to grant an exclusive right to intellectual property. Indeed, exclusive licenses to sell products practicing a patented invention within a particular field of use are extremely common, and a key part of the licensing scheme Congress sought to protect in §365(n). Until this case, to Mission’s knowledge, it has never been suggested that such licenses do not convey rights to intellectual property.

3. Together, the First Circuit’s mistaken holdings reinstate much of the confusion Lubrizol caused and that Congress thought it had resolved with §365(n). Cutting off licensees’ rights when a license agreement is rejected in bankruptcy “impose[s] a burden
on American technological development that was never intended by Congress in enacting §365.” S. Rep. No. 100-505, at 3200. Uncertainty as to the fate of those rights has the same effect, making it harder for licensees to be confident their rights are secure and thus harder for intellectual property owners to license that property.

As this Court has recognized, “[t]he Bankruptcy Code standardizes an expansive (and sometimes unruly) area of law” that requires courts to “interpret the Code clearly and predictably.” RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 566 U.S. 639, 649 (2012). The long-standing division of authority on the meaning of one of bankruptcy’s central concepts, “rejection” - and the First Circuit’s unprecedented narrowing of the Code’s definition of “intellectual property” - demand this Court’s review.

**OPINIONS BELOW**

The First Circuit’s opinion (App. 1a-34a) is reported at 879 F.3d 389. The bankruptcy appellate panel’s opinion (App. 35a-65a) is reported at 559 B.R. 809. The bankruptcy court’s opinion (App. 69a-81a) is reported at 541 B.R. 1. The bankruptcy court’s orders (App. 67a-68a, 83a-84a) are unpublished.

**JURISDICTION**


**6 STATUTORY PROVISIONS INVOLVED**

11 U.S.C. §365 provides in relevant part:

(a) Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court’s approval, may assume or reject any executory contract or unexpired lease of the debtor.

(g) Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease -

(i) if such contract or lease has not been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title, immediately before the date of the filing of the petition[.]

(n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect -

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for -

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.
**STATEMENT**

**A. Statutory Background**


Section 365 enables the debtor to determine whether such a contract provides a net benefit or net detriment to the estate. The debtor may then choose to “assume” the contract - reaffirming that the estate will perform the debtor’s obligations under the contract - or to “reject” the contract - declining to perform the debtor’s future obligations under the contract and giving the counterparty a claim for damages for breach.

If the debtor determines that the value of the counterparty’s future performance exceeds the cost of its own future performance, it may assume the contract. *In that case, its obligations under the contract are treated as administrative expenses of the estate, which must be paid in full before any distribution is made to lower-priority claims, including general unsecured claims that arose “pre-petition,” before the bankruptcy filing. §§365(b), 503(b)(1), 507(a)(2), 726(a), 1129(a)(9).* If, on the other hand, the debtor decides that the cost of performing its future obligations under the contract outweighs the benefit of the counterparty’s future performance, it may reject the contract. The “rejection of an executory contract ... constitutes a breach of such contract or lease ... immediately before the date of the filing of the petition.” §365(g)(1). That breach gives the counterparty to a rejected contract a claim against the debtor’s estate for any damages arising from the breach. §502(g)(1). But because the breach is deemed to occur before the bankruptcy filing, the damages claim is treated like other pre-petition claims, which are typically paid cents on the dollar.

2. Thirty years ago, in *Lubrizol,* the Fourth Circuit analyzed the effect of rejection of an intellectual property license agreement under §365. The court held that a debtor’s rejection of such an agreement not only relieved the debtor of its future performance obligations, but also stripped the licensee of its right to continue using the licensed intellectual property, enabling the debtor to take

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**11 U.S.C. §101(35A) provides:**

The term “intellectual property” means -

(A) trade secret;
(B) invention, process, design, or plant protected under title 35;
(C) patent application;
(D) plant variety;
(E) work of authorship protected under title 17; or
(F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law.
back the license and sell or license the technology to a third party. 756 F.2d at 1047-1048.

3. Congress quickly expressed its disagreement with Lubrizol by enacting §365(n). Section 365(n) was designed “to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to [§]365.” *10 S. Rep. No. 100-505, at 3200; see id. at 3201-3202 (“Congress never anticipated that ... the licensee would lose not only any future affirmative performance required of the licensor under the license, but also any right of the licensee to continue to use the intellectual property as originally agreed in the license agreement.”).

Section 365(n) provides that when a debtor rejects a contract “under which the debtor is a licensor of a right to intellectual property,” the licensee may elect either to treat the contract as terminated or to “retain its rights (including a right to enforce any exclusivity provision of such contract...) under such contract ... to such intellectual property.” §365(n)(1)(B).

At the same time, Congress enacted §101(35A), which defined “intellectual property” to include, among other things, “any invention, process, design, or plant protected under title 35” (the Patent Act), copyrights, and trade secrets. The definition of “intellectual property” did not, however, include trademarks. The Senate Report noted that “rejection [of trademark licenses] is of concern because of the interpretation of [§]365 by the Lubrizol court,” but explained that “these matters could not be addressed without more extensive study,” and thus “it was determined to postpone congressional action in this area.” S. Rep. No. 100-505, at 3204.

B. Factual Background

Debtor Tempnology is a New Hampshire-based company that developed chemical-free cooling fabrics, on which it held issued and pending patents. App. 2a-3a, 36a. Using those fabrics, it produced specialized clothing and accessories like towels, socks, and headbands that were designed to remain cool when used *11 during exercise. App. 2a. Tempnology marketed these products using the COOLCORE and DR. COOL trademarks.

On November 21, 2012, Mission and Tempnology executed a Co-Marketing and Distribution Agreement (the “Agreement”). App. 3a. The Agreement granted Mission a non-exclusive, worldwide, perpetual license to use for any purpose (including manufacture and sale) all of Tempnology’s products, inventions, and designs and all of Tempnology’s intellectual property rights (other than trademarks and domain names) with respect to those products, inventions, and designs. Agreement §15(b), App. 120a-121a. The Agreement also granted Mission a non-exclusive, worldwide (except for certain countries in East Asia) license to use Tempnology’s trademarks on the Tempnology products Mission distributed (the “Cooling Accessories”) for the term of the Agreement. Agreement § 15(d), App. 123a-125a.

Importantly, the Agreement also carved out a territory for Mission - primarily consisting of the United States - in which Mission had the exclusive right to sell certain products (the “Exclusive Cooling Accessories”). Agreement §1(A)-(B), App. 103a-105a. Tempnology agreed that, within Mission’s exclusive territory, it would not sell the Exclusive Cooling Accessories itself or license them to others. Agreement §§5-6, App. 109a-117a. In other words, the Agreement gave Mission the non-exclusive right to sell certain patented and trademarked Tempnology products throughout the world and the exclusive right to sell a subset of those patented and trademarked products within the United States. See Agreement §1(B), App. 105a.

*12 The Agreement permitted either party to give notice of its intent to terminate the contract without cause, which would trigger a two-year wind-down period during which the Agreement’s terms would remain in effect. It also permitted either party to terminate the Agreement immediately if the other party failed to cure a material breach. Agreement §3, App. 106a-108a. On June 30, 2014, Mission exercised its right to terminate the Agreement without cause, triggering the Agreement’s wind-down period. App. 4a. The next month, Tempnology purported to terminate the Agreement for cause and stopped performing under the Agreement. Id. In June 2015, an arbitrator ruled that Tempnology’s purported termination for cause was improper and that the Agreement remained in effect throughout the wind-down period - until July 1, 2016. App. 4a-5a, 40a. A second phase of arbitration was set to address Mission’s claim that Tempnology had breached the Agreement by failing to perform. App. 40a.

On September 1, 2015, Tempnology filed a voluntary petition for Chapter 11 bankruptcy, halting the arbitration proceedings. App. 5a; see §362.

C. Procedural History
1. The day after its bankruptcy filing, Tempnology moved to reject the Agreement under §365(a). App. 5a. Mission objected to the motion and elected to retain its rights to intellectual property protected by §365(n). App. 6a. The bankruptcy court granted Tempnology's rejection motion, but noted that its order was “subject to Mission's election to preserve its rights under §365(n).” App. 83a-84a.

*13 In response, Tempnology filed a motion asking the bankruptcy court to determine the scope of the rights Mission would retain after rejection of the Agreement. App. 6a. The bankruptcy court noted that there was “no dispute []” that Mission retained its non-exclusive, worldwide license to use Tempnology's patents post-rejection, but held that rejection of the Agreement terminated Mission's trademark and exclusive-distribution rights. App. 78a-81a.

2. Mission appealed to the Bankruptcy Appellate Panel for the First Circuit (“BAP”), which affirmed the bankruptcy court's holding that Mission could not retain its exclusive-distribution rights. App. 49a-51a.

The BAP reversed, however, as to Mission's trademark rights, adopting the Seventh Circuit's reasoning in Sunbeam - that rejection is merely a breach and does not enable a debtor-licensor to revoke rights already granted to a licensee. App. 51a-60a; see Sunbeam, 686 F.3d at 376-377. The BAP concluded that “rejection of the Agreement did not vaporize Mission's trademark rights under the Agreement.” App. 60a. Rather, “[w]hatever post-rejection rights Mission retained in [Tempnology's] trademark and logo [we]re governed by the terms of the Agreement and applicable non-bankruptcy law.” Id.

3. On appeal, a divided First Circuit disagreed with the BAP in part and affirmed the bankruptcy court in full. App. 2a.

The court first agreed with the BAP that rejection terminated Mission’s exclusive-distribution rights, reasoning that Mission's exclusive right to sell certain products practicing the licensed patents in the United States was not protected under §365(n). App. 12a-20a. In the court's view, “the right to sell a product is *14 clearly not included within [the Bankruptcy Code's] definition of intellectual property,” even though the court acknowledged that the products at issue were “made using a patent” that Tempnology had licensed to Mission. App. 15a. The court also opined that the exclusive-distribution right was not a right to intellectual property because the “only thing that is exclusive is the right to sell certain products, not the right to practice, for example, the patent that is used to make those products.” Id.

The panel split 2-1 regarding the trademark rights, with the majority holding that rejection terminated those rights. App. 20a-27a. The majority recognized that the omission of trademarks from the Code's definition of “intellectual property” did not resolve the question, which turned on “exactly what rejection means” under §365. App. 20a-22a. Addressing that issue, the majority expressly refused to follow Sunbeam and endorsed the Fourth Circuit's reasoning in Lubrizol, holding that rejection stripped Mission of its right to use Tempnology's trademarks, leaving it with only a pre-petition damages claim. App. 27a.

In reaching that conclusion, the majority opined that the Seventh Circuit's decision contravened “Congress's principal aim” in providing for rejection under §365 - “ ‘releas[ing] the debtor's estate from burdensome obligations that [could] impede a successful reorganization.’ ” App. 22a. The majority reasoned that it was not “possible to free a debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark,” stating that Tempnology would be required to “monitor and exercise control over the quality of the goods” produced by Mission to protect the “continued validity” of its trademarks. App. 22a-23a. *15 Accordingly, the majority concluded, it “favor[ed] the categorical approach of leaving trademark licenses unprotected from court-approved rejection, unless and until Congress should decide otherwise.” App. 27a.

In dissent, Judge Torruella “disagree[d] with the majority's bright-line rule” that Tempnology's rejection left Mission “without any remaining rights to use [Tempnology's] trademark and logo.” App. 29a. He criticized the majority for “treat[ing] a debtor’s rejection as a contract cancellation, rather than a contractual breach.” App. 32a. The BAP, he concluded, “was correct to follow the Seventh Circuit’s lead in finding that ... [Tempnology’s] rejection of the executory contract d[id] not rescind the Agreement” and did not “eviscerate any of Mission's remaining trademark rights.” App. 33a-34a.

*16 REASONS FOR GRANTING THE PETITION

I. The Court Should Grant Review Of The Question Whether Rejection Terminates A Licensee's Rights

A. There Is A Square, Entrenched, And Openly Acknowledged Circuit Split On The Question
The First Circuit’s decision openly chooses sides - rejecting the Seventh Circuit’s position and aligning itself with the Fourth Circuit - in a long-standing circuit split on a fundamental bankruptcy question: the effect of a debtor’s rejection of an executory contract, and, in particular, an agreement to license intellectual property. This conflict - resulting in dramatically different outcomes for licensees based on the happenstance of where the licensor declares bankruptcy - is entrenched and will not resolve itself without this Court’s intervention. Review is warranted to restore uniformity on this question of exceptional importance.

1. The Fourth Circuit

In *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), the Fourth Circuit held that a debtor-licensor’s rejection of an agreement to license intellectual property - there, a metal-coating process - terminated the licensee’s right to continue using the intellectual property, allowing the debtor to sell or license it to a third party without any limitations imposed by the license previously granted. *Id.* at 1047-1048.

Although the court acknowledged that “§365(g) ... treat[s] rejection as a breach,” in its view, “the legislative history of §365(n) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party.” *Lubrizol*, 756 F.2d at 1048.

Hence, the court reasoned, the licensee “could not seek to retain its contract rights in the technology by specific performance even if that remedy would ordinarily be available upon breach of this type of contract.” *Id.* The Fourth Circuit recognized that its decision “impose[d] serious burdens upon contracting parties” and “could have a general chilling effect upon the willingness” of parties “to contract at all with businesses in possible financial difficulty,” but it concluded that Congress “plainly provided for the rejection of executory contracts, notwithstanding the obvious adverse consequences.” *Id.*

*Lubrizol* has been intensely criticized for both its result and its reasoning - in particular, its view that rejection of a license agreement does not merely excuse the debtor from future performance obligations, but also allows the debtor to take back rights to intellectual property already granted to the licensee. See, e.g., *Sunbeam Prods., Inc. v. Chicago Am. Mfg.*, 686 F.3d 372, 377 (7th Cir. 2012) (“Scholars uniformly criticize *Lubrizol*.”); *In re SIMA Int’l, Inc.*, 2018 WL 2293705, at *4 (Bankr. D. Conn. May 17, 2018) (“This Court, like many others, does not endorse the reasoning in *Lubrizol* and is not alone in concluding that its reasoning is flawed.”); *Baird, Elements of Bankruptcy* 122-123 & n.9 (6th ed. 2014) (hereinafter “Baird”) (“*Lubrizol* ... interpreted the power to reject too expansively.”); Westbrook at 240, 305-315 (*Lubrizol* is “deeply disruptive of commercial expectations and needs.”).

As discussed above, Congress found a partial solution in §365(n), which overruled *Lubrizol’s* holding with respect to licenses of certain types of intellectual property and made clear that Congress viewed the decision as mistaken. See supra pp. 9-10. But the legislation did not explicitly resolve the question whether *Lubrizol’s* view of the effect of rejection applied to intellectual property rights not clearly covered by §365(n), including trademark rights.

That question has now divided lower courts for three decades. Some have concluded that, because trademarks were omitted from the definition of “intellectual property” protected by §365(n), “*Lubrizol* controls and the [licensee’s] right to use the trademarks stops on rejection.” *In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003); see also, e.g., *In re Old Carco LLC*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re Centura Software Corp.*, 281 B.R. 660, 668-674 (Bankr. N.D. Cal. 2002); *In re Backstop Potato Chip Co.*, 109 B.R. 557 (Bankr. D.R.I. 1990). Others have held that licensees’ rights should not “sacrifice the interests of maximizing the bankruptcy estate,” especially when those rights are part of the same “licensing system which Congress sought to protect.” *In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 772 (Bankr. D.N.J. 2014).

2. The Seventh Circuit

In *Sunbeam*, the Seventh Circuit held that rejection of a trademark license does not terminate the licensee’s right to use the debtor’s trademarks. 686 F.3d at 376-378. The court expressly refused to follow *Lubrizol*, recognizing that its decision “create[d] a conflict among the circuits.” *Id.* at 378 (“*Lubrizol* does not persuade us.”).

The facts in *Sunbeam* were very similar to those here: The debtor-licensor contracted with the licensee to manufacture and sell box fans using the debtor’s patents and trademarks. 686 F.3d at 374. The debtor filed for bankruptcy, rejected the license agreement, and argued that the debtor could no longer sell the trademarked box fans. *Id.*

In holding that rejection did not terminate the licensee’s rights, *Sunbeam* first concluded that §365(n) created no inference that Congress “codified *Lubrizol* with respect to trademarks.” 686 F.3d at 375. “[A]n omission is just an omission,” the court explained,
noting that the “limited definition [of ‘intellectual property’] in §101(35A) means that §365(n) does not affect trademarks one way or the other.” Id. It also noted that the legislative history indicated that “the omission [of trademarks] was designed to allow more time for study, not to approve Lubrizol.” Id.

Sunbeam went on to reject the reasoning and holding of Lubrizol, asserting that the decision was “mistaken” and did not “correctly undert[an]d §365(g).” 686 F.3d at 376. Rather, in the Seventh Circuit’s view, Lubrizol “confuse[d] rejection,” which merely “constitutes a breach” under §365(g), “with … an avoiding power” - that is, a trustee’s or debtor-in-possession’s limited power to unwind a deal made before bankruptcy as a fraudulent transfer or preference. Id. at 376-377; see infra pp. 22-25.

The Seventh Circuit explained that “[w]hat §365(g) does by classifying rejection as [a] breach is establish that in bankruptcy, as outside of it, the other party’s rights remain in place.” Sunbeam, 686 F.3d at 377. The “debtor’s unfulfilled obligations are converted to damages” that are “treated as a pre-petition obligation, which may be written down in common with other debts of the same class.” Id. “But nothing about this process implies that any rights of the other contracting party have been vaporized.” Id. “Outside of bankruptcy, a licensor’s breach does not terminate a licensee’s right to use intellectual property.” Id. at 376. Thus, because “outside of bankruptcy, [the debtor] could not have ended [the licensee’s] right to sell the [trademarked] box fans by failing to perform its own duties” under the agreement, the Seventh Circuit concluded that the debtor could not terminate that right through its rejection of the agreement in bankruptcy. Id. at 377.

Although Sunbeam involved a trademark license, the Seventh Circuit’s reasoning is not limited to trademarks. Rather, its interpretation of “rejection” under §365 applies equally to other rights granted to licensees, including, as relevant here, Mission’s exclusive right to distribute certain products practicing Tempnology’s patents within the United States.

*21 3. The First Circuit

As noted above, see supra pp. 14-15, the First Circuit’s decision discussed both Lubrizol and Sunbeam, acknowledging that “other circuits are split” on the question of the effect of rejection on a licensee’s rights. App. 2a. The majority expressly disagreed with Sunbeam’s conclusion that rejection does not terminate a licensee’s rights that would survive the licensor’s breach outside bankruptcy. Rather, it sided with the Fourth Circuit’s interpretation of “rejection” in Lubrizol, holding that “rejection converts the [licensee’s] right into a pre-petition claim for damages.” App. 22a.

The law of the First and Fourth Circuits is thus squarely at odds with the law of the Seventh Circuit on an important and recurring question of bankruptcy law regarding the effect of “rejection” of a license agreement like this one. The split will not heal itself. It requires this Court’s intervention.

B. The First Circuit’s Decision Is Wrong

The First Circuit’s holding that rejection of a license agreement terminates a licensee’s rights is contrary to the text and purpose of the Bankruptcy Code. As the Seventh Circuit recognized in Sunbeam, rejection of an executory license agreement does not terminate the licensee’s rights. By treating rejection as a breach, §365 makes clear that if the licensee’s rights under the agreement would survive the debtor’s breach outside bankruptcy, they survive rejection inside bankruptcy. And as Sunbeam also recognized, trademarks are no exception to that rule.

*22 1. Rejection does not terminate a counterparty’s rights

The text of the Bankruptcy Code specifies the effect of rejection of an executory contract: Rejection “constitutes a breach of such contract … immediately before the date of the filing of the [bankruptcy] petition.” §365(g)(1). Rejection is nothing more than that. It does not grant the debtor any special powers. Rather, the debtor has the same option in bankruptcy that it would have outside bankruptcy to stop performing its remaining unfulfilled obligations under the contract and instead pay damages to the counterparty. The principal benefit to the debtor of rejecting an executory contract is that the obligation to pay damages for the breach is treated as a prepetition claim, §502(g), and therefore typically paid at cents on the dollar.

As most recent court decisions and scholars have recognized, rejection does not “impl[y] that any rights of the other contracting party have been vaporized.” Sunbeam, 686 F.3d at 377. “[C]ontract rejection [is not] the functional equivalent of a rescission, rendering void
the contract and requiring that the parties be put back in the positions they occupied before the contract was formed.” *Thompkins v. Lil’ Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007). Rather, “‘[r]ejection merely frees the estate from the obligation to perform’ the debtor’s unfulfilled obligations. *Id.; see also In re Exide Techs.*, 607 F.3d 957, 965 (3d Cir. 2010) (Ambro, J., concurring) (‘[R]ejection is a breach of the executory contract. It is not avoidance, rescission, or termination.’); Andrew at 848 (‘[R]ejection is not the revocation … or cancellation of a contract’ ‘and ‘does not change the substantive rights of the parties to the contract.’”).

*23* **Lurbizol’s** contrary rule - embraced by the First Circuit below - has been roundly criticized by courts and scholars for misconstruing retraction as an “avoiding” power that enables the debtor to undo an already completed deal the debtor made before bankruptcy. *Sunbeam*, 686 F.3d at 377 (‘Lurbizol … confuses rejection with the use of an avoiding power.’); Baird at 123 & n.10 (“[R]ecent Circuit opinions repudiate *Lurbizol*”; “[C]ourts … tend towards the view that rejection is not an avoidance power” that enables “debtors [to] recapture intellectual property such as trademarks” and that, instead, “the third party can continue to use the trademark.”); Andrew at 916 (*Lurbizol* is “[t]he case that illustrates perhaps better than any other what is wrong with avoiding-power rejection.”).

The trustee or debtor-in-possession in bankruptcy does have an “avoiding” power that enables it to undo certain pre-bankruptcy transactions, but it is a limited power found elsewhere in the Bankruptcy Code. For instance, if the debtor had licensed its intellectual property for “less than reasonably equivalent value” while insolvent, that transaction could potentially be unwound as a “fraudulent transfer” and the intellectual-property rights returned to the estate. See, e.g., §548(a)(l)(B)(li) (permitting trustee to avoid certain transfers of property made within two years before bankruptcy if the debtor “received less than a reasonably equivalent value in exchange for such transfer” while insolvent); *Sunbeam*, 686 F.3d at 377 (“Bankruptcy law does provide means for eliminating rights under some contracts” pursuant to the “trustee[s] avoiding powers.”).

By contrast, §365 does not permit the debtor to reclaim for the estate interests in property that the debtor already conveyed to the counterparty. “Section 365 [is not an avoiding power designed to expand the assets of the estate and give creditors inside of bankruptcy something they would not have had outside.” Baird at 115. Indeed, it is a basic principle of bankruptcy law that the estate has no greater rights in the debtor’s property than the debtor itself held outside bankruptcy. See §541(a)(l) (bankruptcy estate includes “legal or equitable interests of the debtor in property as of the commencement of the case”); *see also Butner v. United States*, 440 U.S. 48, 54-55 (1979); *Board of Trade v. Johnson*, 264 U.S. 1 (1924); Baird at 95. If the debtor’s assets would be limited in the debtor’s hands by interests granted to third parties - such as a license of rights to its intellectual property - those assets are equally limited in the hands of the trustee or debtor-in-possession inside bankruptcy.

Section 365 does not change that. “Nothing about the nature of ‘rejection’ requires that the trustee be able to undo (or ‘avoid’) what is tantamount to a consummated property transfer.” Baird at 119. Indeed, “terminating rights in or to property arising under contracts that happen to be ‘executory’ is fundamentally contrary to general bankruptcy principles, to the history and purpose of executory contracts doctrine itself, and to common sense.” Andrew at 849. If the debtor’s breach of the contract would not terminate the licensee’s rights outside bankruptcy, rejection does not do so inside bankruptcy.

Outside bankruptcy, for example, if a landlord breaches its obligations under a lease of real property - such as the obligation to heat or maintain the property - the lease is not terminated, and the landlord cannot evict the tenant. As the Seventh Circuit explained, the same is true in bankruptcy: “[A] lessor that enters bankruptcy could not, by rejecting the lease, end the *tenant’s right to possession and thus re-acquire premises that might be rented out for a higher price. The bankrupt lessor might substitute damages for an obligation to make repairs, but not rescind the lease altogether.” *Sunbeam*, 686 F.3d at 377.6

Intellectual property licenses work the same way. They convey to the licensee an interest in the licensor’s intellectual property - not ownership of the entire bundle of rights to the property, but particular sticks in the bundle. *See Impression Prods., Inc. v. Lexmark Int’l*, Inc. 137 S. Ct. 1523,1534 (2017) (a licensor is “exchanging rights” with a licensee and is “free to relinquish only a portion of its bundle of patent protections”). Outside bankruptcy, a licensor’s breach of its obligations under a license agreement would not entitle it to retract the license already granted, and rejection should not entitle the licensor to do so in bankruptcy. See, e.g., *Sunbeam*, 686 F.3d at 376-377; *Exide*, 607 F.3d at 967 (Ambro, J., concurring) (“Courts may use §365 to free a bankrupt trademark licensor from burdensome duties that hinder its reorganization. They should not … use it to let a licensor take back trademark rights it bargained away.”); Westbrook at 308 (”[C]ontact doctrine would not permit the breacher to benefit from its own breach by revoking the license…. No bankruptcy rule or policy requires … reversal of [that] state law.”).

*26* Congress expressly endorsed this understanding of §365 - and spurned *Lurbizol’s* interpretation - when it enacted §365(n), explaining that “Congress never anticipated” that the bankruptcy of a licensor “would subject the licensee to the risk” of losing its “right … to continue to use the intellectual property.” S. Rep. No. 100-505, at 3201-3202; *see id.* at 3201 (*Lurbizol* improperly “relieved the debtor not simply of its ongoing affirmative performance obligations … but also of its passive obligation to permit the licensee to use the intellectual property”); Baird at 123 (“Congress embraced the idea that rejection … should not allow the trustee to recapture
rights that the debtor has already conveyed away.

The license agreement in this case granted Mission, among other things, the nonexclusive right to use Tempnology's patents and sell its patented products worldwide, the nonexclusive right to use its trademarks, and the exclusive right to sell certain patented and trademarked products in the United States. It also imposed affirmative obligations on both parties that were still unperformed at the time of the bankruptcy filing. For instance, Tempnology was obligated to use commercially reasonable efforts to launch three new products a year. Agreement §13, App. 118a. In bankruptcy, as outside of bankruptcy, Tempnology could decide to breach that obligation and pay damages. But Tempnology could not, through its own breach of the contract, take away the rights it had already granted to Mission. All of those rights - including Mission's right to use Tempnology's trademarks and its exclusive right to sell certain patented and trademarked products - should have survived rejection.

Indeed, lower courts have already recognized that the First Circuit's decision “resurrects the Lubrizol rationale,” fails to heed “the plain language” of §365, and “is plainly contrary to Congress' explicit efforts to rebalance affected rights on intellectual property.” SIMA, 2018 WL 2293705, at *7-8.

2. Neither §365(n) nor trademark law supports a different result for trademarks

Nothing about the Bankruptcy Code's definition of “intellectual property” or about trademarks themselves suggests that trademarks should be an exception to the basic principles governing rejection.

The omission of trademarks from the Code's definition of “intellectual property” does not create any inference that trademark rights do not survive rejection. As Sunbeam explained, an “omission is just an omission” and “does not affect trademarks one way or the other.” 686 F.3d at 375; Exide, 607 F.3d at 966-967 (Ambro, J., concurring) (same). Indeed, rather than endorsing Lubrizol's result for trademarks, the Senate Report emphasized that, while “it was determined to postpone congressional action” on trademarks, “rejection [of trademark licenses] [was] of concern because of the interpretation of [§365] by the Lubrizol court.” S. Rep. No. 100-505, at 3204. “Setting out the rule explicitly” in §365(n) as to the intellectual property rights specifically addressed in Lubrizol thus “does not require the inference that Congress was repudiating the general principle elsewhere”; to the contrary, “[d]rawing a negative inference” that trademark licenses can be rescinded by rejection “assumes a notion of the rejection power that has no basis in history and makes little sense.” Baird at 118, 123; Andrew at 928929 (same).

Equally flawed is the First Circuit's reasoning that rejection terminated Mission's trademark license because, if the license were preserved, Tempnology would have had to monitor and control the quality of the trademarked products. App. 23a-27a. The license agreement did not create any such duty. At most, the Agreement gave Tempnology a right, but not an obligation, to monitor and control Mission's use of its trademarks. Agreement §15(d), App. 123a-125a.

To be sure, trademark law may require trademark owners to monitor licensees if they wish to protect their rights in their mark. App. 23a-24a (discussing “naked license” doctrine). But that obligation is not created by the parties' agreement and cannot be “rejected” in bankruptcy. See SIMA, 2018 WL 2293705, at *7 n.24 (“[T]he legal rigors of trademark policing, not contractual obligations, imposed upon the licensor to monitor its trademarks[,] are the source of the debtor's burdens.”). Rejection merely frees the debtor from fulfilling its affirmative performance obligations under the rejected contract; it does not exempt the debtor from obligations imposed by other applicable law.

If the debtor believes its trademarks are worth the cost of monitoring, it will presumably incur that cost to preserve the value of the asset; if it does not, it presumably will not incur those costs. That decision is no different than the cost-benefit analysis debtors undertake every day when deciding whether to make an investment in an estate asset to maximize its value. It has no bearing on the question whether rejection terminates a licensee's trademark rights.

*29 C. The Question Is Important And Ripe For Resolution

1. Whether licensors may strip licensees of their rights under trademark licenses, exclusive distribution agreements, and similar contracts by filing for bankruptcy and rejecting the contracts is a question of exceptional commercial importance. Resolving this question will provide much needed certainty for the expectations of contracting partners, facilitating economically advantageous relationships between licensors and licensees and other contracting parties. A licensee who is confident that the licensor's bankruptcy will not upend its continued right to use licensed trademarks or sell the debtor's products under an exclusive-distribution agreement will be more inclined to enter into an agreement that creates net efficiencies for distribution and production arrangements.
This concern is especially salient in the context of economically distressed licensors. Under the First Circuit’s rule, a licensee who contracts with a financially unstable licensor risks losing the benefit of its bargain should that licensor file for bankruptcy and reject the license. That risk will either force the licensee to demand additional compensation for the uncertainty, or scuttle what would have been an otherwise economically productive deal. Cf. S. Rep. No. 100-505, at 3202-3203 (explaining that risk of loss of intellectual-property rights when licenses are rejected in bankruptcy discourages parties from entering into licensing arrangements and thereby threatens to impede technological development and innovation). Regardless of the result the Court reaches, establishing a definitive answer will allow commercial actors to conform their behavior to a settled rule of law.

*30* 2. Although the circuit split here dates back to the Seventh Circuit’s decision in *Sunbeam*, before the First Circuit’s decision below it might have been possible to argue that the Fourth Circuit’s reasoning in *Lubrizol* had been discredited and would not be adopted by future courts. Indeed, respondents argued just that in opposing certiorari in *Sunbeam*. See Opp. 1, No. 12-431 (U.S. Nov. 9, 2012). That argument is no longer valid. By endorsing *Lubrizol*, the First Circuit has perpetuated and entrenched the open conflict among the circuits.

Indeed, lower courts facing this issue have highlighted the “unsettled area of rejection of trademark licenses,” recognizing that regardless of the circuit court with which they align, “further litigation” of their decision is “certain to follow,” and could delay resolution of the bankruptcy case “for years.” E.g., *In re Rent-A-Wreck of Am., Inc.*, 580 B.R. 364, 387 & n.156 (Bankr. D. Del. 2018). Establishing a clear rule and enabling parties to avoid such prolonged litigation, with its potential to derail reorganization proceedings, is critical.

II. The Court Should Grant Review Of The Question Whether An Exclusive Right To Sell Patented Products Is A “Right To Intellectual Property” Under §365(n)

The First Circuit compounded its error regarding the effect of rejection on rights not expressly protected by §365(n) by adopting an exceedingly narrow construction of the “right[s] to intellectual property” covered by that provision. On the First Circuit’s reading, §365(n) no longer protects one of the most important intellectual property rights a licensee can be granted - the exclusive right to sell a patented invention in a particular field of use or territory. The Court should grant review of this question as well, so that it can effectively address both of the First Circuit’s related misinterpretations of §365 and the broad threat that, taken together, they pose to intellectual property licensees’ rights.

A. The First Circuit’s Decision Conflicts With The Statute’s Plain Text And Basic Principles Of Patent Law

The First Circuit recognized that §365(n) “protects ... an exclusive license to use a patent.” App. 13a. But it concluded - without any analysis of the relevant text - that “the right to sell a [patented] product is clearly not included within the statute’s definition of intellectual property.” App. 15a. It also opined - again, without any support - that Mission’s exclusive right to distribute products practicing the patent within the United States could not be a right to intellectual property because Mission’s license was limited to a particular field of use. *Id.* That reasoning contravenes the statute’s language and reveals a fundamental misunderstanding of patent licensing.

1. The plain text of the Bankruptcy Code and the Patent Act makes clear that a right to sell a patented invention is a “right to intellectual property” under §365(n)(1).

Section 365(n) permits a licensee to whom the debtor has licensed “a right to intellectual property” to “retain its rights (including a right to enforce any exclusivity provision of such contract ...) under such contract ... to such intellectual property:” §365(n)(1)(B). The Bankruptcy Code, in turn, defines “intellectual property” to include any “invention, process [or] design ... protected under title 35” (the Patent Act). § 101(35A)(B). And one of the key attributes of a patent under the Patent Act is the right to sell the patented invention and exclude others from doing so. 35 U.S.C. § 154(a)(1) (“Every patent shall ... grant to the patentee ... the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States.” (emphasis added)); *id.* § 271(a) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention ... infringes the patent.” (emphasis added)).

Because the patentee has the right to exclude others from selling its invention, any grant of rights to another party to sell that invention is necessarily a grant of rights to the invention - i.e., “a right to intellectual property” within the meaning of §365(n). The First Circuit’s apparent conclusion that the right to *use* a patented invention is “a right to intellectual property” within the meaning of §365(n), but that the right to *sell* the invention is not, thus contravenes the clear language of the statute.

Courts - including this Court - have long recognized that the right to sell a patented invention is a patent license. *See, e.g., De Forest*
Radio Tel. Co. v. United States, 273 U.S. 236, 241 (1927) (“Any language used by the owner of the patent ... from which [another] may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license.” (emphasis added)); Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 456 (1940) (a patentee “may grant licenses to make, use or vend” a patented invention (emphasis added)).

*33 Courts that have addressed the question in the §365(n) context have agreed. See In re Davidson Hydrant Techs. Inc., 2012 WL 987620, at *5 (Bankr. N.D. Ga. Jan. 10, 2012) (“the right to offer for sale a patented product is ... a ‘stick’ in the bundle of [patent] rights” protected under §365(n)); In re Spansion, Inc., 2011 WL 3268084, at *9 (D. Del. July 28, 2011) (the “ability to sell products that contained” patented technology is a “patent license” that can be retained pursuant to §365(n)), aff’d, 507 Fed. App’x 125 (3d Cir. 2012); SIMA, 2018 WL 2293705, at *2, *10 (a promise not to “enter into any agreement with any other person for ... selling a ‘competing product’ ” “embodies precisely the kind of exclusive intellectual property rights that are protected by” §365(n)).

Intellectual property scholars agree, explaining that the “right[] to sell” a patented product is “severally licensable,” just “as the rights to make or use” a patented product are independently licensable. See Milgrim & Bensen, Milgrim on Licensing §2.33. Congress, too, recognized this basic point when enacting §365(n), explaining that, because technological development and innovation proceed by “an expensive and risky series of steps including research, development, manufacturing, and marketing,” licenses may be necessary to facilitate each step. S. Rep. No. 100-505, at 3202 (emphasis added). The First Circuit’s contrary conclusion has no support and makes no sense.

2. The First Circuit also believed that Mission’s exclusive right to sell certain products practicing Tempnology’s patents in the United States was not an exclusive “right to intellectual property” because Mission had that right only as to specific products, not all such products. App. 15a. “An exclusive right to sell a product,” the court reasoned, “is not equivalent to *34 an exclusive right to exploit the product’s underlying intellectual property.” Id.

While that is true, it misses the point entirely. A licensee need not have an exclusive right to practice a patent in all of its applications in order to have an exclusive right to practice a patent in some of its applications. That is precisely what Mission had: an exclusive right to sell products practicing the patents Tempnology had licensed to it within a specific field of use and geographic area. That is a “right to intellectual property” covered by §365(n)(1)(B), which expressly protects “a right to enforce any exclusivity provision” of a license agreement.

Indeed, the very purpose of licensing intellectual property - rather than simply assigning or selling it - is to convey some, but not all, of the rights to the intellectual property to the licensee and retain some of the rights for the licensor or other potential licensees. Accordingly, licenses that grant the exclusive right to practice a patent within a particular field of use are a well-recognized and very common type of intellectual property right. See Dratler & McJohn, Licensing of Intellectual Property §7.04 (“[F]ield-of-use restraints are among the most common restrictive practices in licensing” and “may be one of the most important practical methods of maximizing revenue from broadly applicable technology.”); Nimmer & Dodd, Modern Licensing Law §14:36 (“[F]ield-of-use restriction[s]” - which “give[] the licensee rights to use the technology ... in reference to a particular application” - are “routine[]” and “frequently coupled with other restrictions, such as geographic or other limitations.”); Milgrim & Bensen, Milgrim on Licensing §15.12 (explaining that field-of-use restrictions allow licensees to “maximiz[e] [their] ultimate revenues” because licensees often have *35 unique “strengths” in “different fields” and further noting that, in light of their “economic value,” field-of-use licensees regularly “seek” exclusivity provisions).

Congress thus properly recognized the ubiquity of licenses for a particular field of use, and made clear that such licenses would be protected, when enacting §365(n). See S. Rep. No. 100-505, at 3202 (noting that licensing “provides a mechanism” for an inventor to seek “[separate] partners for each field of use” of his invention); id. (“The licensee ... frequently is interested in the intellectual property for a specific application or geographic market”). Section 365(n) was “intended to protect and to facilitate” field-of-use licenses along with other types of licenses important to “technological development and innovation.” Id.

B. The First Circuit’s Interpretation Eviscerates §365(n)’s Protections For Licensees

The First Circuit’s reading of §365(n) dramatically narrows its scope and thwarts Congress’s aim in adopting the provision. By enacting §365(n), Congress meant to protect all of an intellectual property licensee’s rights, including the exclusive right to sell
specific products practicing a patent. Accordingly, it “broadly define[d] ‘intellectual property’ to include virtually all types of such rights (other than trademarks and similar rights),” and explained that “[t]he definition is broad and is to be interpreted liberally to carry out the intent of Congress to remove the cloud cast by that recent interpretation of the Bankruptcy Code [in Lubrizol] upon the intellectual property licensing system.” S. Rep. No. 100-505, at 3204-3205.

*36 And, as noted, Congress explicitly protected intellectual property licensees’ exclusivity rights, recognizing that exclusivity is frequently a key provision of a license agreement. See §365(n)(1)(B) (upon rejection, the licensee may “retain its rights (including a right to enforce any exclusivity provision …)”; S. Rep. No. 100-505, at 3206 (if a licensing “contract granted exclusive use to the licensee, such exclusivity would be preserved.”); id. at 3207 (§365(n) protects the “exclusive rights” of licensees by barring the debtor from “sell[ing] those rights through rejection.”).

Congress recognized that terminating a licensee’s rights upon rejection “leaves licensees in a precarious position and thus threaten[s] the very flexible and beneficial system of intellectual property licensing which has developed in the United States,” by forcing “parties who would have formerly accepted licenses … to demand assignment - outright transfer of ownership of the intellectual property.” S. Rep. No. 100-505, at 3201-3202. Congress viewed this development as “a fundamental threat to the creative process that has nurtured innovation in the United States.” Id. Indeed, it was “resulting in undercompensation of U.S. inventors,” as licensees paid less for rights that were uncertain. Id. at 3203.

The ability to grant a licensee the right to sell products practicing a patent within a particular field of use - and to exclude others from doing so - is a critical aspect of the licensing system Congress was attempting to protect. In fact, as commentators have observed in discussing this case, “in many instances a license to intellectual property would be rendered worthless without the accompanying distribution rights.” Vasser & Harmeyer, The Fate of Distribution Rights After Bankruptcy, Law360 (Jan. 12, 2017). *37 The First Circuit’s decision puts those rights once again at risk, contravening the text and purpose of §365(n) and essentially restoring the rule of Lubrizol for an important class of intellectual property rights. It thus creates new uncertainty for a large group of licensees and licensors, precisely where Congress intended to provide certainty. This Court should grant review and dispel that unnecessary and harmful confusion.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

Robert J. Keach
Lindsey Zahradka Milne
Bernstein, Shur, Sawyer & Nelson
100 Middle Street
P.O. Box 9729
Portland, ME 04104
(207) 774-1200
Danielle Spinelli
Counsel of Record
Craig Goldblatt
Joel Millar
James Barton
Wilmer Cutler Pickering Hale and Dorr LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
danielle.spinelli@wilmerhale.com
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Footnotes

1 Statutory citations are to 11 U.S.C. (the Bankruptcy Code) unless otherwise indicated.

2 Section 365 is reproduced in full at App. 85a-101a.

3 In Chapter 11 cases, the debtor typically remains in possession of the bankruptcy estate and assumes the rights and duties of a trustee. See §§1101, 1107(a). For simplicity, the trustee or debtor-in-possession will be referred to here as the debtor.

4 The First Circuit did not address Mission’s argument that under Sunbeam’s correct interpretation of §365(g), rejection could not terminate its exclusive-distribution rights even if those rights were not protected by §365(n). The court stated that, in its view, the argument was not properly raised below and was waived. App. 20a. Mission disagrees. But, in any event, because the First Circuit squarely addressed and rejected Sunbeam’s, interpretation of the statute in deciding the trademark issue, any purported waiver is no obstacle to granting review of the Sunbeam question in this case. Should this Court grant certiorari and reverse on that question, the application of its ruling to Mission’s exclusive-distribution rights in light of any procedural waiver arguments can and should be addressed on remand.

5 The Third Circuit has also addressed a case in which a debtor-licensor rejected a trademark license. See In re Exide Techs., 607 F.3d 957 (3d Cir. 2010). The majority did not reach the question of the effect of rejection on the licensee’s trademark rights, concluding that the contract was not executory and thus could not be rejected. Id. at 963-964. But in concurrence, Judge Ambro opined that the trademark licensee’s rights should survive rejection in any event. Id. at 967. He explained that rejection “free[s] a bankrupt trademark licensor from burdensome duties that hinder its reorganization,” but it does not “let a licensor take back trademark rights it bargained away.” Id. Bankruptcy courts, he opined, should use “their equitable powers to give [the debtor] a fresh start without stripping [the licensee] of its fairly procured trademark rights”; otherwise, debtors could improperly use “bankruptcy more [as] a sword than a shield.” Id. at 967-968. Although the Seventh Circuit reached the same outcome for some of the same reasons, it rejected the suggestion that courts should use an “equitable” approach, instead focusing its analysis on the text of §365(g). Sunbeam, 686 F.3d at 375-376.

6 Section 365(h) of the Bankruptcy Code codifies this result, while limiting the lessee’s remedy for any post-petition failure to perform by the debtor to a set-off against rent owed. But even without §365(h), as Sunbeam makes clear, rejection would not permit the debtor to evict the lessee and take back a property interest already conveyed. See also S. Rep. No. 100-505, at 3203 (§365(h) “clarified” that rejection by a lessor could not terminate a lease).
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